# IFRS AT A GLANCE
As at 1 July 2018

# IFRS AT A GLANCE

IFRS at a Glance (IAAG) has been compiled to assist in gaining a high level overview of International Financial Reporting Standards (IFRSs), including International Accounting Standards and Interpretations.

IAAG includes all IFRSs in issue as at 1 July 2018.

If a Standard or Interpretation has been revised with a future effective date, the revised requirement has also been included and is identified by an (R) suffix.

# IFRS 1 *First-time Adoption of IFRSs*

Effective Date
Periods beginning on or after 1 July 2009

## SCOPE

- IFRS 1 does not apply to entities already reporting under IFRSs
- IFRS 1 applies to the first set of financial statements that contain an explicit and unreserved statement of compliance with IFRSs
- IFRS 1 applies to any interim financial statements for a period covered by those first financial statements that are prepared under IFRSs.

## GENERAL REQUIREMENTS

- Select IFRS accounting policies using either:
  - IFRSs that are currently effective; or
  - One or more IFRSs that are not yet effective, if those new IFRS permit early adoption.
- Recognise/derecognise assets and liabilities where necessary so as to comply with IFRSs
- Reclassify items that the entity recognised under previous accounting framework as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity under IFRS
- Re-measure all assets and liabilities recognised under IFRSs.

## RECOGNITION AND MEASUREMENT

### OPTIONAL EXEMPTIONS

**IFRS 1 does not permit these to be applied by analogy to other items**

An entity may elect to use one or more of the following exemptions, which provide specific relief, on adoption of IFRSs:

- Business combinations
- Share-based payment transactions
- Insurance contracts
- Fair value or revaluation as deemed cost
- Use of revalued amount as deemed cost for 'event driven fair values' between transition date and date of the first IFRSs reporting period
- Deemed cost for assets used in operations subject to rate regulation
- Leases
- Cumulative translation differences
- Investments in subsidiaries, jointly controlled entities and associates
- Assets and liabilities of subsidiaries, associates and joint ventures
- Compound financial instruments
- Designation of previously recognised financial instruments
- Fair value measurement of financial assets/liabilities at initial recognition
- Decommissioning liabilities included in the cost of property, plant and equipment
- Financial assets or intangible assets accounted for in accordance with IFRIC 12 *Service Concession Arrangements*
- Borrowing costs
- Transfers of assets from customers accounted for in accordance with IFRIC 18 *Transfers of Assets from Customers*
- Extinguishing financial liabilities with equity instruments accounted for in accordance with IFRIC 19 -*Extinguishing Financial Liabilities with Equity Instruments*
- Joint arrangements
- Severe hyperinflation
- Government loans
- Stripping costs in the production phase of a surface mine in accordance with IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*.

### MANDATORY EXCEPTIONS

IFRS 1 prohibits retrospective application in relation to the following:

- Estimates
- Derecognition of financial assets and financial liabilities
- Hedge accounting
- Non-controlling interests.

### ACCOUNTING POLICIES

- Use the same accounting policies in the opening IFRS statement of financial position and throughout all periods presented in the first IFRS financial statements
- Those accounting policies have to comply with each IFRS effective at the end of the first IFRS reporting period.

**Changes in accounting policies during first year of IFRS**

If, between the date of an entity's interim financial report (prepared in accordance with IAS 34 *Interim Financial Reporting)* and the issue of its first annual IFRS financial statements, and entity changes accounting policies and/or adopts exemptions:

- The requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* do not apply
- The reconciliation between IFRSs and previous GAAP has to be updated.

### REPEAT APPLICATION OF IFRS 1

An entity that has applied IFRSs in a previous reporting period, but whose most recent previous annual financial statements do not contain an explicit and unreserved statement of compliance with IFRSs, must either apply IFRS 1 or else apply IFRSs retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

### OPENING IFRS STATEMENT OF FINANCIAL POSITION

- An opening IFRS Statement of Financial Position is prepared at the date of transition
- All IFRSs are applied consistently across all reporting periods in the entity's first set of IFRS compliant financial statements (i.e. both the comparatives and the current reporting period)
- If a standard is not yet mandatory but permits early application, an entity is permitted, but not required, to apply that Standard in its first IFRS set of financial statements.

### PRESENTATION AND DISCLOSURE

An entity's first set of financial statements are required to present at least three statements of financial position and two statements each of statements of comprehensive income, income statements (if presented), statements of cash flows and statements of changes in equity, related notes and in relation to the adoption of IFRSs, the following:

- A reconciliation of equity reported under previous accounting framework to equity under IFRSs:
  - At the date of transition to IFRSs
  - At the end of the latest period presented in the entity's most recent annual financial statements under previous accounting framework.
- A reconciliation of total comprehensive income reported under previous accounting framework to total comprehensive income under IFRSs for the entity's most recent annual financial statements under previous accounting framework
- Interim financial reports:
  - In addition to the reconciliations above, the entity is also required to provide:
    - A reconciliation of equity reported under its previous accounting framework to equity under IFRSs at the end of the comparable interim period, and
    - A reconciliation of total comprehensive income reported under its previous accounting framework to total comprehensive income under IFRSs for the comparative interim period, and
    - Explanations of the transition from its previous accounting framework to IFRS.
- Any errors made under the previous accounting framework must be separately distinguished
- Additional disclosure requirements are set out in IFRS 1.

# IFRS 2 *Share-based Payment*

Effective Date
Periods beginning on or after 1 January 2005

## SCOPE

IFRS 2 applies to all share-based payment transactions, which are defined as follows:

- **Equity-settled**, in which the entity receives goods or services as consideration for equity instruments of the entity (including shares or share options)
- **Cash-settled**, in which the entity receives goods or services by incurring a liability to the supplier that is based on the price (or value) of the entity's shares or other equity instruments of the entity
- Transactions in which the entity receives goods or services and either the entity or the supplier of those goods or services have a **choice of settling** the transaction in cash (or other assets) or equity instruments.

IFRS 2 does not apply to:

- Transactions in which the entity acquires goods as part of the net assets acquired in a business combination to which IFRS 3 *Business Combinations* applies
- Share-based payment transactions in which the entity receives or acquires goods or services under a contract within the scope of IAS 32 *Financial Instruments: Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement*
- Transactions with an employee in his/her capacity as a holder of equity instruments.

- IFRS 2 also applies to transfers by shareholders to parties (including employees) that have transferred goods or services to the entity. This would include transfers of equity instruments of the entity or fellow subsidiaries by the entity's parent entity to parties that have provided goods and services
- IFRS 2 also applies when an entity does not receive any specifically identifiable good/services.

## RECOGNITION

- Recognise the goods or services received or acquired in a share-based payment transaction when the goods are obtained or as the services are received
- Recognise an increase in equity for an equity-settled share-based payment transaction
- Recognise a liability for a cash-settled share-based payment transaction
- When the goods or services received or acquired do not qualify for recognition as assets, recognise an expense.

## MEASUREMENT

### EQUITY-SETTLED

**Transactions with employees**

- Measure at the fair value of the equity instruments granted at grant date
- The fair value is never remeasured
- The grant date fair value is recognised over the vesting period.

**Transactions with non-employees**

- Measure at the fair value of the goods or services received at the date the entity obtains the goods or receives the service
- If the fair value of the goods or services received cannot be estimated reliably, measure by reference to the fair value of the equity instruments granted.

### CHOICE OF SETTLEMENT

**Share-based payment transactions where there is a choice of settlement**

- If the counterparty has the right to choose whether a share-based payment transaction is settled in cash or by issuing equity instruments, the entity has granted a compound instrument (a cash-settled component and an equity-settled component)
- If the entity has the choice of whether to settle in cash or by issuing equity instruments, the entity shall determine whether it has a present obligation to settle in cash and account for the transaction as cash-settled or if no such obligation exists, account for the transaction as equity-settled.

### CASH-SETTLED

**Cash-settled share-based payment transactions**

- Measure the liability at the fair value at grant date
- Re-measure the fair value of the liability at each reporting date and at the date of settlement, with any changes in fair value recognised in profit or loss for the period
- Liability is recognised over the vesting period (if applicable).

## VESTING CONDITIONS

**Performance condition -** requires counterparty to:

- complete a specified period of service (i.e. **service condition**); and
- fulfil specified performance targets while rendering the service.

The period of service cannot extend beyond the end of the service period and may start before commencement of the service period if it is not substantially before the start of the service period.

Performance targets are either defined with reference to a:

**Market condition**

**Non-market condition**
Relates to operations of the entity or an entity within the group.

**Market condition -** performance condition, upon which the exercise price, the vesting or exercisability of an equity instrument depends, that is related to the market price of the entity's equity instruments (including share options) or those of another entity within the group.

**Service condition** – requires the counterparty to complete a specified period of service.

A performance target is not required to be met.

- **Excluded** from grant date fair value calculation
- Adjustment to the number of shares and/or vesting date amount for actual results.

- **Included** in grant date fair value calculation
- No adjustment to the number of shares or vesting date amount for actual results.
- Requires counterparty to complete a specified period of service.

## NON-VESTING CONDITIONS

- **Included** in the grant date fair value calculation
- No adjustment to the number of shares or vesting date amount for actual results.

## GROUP SETTLED SHARE-BASED PAYMENTS

An entity that receives goods or services (receiving entity) in an equity-settled or a cash-settled share-based payment transaction is required to account for the transaction in its separate or individual financial statements.

- The entity receiving the goods or services recognises them, regardless of which entity settles the transaction, this must be on an equity-settled or a cash-settled basis assessed from the entities own perspective (this might not be the same as the amount recognised by the consolidated group)
- The term 'group' has the same definition as per IFRS 10 *Consolidated Financial Statements* that it includes only a parent and its subsidiaries.

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# IFRS 3 *Business Combinations*

Effective Date
Periods beginning on or after 1 July 2009

## IDENTIFYING A BUSINESS COMBINATION / SCOPE

A business combination is: Transaction or event in which acquirer obtains **control** over a **business** (e.g. acquisition of shares or net assets, legal mergers, reverse acquisitions).

IFRS 3 does not apply to:
- The accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
- Acquisition of an asset or group of assets that is not a business.
- A combination of entities or businesses under common control.

**Definition of "control of an investee"**
An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

**Control (refer to IFRS 10)**
- Ownership of more than half the voting right of another entity
- Power over more than half of the voting rights by agreement with investors
- Power to govern the financial and operating policies of the other entity under statute/ agreement
- Power to remove/appoint majority of directors
- Power to cast majority of votes.

**Definition of a "Business"**
- Integrated set of activities and assets
- Capable of being conducted and managed to provide return
- Returns include dividends and cost savings.

**Acquisition Costs**
- Cannot be capitalised, must instead be expensed in the period they are incurred
- Costs to issue debt or equity are recognised in accordance with IAS 32 and IFRS 9.

## ACQUISITION METHOD

A business combination must be accounted for by applying the acquisition method.

### STEP 1: IDENTIFY ACQUIRER

IFRS 10 *Consolidated Financial Statements* is used to identify the acquirer - the entity that obtains control of the acquiree.

### STEP 2: DETERMING THE ACQUISITION DATE

The date which the acquirer obtains control of the acquiree.

### STEP 3: RECOGNITION AND MEASUREMENT OF ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS (NCI)

- As of the acquisition date, the acquirer recognises, separately from goodwill:
  - The identifiable assets acquired
  - The liabilities assumed
  - Any NCI in the acquiree
- The acquired assets and liabilities are required to be measured at their acquisition-date fair values
- There are certain exceptions to the recognition and/or measurement principles which cover contingent liabilities, income taxes, employee benefits, indemnification assets, reacquired rights, share-based payments and assets held for sale.
- NCI interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation (e.g. shares) are measured at acquisition-date fair value or at the NCI's proportionate share in net assets
- All other components of NCI (e.g. from IFRS 2 *Share-based payments* or calls) are required to be measured at their acquisition-date fair values

### STEP 4: RECOGNITION AND MEASUREMENT OF GOODWILL OR A BARGAIN PURCHASE

- Goodwill is recognised as the excess between:
  - The aggregate of the consideration transferred, any non-controlling interest in the acquiree and, in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree
  - The identifiable net assets acquired (including any deferred tax balances)
- Goodwill can be grossed up to include the amounts attributable to NCI, that is the case when NCI is measured at their acquisition date fair value.
- A gain from a bargain purchase is immediately recognised in profit or loss
- The consideration transferred in a business combination (including any contingent consideration) is measured at fair value
- Contingent consideration is either classified as a liability or an equity instrument on the basis of IAS 32 *Financial Instruments*
- Contingent consideration that is within the scope of IFRS 9 (classified as a financial liability) needs to be remeasured at fair value at each reporting date with changes reported in profit or loss.
- The acquirer should consider if the consideration includes amounts attributable to other transactions within the contract (pre- existing relationship, arrangements that remunerate employees etc.).

## ADDITIONAL GUIDANCE FOR APPLYING THE ACQUISITION METHOD

### STEP ACQUISTION

- An acquirer sometimes obtains control of an acquiree in which it held an equity interest immediately before the acquisition date. This is known as a business combination achieved in stages or as a step acquisition
- Obtaining control triggers re-measurement of previous investments (equity interests)
- The acquirer remeasures its previously held equity interest in the acquiree at its acquisition-date fair value (including interests in joint arrangements classified as joint operations (R)). Any resulting gain/loss is recognised in profit or loss.

### BUSINESS COMBINATION WITHOUT TRANSFER OF CONSIDERATION

- The acquisition method of accounting for a business combination also applies if no consideration is transferred.
- Such circumstances include:
  - The acquiree repurchases a sufficient number of its own shares for an existing investor (the acquirer) to obtain control
  - Minority veto rights lapse that previously kept the acquirer from controlling an acquiree in which the acquirer held the majority voting rights
  - The acquirer and the acquiree agree to combine their businesses by contract alone.

### SUBSEQUENT MEASUREMENT AND ACCOUNTING

- In general, after the date of a business combination an acquirer measures and accounts for assets acquired and liabilities assumed or incurred in accordance with other applicable IFRSs.
- However, IFRS 3 includes accounting requirements for reacquired rights, contingent liabilities, contingent consideration and indemnification assets.

# IFRS 4 *Insurance Contracts*

**Effective Date**
**Periods beginning on or after 1 January 2005**

## SCOPE

This Standard applies to:

- Insurance contracts that an entity issues and reinsurance contracts that it holds
- Financial instruments that an entity issues with a discretionary participation feature.

If insurance contracts include a deposit component, unbundling may be required.

The following are examples of contracts that **are** insurance contracts, if the transfer of insurance risk is significant:

- Insurance against theft or damage to property
- Insurance against product liability, professional liability, civil liability or legal expenses
- Life insurance and prepaid funeral expenses
- Life-contingent annuities and pensions
- Disability and medical cover
- Surety bonds, fidelity bonds, performance bonds and bid bonds
- Credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due
- Product warranties (other than those issued directly by a manufacturer, dealer or retailer)
- Title insurance
- Travel assistance
- Catastrophe bonds that provide for reduced payments of principal, interest or both if a specified event adversely affects the issuer of the bond
- Insurance swaps and other contracts that require a payment based on changes in climatic, geological or other physical variables that are specific to a party to the contract
- Reinsurance contracts.

The following are examples of items that **are not** insurance contracts:

- Investment contracts that have the legal form of an insurance contract but do not expose the insurer to significant risk
- Contracts that pass all significant insurance risk back to the policyholder
- Self-insurance i.e. retaining a risk that could have been covered by insurance
- Gambling contracts
- Derivatives that expose one party to financial risk but not insurance risk
- A credit-related guarantee
- Product warranties issued directly by a manufacturer, dealer or retailer
- Financial guarantee contracts accounted for under IAS 39 *Financial Instruments: Recognition and Measurement*.

Does not address the accounting for financial assets held by insurers, but

- Temporary exemption from the requirement to apply IFRS 9 is available; and
- Overlay approach permitted for designated financial assets.

## LIABILITY ADEQUACY TEST

An insurer is required to assess at the end of each reporting period whether its recognised insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is not sufficient, the liability is increased and a corresponding expense is recognised in profit or loss.

## AREAS OF ADDITIONAL GUIDANCE

Additional guidance is provided in IFRS 4 in relation to:

- Changes in accounting policies
- Prudence
- Insurance contracts acquired in a business combination or portfolio transfer
- Discretionary participation features.

It is highly recommended that insurers gain a full understanding of IFRS 4 as requirements and disclosures are onerous.

Additional guidance is provided in appendices A and B.

## DISCLOSURE

An insurer is required to disclose information that identifies and explains the amounts arising from insurance contracts:

- Its accounting policies for insurance contracts and related assets, liabilities, income and expense
- Recognised assets, liabilities, income and expense
- The process used to determine the assumptions that have the greatest effect on measurement
- The effect of any changes in assumptions
- Reconciliations of changes in liabilities and assets.

An insurer is required to disclose information that enables user of its financial statement to evaluate the nature and extent of risks arising from insurance contracts:

- Its objectives, policies and processes for managing risks
- Information about insurance risk
- Information about credit risk, liquidity risk and market risk
- Information about exposures to market risk arising from embedded derivatives.

# IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

Effective Date
Periods beginning on or after 1 January 2005

## DEFINITIONS

**Cash-generating unit -** The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

**Discontinued operation -** A component of an entity that either has been disposed of or is classified as held for sale and either:

- Represents a separate major line of business or geographical area
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations
- Is a subsidiary acquired exclusively with a view to resale.

## CLASSIFICATION OF NON-CURRENT ASSETS (OR DISPOSAL GROUPS) HELD FOR SALE OR DISTRIBUTION TO OWNERS

- Classify a non-current asset (or disposal group) as **held for sale** if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The following criteria must be met:
  - The asset (or disposal group) is available for immediate sale
  - The terms of asset sale must be usual and customary for sales of such assets
  - The sale must be highly probable
  - Management is committed to a plan to sell the asset
  - Asset must be actively marketed for a sale at a reasonable price in relation to its current fair value
  - Sale should be completed within one year from classification date
  - Sale transactions include exchanges of non-current assets for other non-current assets when the exchange has commercial substance in accordance with IAS 16 *Property, Plant and Equipment*
  - When an entity acquires a non-current asset exclusively with a view to its subsequent disposal, it shall classify the non-current asset as held for sale at the acquisition date only if the one year requirement is met
  - There are special rules for subsidiaries acquired with a view for resale.
- **Note**: The classification criteria also apply to non-current assets (or disposal groups) **held for distribution to owners.**
  A reclassification from held for sale to held for distribution to owners is not a change to a plan and therefore not a new plan.

## DISCONTINUED OPERATIONS

- Classification as a discontinued operation depends on when the operation also meets the requirements to be classified as held for sale
- Results of discontinued operations are presented as a single amount in the statement of comprehensive income. An analysis of the single amount is presented in the notes or in the statement of comprehensive income
- Cash flow disclosure is required – either in the notes or statement of cash flows
- Comparatives are restated.

## SCOPE

- Applies to all recognised non-current assets and disposal groups of an entity that are:
  - held for sale; or
  - held for distribution to owners.
- Assets classified as non-current in accordance with IAS 1 *Presentation of Financial Statements* shall not be reclassified as current assets until they meet the criteria of IFRS 5
- If an entity disposes of a group of assets, possibly with directly associated liabilities (i.e. an entire cash-generating unit), together in a single transaction, if a non-current asset in the group meets the measurement requirements in IFRS 5, then IFRS 5 applies to the group as a whole. The entire group is measured at the lower of its carrying amount and fair value less costs to sell
- Non-current assets to be abandoned cannot be classified as held for sale.

Exclusions to measurement requirements of IFRS 5. Disclosure requirements still to be complied with:

- Deferred tax assets (IAS 12 *Income Taxes*)
- Assets arising from employee benefits (IAS 19 *Employee Benefits*)
- Financial assets in the scope of IAS 39 *Financial Instruments: Recognition and Measurement* / IFRS 9 *Financial Instruments*
- Non-current assets that are accounted for in accordance with the fair value model (IAS 40 *Investment Property)*
- Non-current assets that are measured at fair value less estimated point of sale costs (IAS 41 *Biological Assets*)
- Contractual rights under insurance contracts (IFRS 4 *Insurance Contracts*).

## MEASUREMENT

- Immediately prior to classification as held for sale, carrying amount of the asset is measured in accordance with applicable IFRSs
- After classification, it is measured at the lower of carrying amount and fair value less costs to sell. Assets covered under certain other IFRSs are scoped out of measurement requirements of IFRS 5 – see above
- Impairment must be considered at the time of classification as held for sale and subsequently
- Subsequent increases in fair value cannot be recognised in profit or loss in excess of the cumulative impairment losses that have been recognised with this IFRS or with IAS 36 *Impairment of Assets*
- Non-current assets (or disposal groups) classified as held for sale are not depreciated
- Adjustment of number of shares and/or vesting date amount for actual results.

## DISCLOSURE

- Non-current assets (or a disposal group) held for sale are disclosed separately from other assets in the statement of financial position. If there are any liabilities, these are disclosed separately from other liabilities
- Description of the nature of assets (or disposal group) held for sale and facts and circumstances surrounding the sale
- A gain or loss resulting from the initial or subsequent fair value measurement of the disposable group or non-current asset held for sale if not presented separately in the statement of comprehensive income and the line item that includes that gain or loss
- Prior year balances in the statement of financial positions are not reclassified as held for sale
- If applicable, the reportable segment (IFRS 8) in which the non-current asset or disposable group is presented.

# IFRS 6 *Exploration for and Evaluation of Mineral Resources*

Effective Date
Periods beginning on or after 1 January 2006

## SCOPE

- An entity applies IFRS 6 to exploration and evaluation expenditures that it incurs
- An entity does not apply IFRS 6 to expenditures incurred:
  - Before the exploration for and evaluation of mineral resources, such as expenditures incurred before the entity has obtained the legal rights to explore a specific area
  - After the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

## PRESENTATION

An entity classifies exploration and evaluation assets as tangible or intangible according to the nature of the assets acquired and applies the classification consistently.

## CHANGES IN ACCOUNTING POLICYOPTIONAL EXEMPTIONS

An entity may change its accounting policies for exploration and evaluation expenditures if the change makes the financial statements more relevant and no less reliable to the economic decision-making needs of users, or more reliable and no less relevant to those needs.

## DISCLOSURE

An entity discloses information that identifies and explains the amounts recognised in its financial statements arising from the exploration for and evaluation of mineral resources.

An entity discloses:

- Its accounting policies for exploration and evaluation expenditures and evaluation assets
- The amounts of assets, liabilities, income and expense and operating and investing cash flows arising from the exploration for and evaluation of mineral resources.

Exploration and evaluation assets are disclosed as a separate class of assets in the disclosures required by IAS 16 *Property, Plant and Equipment* or IAS 38 *Intangible Assets*.

## MEASUREMENT AT RECOGNITION

At recognition, exploration and evaluation assets are measured at cost.

## ELEMENTS OF COST OF EXPLORATION AND EVALUATION ASSETS

- An entity determines an accounting policy specifying which expenditures are recognised as exploration and evaluation assets
- The following are examples of expenditures that might be included in the initial measurement of exploration and evaluation assets:
  - Acquisition of rights to explore
  - Topographical, geological, geochemical and geophysical studies
  - Exploratory drilling
  - Trenching
  - Sampling
  - Activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

## MEASUREMENT AFTER RECOGNITION

After recognition, an entity applies either the cost model or the revaluation model to the exploration and evaluation assets. Refer to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* for guidance.

## IMPAIRMENT

- One or more of the following facts and circumstances indicate that an entity should test exploration and evaluation assets for impairment:
  - The period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed
  - Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned
  - Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area
  - Sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.
- An entity determines an accounting policy for allocating exploration and evaluation assets to cash-generating units or groups of cash-generating units for the purpose of assessing such assets for impairment.

# IFRS 7 *Financial Instruments: Disclosures*

Effective Date
Periods beginning on or after 1 January 2007

## DISCLOSURE REQUIREMENTS: SIGNIFICANCE OF FINANCIAL INSTRUMENTS IN TERMS OF THE FINANCIAL POSITION AND PERFORMANCE

### STATEMENT OF FINANCIAL POSITION

- Total carrying value of each category of financial assets and liabilities on face of the statement of financial position or in the notes
- Information on fair value of loans and receivables
- Financial liabilities designated as at fair value through profit and loss
- Financial assets reclassified
- Financial assets that do not qualify for derecognition
- Details of financial assets pledged as collateral & collateral held
- Reconciliation of allowance account for credit losses.
- Compound financial instruments with embedded derivatives
- Details of defaults and breaches of loans payable.

### STATEMENT OF COMPREHENSIVE INCOME

- Gain or loss for each category of financial assets and liabilities in the statement of comprehensive income or in the notes
- Total interest income and interest expense (effective interest method)
- Fee income and expense
- Interest on impaired financial assets
- Amount of impairment loss for each financial asset.

### OTHER

**Accounting policies:**
- All relevant accounting policies. Include measurement basis.

**Hedge accounting:**
- Description of hedge, description and fair value of hedged instrument and type of risk hedged
- Details of cash flow hedges, fair value hedges and hedge of net investment in foreign operations.

**Fair value:**
- Fair value for each class of financial asset and liability
- Disclose method and relevant assumptions to calculate fair value
- Disclose if fair value cannot be determined.

## DISCLOSURE REQUIREMENTS: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS AND HOW THE RISKS ARE MANAGED

**Qualitative disclosure**
- Exposure to risk and how it arises
- Objectives, policies and processes for managing risk and method used to measure risk.

**Quantitative disclosure**
- Summary of quantitative data about exposure to risk based on information given to key management
- Concentrations of risks.

### SPECIFIC QUANTITATIVE DISCLOSURE REQUIREMENTS

#### LIQUIDITY RISK

**Definition:**
The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

- Maturity analysis for financial liabilities that shows the remaining contractual maturities - Appendix B10A – B11F
- Time bands and increment are based on the entities' judgement
- How liquidity risk is managed.

#### CREDIT RISK

**Definition:**
The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

- Maximum exposure to credit risk without taking into account collateral
- Collateral held as security and other credit enhancements
- Information of financial assets that are either past due (when a counterparty has failed to make a payment when contractually due) or impaired
- Information about collateral and other credit enhancements obtained.

#### MARKET RISK

**Definition:**
The risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

- A sensitivity analysis (including methods and assumptions used) for each type of market risk exposed, showing impact on profit or loss and equity

**or**

- If a sensitivity analysis is prepared by an entity, showing interdependencies between risk variables and it is used to manage financial risks, it can be used in place of the above sensitivity analysis.

### SCOPE

IFRS 7 applies to all recognised and unrecognised financial instruments (including contracts to buy or sell non-financial assets) except:
- Interests in subsidiaries, associates or joint ventures, where IAS 27/28 or IFRS 10/11 permit accounting in accordance with IAS 39/IFRS 9
- Assets and liabilities resulting from IAS 19
- Insurance contracts in accordance with IFRS 4 (excluding embedded derivatives in these contracts if IAS 39/IFRS 9 require separate accounting)
- Financial instruments, contracts and obligations under IFRS 2, except contracts within the scope of IAS 39/IFRS 9
- Puttable instruments (IAS 32.16A-D).

### FAIR VALUE (FV) HIERARCHY

All financial instruments measured at fair value must be classified into the levels below (that reflect how fair value has been determined):

- **Level 1:** Quoted prices, in active markets
- **Level 2:** Level 1 quoted prices are not available but fair value is based on observable market data
- **Level 3:** Inputs that are not based on observable market data.

A financial Instrument will be categorised based on the lowest level of any one of the inputs used for its valuation.

The following disclosures are also required:
- Significant transfers of financial instruments between each category – and reasons why
- For level 3, a reconciliation between opening and closing balances, incorporating; gains/losses, purchases/sales/settlements, transfers
- Amount of gains/losses and where they are included in profit and loss
- For level 3, if changing one or more inputs to a reasonably possible alternative would result in a significant change in FV, disclose this fact.

### TRANSFER OF FINACIAL ASSETS

Information for transferred assets that are and that are not derecognised in their entirety:
- Information to understand the relationship between financial assets and associated liabilities that are not derecognised in their entirety
- Information to evaluate the nature and risk associated with the entities continuing involvement in derecognised assets (IFRS 7.42A-G).

# IFRS 8 *Operating Segments*

**Effective Date**
**Periods beginning on or after 1 January 2009**

## CORE PRINCIPLE

An entity is required to disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

## QUANTITATIVE THRESHOLDS

- Information is required to be disclosed separately about an operating segment that meets any of the following quantitative thresholds:
  - Its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments
  - The absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of:
    - The combined reported profit of all operating segments that did not report a loss; and
    - The combined reported loss of all operating segments that reported a loss.
  - Its assets are 10 per cent or more of the combined assets of all operating segments.
- If the total external revenue reported by operating segments constitutes less than 75% of the total revenue, additional operating segments shall be identified as reportable segments until at least 75% of the entity's revenue is included in reportable segments.

## AGGREGATION CRITERIA

Two or more operating segments may be aggregated if the segments are similar in each of the following respects:

- The nature of the products and services
- The nature of the production processes
- The type or class of customer for their products and services
- The methods used to distribute their products or provide their services
- The nature of the regulatory environment.

## OPERATING SEGMENTS

An operating segment is a component of an entity:

- That engages in business activities from which it may earn revenues and incur expenses
- Whose operating results are regularly reviewed by the entity's chief operating decision maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance
- For which discrete financial information is available.

## REPORTABLE SEGMENTS

Information is required to be disclosed separately about each identified operating segment and aggregated operating segments that exceed the quantitative thresholds.

## DEFINITION OF THE CODM

The CODM is the individual or group of individuals who is/are responsible for strategic decision making regarding the entity. That is, the CODM allocates resources and assess the performance of the operating segments.

## SCOPE

IFRS 8 applies to the annual and interim financial statements of an entity. It applies to the separate or individual financial statements of an entity and to the consolidated financial statements of a group with a parent:

- Whose debt or equity instruments are traded in a public market; or
- That files, or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market.

## DISCLOSURE

Major disclosures include:

- An entity shall report a measure of profit or loss and total assets for each reportable segment - only if this information is regularly provided to the CODM
- Other disclosures are required regarding each reportable segment if specific amounts are reported to the CODM
- Judgements made by management for the purposes of aggregation of operating segments
  - Description of the operating segments that have been aggregated
  - Economic indicators considered in determining that segments share similar economic characteristics.
- Operating segment information disclosed is not necessarily IFRS compliant information, as it is based on amounts reported internally
- Operating segment information disclosed must be reconciled back to IFRS amounts disclosed in the financial statements
- An entity reports the following geographical information if available:
  - Revenues from external customers, both attributed to the entity's country of domicile and attributed to all foreign countries
  - Non-current assets (except financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts) located both in the entity's country of domicile and in foreign countries
  - The amounts reported are based on the financial information that is used to produce the entity's financial statements.
- An entity provides information about the extent of its reliance on its major customers. If revenues from transactions with a single external customer amount to 10% or more of an entity's revenues, the entity discloses that fact.

# IFRS 9 *Financial Instruments*



Effective Date
Periods beginning on or after 1 January 2018 (earlier application is permitted)

## BACKGROUND (PROJECT TO REPLACE IAS 39)

IFRS 9 introduces a single classification and measurement model for financial assets, dependent on both:
- The entity's business model objective for managing financial assets
- The contractual cash flow characteristics of financial assets.

IFRS 9 removes the requirement to separate embedded derivatives from financial asset host contracts (it instead requires a hybrid contract to be classified in its entirety at either amortised cost or fair value.)

Separation of embedded derivatives has been retained for financial liabilities (subject to criteria being met).

## INITIAL RECOGNITION AND MEASUREMENT (FINANCIAL ASSETS AND FINANCIAL LIABILITIES)

**Initial Recognition**

When the entity becomes party to the contractual provisions of the instrument.

**Initial Measurement**

At fair value, plus for those financial assets and liabilities not classified at fair value through profit or loss, directly attributable transaction costs.
- **Fair value** - is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date
- **Directly attributable transaction costs** - incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

## FINANCIAL ASSETS - SUBSEQUENT CLASSIFICATION AND MEASUREMENT

Financial Assets are classified as either: **(1) Amortised cost**, **(2) Fair value through profit or loss**, **(3) Fair Value through other comprehensive income**

### (1) Amortised cost

**Category classification criteria**

**Both** of the below conditions must be met:

(i) Business model objective: financial assets held in order to collect contractual cash flows

(ii) Contractual cash flow characteristics: solely payments of principal and interest on the principal amount outstanding.

**Subsequent measurement**

- Amortised cost using the effective interest method.

#### (i) Business model assessment

Based on the **overall business**, not instrument-by-instrument

Centres on whether financial assets are held to collect contractual cash flows:
- How the entity is run
- The objective of the business model as determined by key management personnel (KMP) (per IAS 24 *Related Party Disclosures*).

Financial assets do not have to be held to contractual maturity in order to be deemed to be held to collect contractual cash flows, but the overall approach must be consistent with 'hold to collect'.

#### (ii) Contractual cash flow assessment

Based on an **instrument-by-instrument** basis

Financial assets with cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Interest is consideration for only the time-value of money and credit risk.

FOREX financial assets: assessment is made in the denomination currency (i.e. FX movements are not taken into account).

**IFRS 9 contains various illustrative examples in the application of both the (i) Business Model Assessment and (ii) Contractual Cash Flow Characteristics.**

### (2) Fair value through profit or loss

**Category classification criteria**

- Financial assets that do not meet the amortised cost criteria
- Financial assets designated at initial recognition. The option to designate is available:
  - If doing so eliminates, or significantly reduces, a measurement or recognition inconsistency (i.e. 'accounting mismatch').

**Note**: the option to designate is irrevocable.

**Subsequent measurement**

- Fair value, with all gains and losses recognised in profit or loss.

### (3) Fair value through other comprehensive income

**Equity Instruments**

**Note:** Designation at initial recognition is optional and irrevocable.

**Category classification criteria**
- Available **only** for investments in equity instruments (within the scope of IFRS 9) that are not held for trading.

**Subsequent measurement**
- Fair value, with all gains and losses recognised in other comprehensive income
- Changes in fair value are not subsequently recycled to profit and loss
- Dividends are recognised in profit or loss.

**Debt Instruments**

**Category classification criteria**
- meets the SPPI contractual cash flow characteristics test (see box (1)(ii) above)
- Entity holds the instrument to collect contractual cash flows and to sell the financial assets

**Subsequent measurement**
- Fair value, with all gains and losses (other than those relating to impairment, which are included in profit or loss) being recognised in other comprehensive income
- Changes in fair value recorded in other comprehensive income are recycled to profit or loss on derecognition or reclassification.

# IFRS 9 *Financial Instruments*



Effective Date
Periods beginning on or after 1 January 2018 (earlier application is permitted)

## IMPAIRMENT OF FINANCIAL ASSETS

**Scope**

The impairment requirements are applied to:
- Financial assets measured at amortised cost (incl. trade receivables)
- Financial assets measured at fair value through OCI
- Loan commitments and financial guarantees contracts where losses are currently accounted for under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
- Lease receivables.

The impairment model follows a three-stage approach based on changes in expected credit losses of a financial instrument that determine
- the recognition of impairment, and
- the recognition of interest revenue.

**Initial recognition**

At initial recognition of the financial asset an entity recognises a loss allowance equal to 12 months expected credit losses which consist of expected credit losses from default events possible within 12 months from the entity's reporting date. An exception is purchased or originated credit impaired financial assets.

**Subsequent measurement**

| Stage | 1 | 2 | 3 |
|---|---|---|---|
| Impairment | 12 month expected credit loss | Lifetime expected credit loss | |
| Interest | Effective interest on the gross carrying amount (before deducting expected losses) | | Effective interest on the net (carrying) amount |

## THREE-STAGE APPROACH

### STAGE 1

**12 month expected credit losses (gross interest)**

- Applicable when **no significant increase in credit risk**
- Entities continue to recognise 12 month expected losses that are updated at each reporting date
- Presentation of interest on gross basis

### STAGE 2

**Lifetime expected credit losses (gross interest)**

- Applicable in case of **significant increase in credit risk**
- Recognition of lifetime expected losses
- Presentation of interest on gross basis

### STAGE 3

**Lifetime expected credit losses (net interest)**

- Applicable in case of **credit impairment**
- Recognition of lifetime expected losses
- Presentation of interest on a net basis

## PRACTICAL EXPEDIENTS

**30 days past due rebuttable presumption**

- Rebuttable presumption that credit risk has increased significantly when contractual payments are more than 30 days past due
- When payments are 30 days past due, a financial asset is considered to be in stage 2 and lifetime expected credit losses would be recognised
- An entity can rebut this presumption when it has reasonable and supportable information available that demonstrates that even if payments are 30 days or more past due, it does not represent a significant increase in the credit risk of a financial instrument.

**Low credit risk instruments**

- Instruments that have a low risk of default and the counterparties have a strong capacity to repay (e.g. financial instruments that are of investment grade)
- Instruments would remain in stage 1, and only 12 month expected credit losses would be provided.

## SIMPLIFIED APPROACH

**Short term trade receivables**

- Recognition of only 'lifetime expected credit losses' (i.e. stage 2)
- Expected credit losses on trade receivables can be calculated using provision matrix (e.g. geographical region, product type, customer rating, collateral or trade credit insurance, or type of customer)
- Entities will need to adjust the historical provision rates to reflect relevant information about current conditions and reasonable and supportable forecasts about future expectations.

**Long term trade receivables and lease receivables**

Entities have a choice to either apply:
- the three-stage expected credit loss model; or
- the 'simplified approach' where only lifetime expected credit losses are recognised.

## LOAN COMMITMENTS AND FINANCIAL GUARANTEES

- The three-stage expected credit loss model also applies to these off balance sheet financial commitments
- An entity considers the expected portion of a loan commitment that will be drawn down within the next 12 months when estimating 12 month expected credit losses (stage 1), and the expected portion of the loan commitment that will be drawn down over the remaining life the loan commitment (stage 2)
- For loan commitments that are managed on a collective basis an entity estimates expected credit losses over the period until the entity has the practical ability to withdraw the loan commitment.

# IFRS 9 *Financial Instruments*

Effective Date
Periods beginning on or after 1 January 2018 (earlier application is permitted)

## FINANCIAL LIABILTIES - SUBSEQUENT CLASSIFICATION AND MEASUREMENT

Financial Liabilities are classified as either: **(1) Amortised Cost**, **(2) Fair value through profit or loss**.

In addition, specific guidance exists for:
**(i) Financial guarantee contracts**, and **(ii) Commitments to provide a loan at a below market interest rate**
**(iii) Financial Liabilities that arise when the transfer of a financial asset either does not qualify for derecognition or where there is continuing involvement.**

### (1) Amortised cost

**Category classification criteria**

All financial liabilities, except those that meet the criteria of (2), (i), and (ii).

**Subsequent measurement**

- Amortised cost using the effective interest method.

### (2) Fair value through profit or loss

**Category classification criteria**

- Financial liabilities held for trading
- Derivative financial liabilities
- Financial liabilities designated at initial recognition The option to designate is available:
  - If doing so eliminates, or significantly reduces, a measurement or recognition inconsistency (i.e. 'accounting mismatch'), or
  - If a group of financial liabilities (or financial assets and financial liabilities) is managed, and evaluated, on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally to KMP.

**Subsequent measurement**

- Fair value with all gains and losses being recognised in profit or loss.

### (i) Financial guarantee contracts
### (ii) Commitments to provide a loan at a below market interest rate

**Subsequent measurement (the higher of either)**

(i) The amount determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

(ii) The amount initially recognised, less (when appropriate) cumulative amortisation recognised in accordance with IAS 18 *Revenue*.

### (iii) Financial liabilities resulting from the transfer of a financial asset

(That does not qualify for derecognition)

(Where there is continuing involvement)

Financial liability for the consideration received is recognised.

**Subsequent measurement**

The net carrying amount of the transferred asset and associated liability is measured as either:

- Amortised cost of the rights and obligations retained (if the transferred asset is measured at amortised cost)
- The fair value of the rights and obligations retained by the entity when measured on a stand-alone basis (if the transferred asset is measured at fair value).

## EMBEDDED DERIVATIVES

**Definition and description**

Embedded derivatives are components of a hybrid contract (i.e. a contract that also includes a non-derivative host), that causes some (or all) of the contractual cash flows to be modified according to a specified variable (e.g. interest rate, commodity price, foreign exchange rate, index, etc.)

**Exclusions and exemptions (i.e. not embedded derivatives)**

- Non-financial variables that are specific to a party to the contract.
- A derivative, attached to a financial instrument that is contractually transferable independently of that instrument, or, has a different counterparty from that instrument.
  - Instead, this is a separate financial instrument.

Embedded derivatives are accounted for differently depending on whether they are within a host contract that is a financial asset or a financial liability

### Embedded derivatives within a financial asset host contract

The embedded derivative is not separated from the host contract

Instead, the whole contract in its entirety is accounted for as a **single instrument** in accordance with the requirements of IFRS 9.

### Embedded derivatives within a host contract that is a financial liability

**Subject to meeting the adjacent criteria, the embedded derivative is:**

- Separated from the host contract
- Accounted for as a derivative in accordance with IFRS 9 (i.e. at fair value through profit or loss).

**Criteria: to separate an embedded derivative**

1) Economic characteristics of the embedded derivative and host are not closely related
2) An identical instrument (with the same terms) would meet the definition of a derivative, and
3) The entire (hybrid) contract is not measured at fair value through profit or loss.

**Host contract (once embedded derivative is separated)**

The (non-financial asset) host contract is accounted for in accordance with the appropriate IFRS.

## TRANSITION

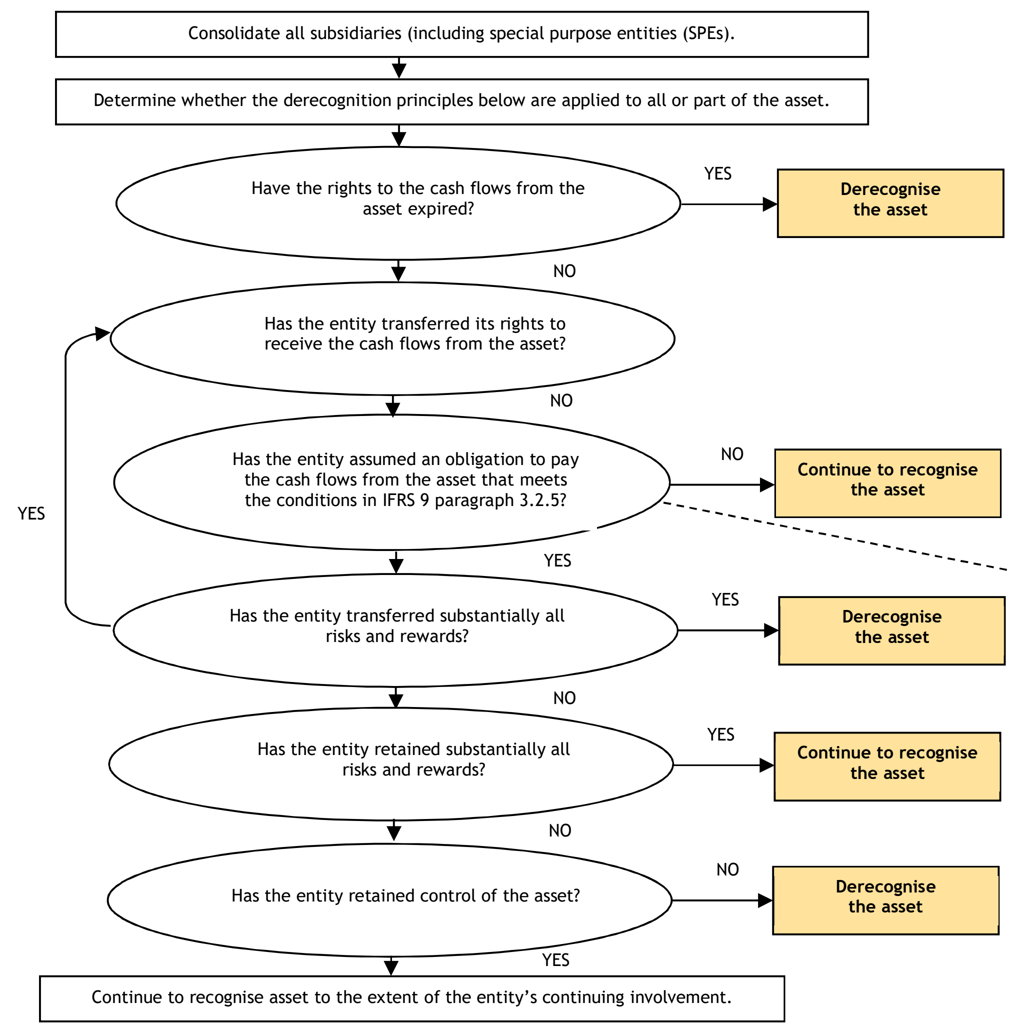
Retrospective application in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, subject to certain exemptions and reliefs (refer section 7.2 of IFRS 9).

# IFRS 9 *Financial Instruments*

Effective Date
Periods beginning on or after 1 January 2018 (earlier application is permitted)

## DERECOGNITION

### FINANCIAL ASSETS




### FINANCIAL LIABILITIES

- A financial liability is derecognised only when extinguished – i.e., when the obligation specified in the contract is discharged, cancelled or it expires
- An exchange between an existing borrower and lender of debt instruments with substantially different terms or substantial modification of the terms of an existing financial liability of part thereof is accounted for as an extinguishment
- The difference between the carrying amount of a financial liability extinguished or transferred to a 3rd party and the consideration paid is recognised in profit or loss.

- If an entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognises either a servicing asset or liability for that servicing contract
- If, as a result of a transfer, a financial asset is derecognised, but the entity obtains a new financial asset or assumes a new financial liability or servicing liability, the entity recognises the new financial asset, financial liability or servicing liability at fair value
- On derecognition of a financial asset, the difference between the carrying amount and the sum of (i) the consideration received and (ii) any cumulative gain or loss that was recognised directly in equity is recognised in profit or loss.

IFRS 9 paragraph 3.2.5 – where an entity retains the contractual rights to receive the cash flows of a financial asset, but assumes a contractual obligation to pay those cash flows to one or more entities, three conditions need to be met before an entity can consider the additional derecognition criteria:

- The entity has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset
- The entity is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients
- The entity has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay. The entity is not entitled to reinvest the cash flows except for the short period between collection and remittance to the eventual recipients. Any interest earned thereon is remitted to the eventual recipients.

# IFRS 9 *Financial Instruments*

Effective Date
Periods beginning on or after 1 January 2018 (earlier application is permitted)

## CRITERIA TO APPLY HEDGE ACCOUNTING (ALL CRITERIA MUST BE MET)

***(i) Hedging Relationship***

Must consist of:
- Eligible hedging instruments
- Eligible hedged items.

***(ii) Designation and Documentation***

Must be formalised at the inception of the hedging relationship:
- The hedging relationship
- Risk management strategy and objective for undertaking the hedge
- The hedged item and hedging instrument
- How hedge effectiveness will be assessed.

***(iii) All three hedge effectiveness requirements met***

(a) An economic relationship exists between the hedged item and hedging instrument
(b) Credit risk does not dominate changes in value
(c) The hedge ratio is the is the same for both the:
- Hedging relationship
- Quantity of the hedged item actually hedged, and the quantity of the hedging instrument used to hedge it.

## ELIGIBLE HEDGING INSTRUMENTS

Only those with from contracts with **EXTERNAL** parties of the entity (or group), that are:

Derivatives measured at fair value through profit or loss (FVTPL).

Note: this excludes written options unless they are designated as an offset to a purchased option.

Non-derivatives measured at fair value through profit or loss (FVTPL).

Note: this excludes FVTPL financial liabilities where fair value changes resulting from changes in own credit risk are recognised in other comprehensive income (OCI).

**Designation**: An entity must designate a hedging instrument in full, except for:
- A proportion (e.g. 50%) of the nominal amount an entire hedging instrument (but not part of the fair value change resulting from a portion of the time period that the hedging instrument is outstanding)
- **Option contracts**: separating the intrinsic value and time value, and designating only the change in intrinsic value
- **Forward contract**: separating the forward element and spot element, and designating only the change in the spot element.

## ELIGIBLE HEDGED ITEMS

Eligible hedged items are reliably measurable: assets; liabilities; unrecognised firm commitment; highly probable forecast transactions; net investment in a foreign operation. May be a single item, or a group of items (subject to additional criteria - below).

## HEDGES OF A GROUP OF ITEMS (ALL CRITERIA MUST BE MET)

(i) All items and (and components) are eligible hedged items

(ii) The items are managed as a group for risk management purposes.

(iii) For group cash flow hedges: where cash flow variability is not expected to be approximately proportional to the overall group cash flows variability, both:
- Foreign currency is being hedged
- The reporting period, nature, and volume, in which the forecast transactions are expected to affect profit or loss is specified.

**Designation**: An entity can designate a hedged item (i) in full (ii) in part (component). If in part, only the following types of parts (components) of hedged items can be hedged:
- One or more selected contractual cash flows
- Parts (components) of a nominal amount
- Separately identifiable and reliably measureable changes (cash flow or fair value) that, based on the context of the market structure they relate to, are attributable to a specific risk(s).

## HEDGING OF GROUP ENTITY TRANSACTIONS

Hedging of group entity transactions is not applied in the consolidated financial statements of group entities, except for:

- Foreign currency risk on intra-group monetary items that are not fully eliminated on consolidation.
- Investment entities where transactions between the parent and subsidiaries measured at fair value are not subject to elimination adjustments.

Hedging of group entity transactions is able to be applied in separate/individual financial statements of group entities.

## REBALANCING

If the hedge ratio hedge effectiveness test ceases to be met, but the risk management objective is unchanged, an entity adjusts ('rebalances'), the hedge ratio so the criteria is once again met.

## DISCONTINUATION

Hedge accounting is discontinued only if the qualifying criteria are no longer met (after applying 'rebalancing'). This including hedging instrument sale / termination / expiration, but excluding:

- Replacement/rollovers documented in the risk management objective
- Novations of hedging instruments (subject to specific criteria).

## ELIGIBLE HEDGED ITEMS

**(i) Cash flow hedge**

Hedge of exposure to cash flow variability in cash attributable to a particular risk associated with an asset, liability, or highly probable forecast transaction (or part thereof i.e. component).

***Recognition***
- Hedge effectiveness is recognised in OCI
- Hedge ineffectiveness is recognised in profit or loss
- The lower of the cumulative gain or loss on the hedging instrument or fair value in the hedged item is recognised separately within equity (cash flow hedge reserve (CFHR)).
- For forecast transactions resulting in a non-financial asset/liability, the amount recognised in CFHR is removed and included in the initial cost of the non-financial asset/liability. This is not accounted for as a reclassification.
- For all other forecast transactions, the amount recognised in CFHR is reclassified to profit or loss in the periods when the cash flows are expected to affect profit or loss.

**(ii) Fair value hedge**

Hedge of exposure to fair value variability in an asset, liability, or unrecognised firm commitment (or part thereof i.e. component), attributable to a risk that could affect profit or loss.

***Recognition***
- Gain or loss on hedging instrument: recognised in profit or loss (unless the hedging instrument is an equity instrument measured at fair value through OCI, then recognised in OCI).
- Gain or loss on hedged item: recognised in profit or loss (unless the hedged item is an equity instrument measured at fair value through OCI, then recognised in OCI).

**(iii) Hedges of a net investment in a foreign operation**

Hedge of an entity's interest in the net assets of a foreign operation.

***Recognition***
- Hedge effectiveness is recognised in OCI
- Hedge ineffectiveness is recognised in profit or loss
- Upon disposal of the foreign operation, accumulated amounts in equity are reclassified to profit or loss.

# IFRS 10 *Consolidated Financial Statements*



Effective Date
Periods beginning on or after 1 January 2013

## SCOPE

A parent is required to present consolidated financial statements, except if:
- It meets all the following conditions:
  - It is a subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements
  - Its debt or equity instruments are not traded in a public market
  - It did not, nor is in the process of filing, financial statements for the purpose of issuing instruments to the public
  - Its ultimate or any intermediate parent produces IFRS compliant consolidated financial statements available for public use.
- It is a post or long term-employment benefit plan to which IAS 19 *Employee Benefits* applies
- It meets the criteria of an investment entity (see page 2 of 2).

## THE CONTROL MODEL

**Model**

An investor determines whether it is a parent by assessing whether it controls the investee. An investor is required continuously to reassess whether it controls an investee. An investor **controls** an investee if it has **all** of the following:
- **Power** over the investee
- **Exposure**, or **rights**, to variable returns from its involvement with the investee
- The **ability** to use its power, to affect the amount of the investor's returns.

**Considerations (refer to boxes below)**
- The purpose and design of the investee
- What the relevant activities are and how decisions about those activities are made
- Whether the rights of the investor give it the current ability to direct the relevant activities
- Whether the investor is exposed, or has rights, to variable returns from its involvement
- Whether the investor has the ability to use its power to affect the amount of the investor's returns.

## (i) Purpose and design

In assessing the purpose and design of the investee, consider:
- The **relevant activities**
- How **decisions** about relevant activities are made
- Who has the **current ability** to direct those activities
- Who **receives returns** from those activities.

In some cases, **voting rights** (i.e. if unrelated to relevant activities) may not be the dominant factor of control of the investee.

## (ii) Relevant activities

Relevant activities include (but are not limited to):
- Selling and purchasing of goods or services
- Managing financial assets during their life
- Selecting, acquiring or disposing of assets
- Researching/developing new products or processes
- Determining a funding structure or obtaining funding.

Decisions on relevant activities include (but are not limited to):
- Establishing operating and capital decisions & budgets
- Appointing, remunerating, and terminating an investee's key management personnel (KMP) or service providers.

## (iii) Rights to direct relevant activities

**Rights** that, either individually or in combination, can give an investor **power** include (but are not limited to):
- Rights in the form of **voting rights** (or **potential voting rights**) of an investee
- Rights to appoint, reassign or remove members of an investee's key management personnel (KMP), or another entity that has the ability to direct the relevant activities
- Rights to direct the investee into (or veto any changes to) transactions for the **benefit** of the investor
- Other rights (such as decision-making rights specified in a **management contract**) that give the holder the ability to direct the relevant activities.

**Special relationships beyond a passive interest**
- Sometimes there may be indicators present that an investor has more than simply a passive interest
- The presence of indicators alone may not satisfy the power criteria, but may add to other considerations:
  - The investee's KMP who direct relevant activities are current or previous employees of the investor
  - Investee operations are dependent on the investor (e.g. funding, guarantees, services, materials, etc.)
  - A significant portion of the investee activities involve, or are conducted on behalf of, the investor
  - Investee's exposure or rights to returns is disproportionally greater that it's voting (or similar) rights.

**Substantive rights**
- Only substantive rights (i.e. rights that can be practically exercised) are considered in assessing power
- Factors to consider whether rights are substantive include (but are not limited to):
  - Whether there are barriers that prevent the holder from exercising (e.g. financial penalties, detrimental exercise or conversion price, detrimental terms and conditions, laws and regulations)
  - Whether there is a practical mechanism to facilitate multiple parties exercising rights
  - Whether the party holding the rights would benefit from the exercise of those rights
  - Whether the rights are actually exercisable when decisions about relevant activities need to be made.

**Protective rights**
- Are designed to protect the interests of the holder, but do not give the holder power over the investee, e.g. - operational lending covenants; non-controlling interest rights to approve significant transactions of capital expenditure, debt, and equity; seizure of assets by a borrower upon default
- **Franchise arrangements** are generally considered protective rights.

**Voting rights**

***Power with a majority of voting rights, occurs where:***
- Relevant activities are directed by vote; or
- A majority of the governing body is appointed by vote.

***Majority of voting right but no power occurs where:***
- Relevant activities are not directed by vote
- Such voting rights are not substantive.

**De-facto control**

***Power without a majority of voting rights, occurs where:***
- Contractual arrangements with other vote holders exist
- Relevant activities directed by arrangements held
- The investor has practical ability to unilaterally direct relevant activities, considering all facts and circumstances:
  - Relative size and dispersion of other vote holders
  - Potential voting rights held - by the investor and other parties
  - Rights arising from contractual arrangements
  - Any additional facts or circumstances (i.e. voting patterns).

**Potential voting rights**
- Potential voting rights are only considered if substantive
- Must consider the purpose and design of the instrument.

## (iv) Exposure, or rights, to variable returns (i.e. returns that are not fixed, and vary as a result of performance of an investee)

Based on the substance of the arrangement (not the legal form) assesses whether investee returns are variable, and how variable they are. Variable returns can be: only positive; only negative; or both positive and negative. Including:
- Dividends, other distributions of economic benefits from an investee (e.g. interest from debt securities issued by the investee) and changes in the value of the investor's investment in that investee
- Fees from servicing assets or liabilities, fees and exposure to loss from providing credit or liquidity support, residual interests in net assets on liquidation, tax benefits, and access to future liquidity
- Returns unavailable to other interest holders – synergies, economies of scale, cost savings, sourcing scarce products, access to proprietary knowledge, limiting operations or assets to enhance the value of the investor's other assets.

BDO

# IFRS 10 *Consolidated Financial Statements*



Effective Date
Periods beginning on or after 1 January 2013

## (v) Link between power and returns - delegated power

- When an investor with decision-making rights (a decision maker (DM)) assesses whether it controls an investee, it determines whether it is a principal or an agent. An agent is primarily engaged to act on behalf of the principal and therefore does not control the investee when it exercises its decision-making authority
- An investor may delegate its decision-making authority to an agent on specific issues or on all relevant activities. When assessing whether it controls an investee, the investor treats the decision-making rights delegated to its agent as held by itself directly
- A DM considers the relationship between itself, the investee and other parties involved, in particular the following factors below, in determining whether it is an agent.

### Scope of decision making authority

Activities permitted in agreements and specified by law:

- Discretion available on making decisions
- Purpose and design of the investee:
  - Risks the investee was designed to be exposed to
  - Risks to be passed to other involved parties
  - Level of involvement of DM in design of the investee.

### Rights held by other parties

- May affect the DM's ability to direct relevant activities
- Removal rights, or other rights, may indicate that the DM is an agent
- Rights to restrict activities of the DM are treated the same as removal rights.

### Remuneration

The greater the magnitude of, and variability associated with the DM's remuneration relative to returns, the more likely the DM is a principal.

DM's consider if the following exists:

- Remuneration is commensurate with the services provided
- The remuneration includes only terms customarily present in arrangements for similar services and level of skills negotiated on an arm's length basis.

### Returns from other interests

An investor may hold other interests in an investee (e.g. investments, guarantees). In evaluating its exposure to variability of returns from other interests in the investee the following are considered:

- The greater the magnitude of, and variability associated with, its economic interests, considering its remuneration and other interests in aggregate, the more likely the DM is a principal
- Whether the variability of returns is different from that of other investors and, if so, whether this might influence actions.

## INVESTMENT ENTITIES

Investment entities are **required** to measure interests in subsidiaries at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments* (IAS 39) instead of consolidating them.

**Definition of an investment entity**

- Obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services
- Commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both
- Measures and evaluates performance of substantially all of its investments on a fair value basis.

**Other typical characteristics (not all have to be met, but if not met additional disclosures are required):**

- More than one investment
- More than one investor
- Investors not related parties of the entity
- Ownership interests in the form of equity or similar interests.

## RELATIONSHIP WITH OTHER PARTIES

In assessing **control** an investor considers the nature of relationships with other parties and whether they are acting on the investor's behalf (de facto agents).

Such a relationship need not have a contractual arrangement, examples may be:

- The investor's related parties
- A party whose interest in the investee is through a loan from the investor
- A party who has agreed not to sell, transfer, or encumber its interests in the investee without the approval of the investor
- A party that cannot fund its operations without investor (sub-ordinated) support
- An investee where the majority of the governing body or key management personal are the same as that of the investor
- A party with a close business relationship with the investor.

## NON-CONTROLLING INTERESTS

- A parent presents non-controlling interests in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent
- Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are equity transactions.

## CONTROL OF SPECIFIED ASSETS (SILOS)

An investor considers whether it treats a portion of an investee as a deemed separate entity and whether it controls it. Control exists if and only if, the following conditions are satisfied:

(i) Specified assets of the investee (and related credit enhancements, if any) are the only source of payment for specified liabilities of, or specified other interests in, the investee

(ii) Parties other than those with the specified liability do not have rights or obligations related to the specified assets or to residual cash flows from those assets

(iii) In substance, returns from the specified assets cannot be used by the remaining investee and none of the liabilities of the deemed separate entity are payable from the assets of the remaining investee.

Thus, in substance, all the assets, liabilities and equity of that deemed a separate entity are ring-fenced from the overall investee. Such a deemed separate entity is often called a 'silo'.

## LOSS OF CONTROL

- Derecognition of the assets and liabilities of the former subsidiary from the consolidated statement of financial position
- Recognition of any investment retained in the former subsidiary at its fair value when control is lost and subsequently accounts for it and for any amounts owed by or to the former subsidiary in accordance with relevant IFRSs.

| Subsidiary constitutes a business | Subsidiary does <u>not</u> constitute a business |
|---|---|
| • Recognition of the gain or loss associated with the loss of control in profit or loss. | • Recognition of the gain or loss in profit or loss to the extent of the unrelated investors interest in the associate or joint venture. The remaining part is eliminated against the carrying amount of the investment<br>• Retained interest is an associate or joint venture using the equity method: Recognition of the gain or loss in profit or loss to the extent of the unrelated investors<br>• Retained interest accounted for at fair value in accordance with IFRS 9: Recognition of the gain or loss in full in profit or loss. |

## CONSOLIDATION PROCEDURES

Consolidation procedures:

- Combine assets, liabilities, income, expenses, cash flows of the parent and subsidiary
- Eliminate parent's investment in each subsidiary with its portion of the subsidiary's equity
- Fully eliminate intra group transactions and balances.

Parent and subsidiaries must have uniform accounting policies and reporting dates. If not, alignment adjustments must be quantified and posted to ensure consistency.

Reporting dates cannot vary by more than 3 months.

Consolidation of an investee begins from the date the investor obtains control of the investee and ceases when the investor loses control of the investee.

## DISCLOSURE

Refer to IFRS 12
*Disclosure of Interests in Other Entities.*

## TRANSITION REQUIREMENTS

Refer to Appendix C of IFRS 10.

# IFRS 11 *Joint Arrangements*



Effective Date
Periods beginning on or after 1 January 2013

## SCOPE

IFRS 11 applies to all parties subject to a joint arrangement. A joint arrangement (JA):

- Binds the parties by way of contractual agreement (does not have to be in writing, instead it is based on the substance of the dealings between the parties)
- Gives two (or more) parties joint control.

Joint arrangements are classified either as:

- **Joint operation** - parties have rights to the assets, and obligations for the liabilities of the JA
- **Joint venture** - parties have rights to only the net assets of the JA.

## JOINT CONTROL (JOINT DE-FACTO CONTROL, SUBSTANTIVE RIGHTS, PROTECTIVE RIGHTS)

***Joint control***

Joint control is based on the same control principle as IFRS 10 Consolidation (i.e. Power, exposure to variable returns, ability to use power to affect variable returns).

Joint control is the contractually agreed sharing of control in relation to decisions regarding the relevant activities and requires the unanimous consent of the controlling parties (refer to IFRS 10 for definition of relevant activities). This can be explicit or implicit:

- E.g. joint control exists if two parties hold 50% voting rights, and a 51% majority is required to make decisions regarding relevant activities
- E.g. joint control does not exists if, after considering all contractual agreements, the minimum required majority of voting rights can be achieved by more than one combination of parties agreeing together.

***Joint de-facto control***

Joint de-facto control is based on the same de-facto control principle as IFRS 10. Joint de-facto control only exists if the parties are contractually bound to vote together in relation to decisions on relevant activities. In assessing joint de-facto control, an entity may consider previous voting attendance, but not previous voting results (i.e. whether other parties historically voted the same way as the entity).

***Substantive and protective rights***

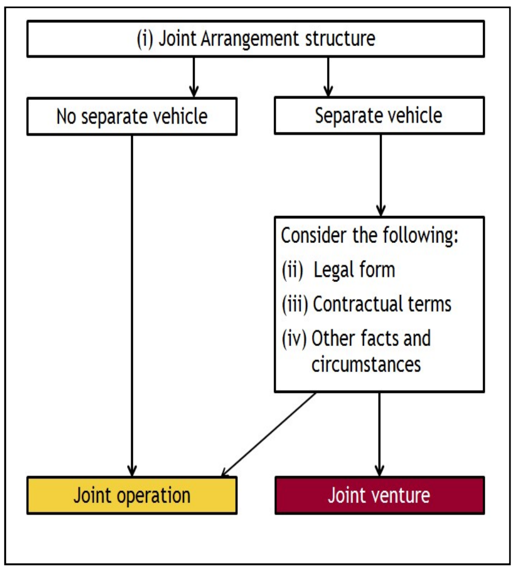
The assessment of substantive and protective rights is based on the same principles as IFRS 10:

- Substantive rights (rights that can be practically exercised) are considered in assessing power
- Protective rights (rights designed to protect the interests of the holder) are not considered in assessing power.

**Arrangements are not within the scope of IFRS 11.if joint control (or joint de-facto control) does not exist (i.e. no contractual unanimous consent required for decisions that relate to the relevant activities of the arrangement).**

## CLASSIFICATION OF JOINT ARRANGEMENTS (AS EITHER JOINT OPERATIONS OR JOINT VENTURES)

Classification depends upon the assessment of the rights and obligations of the parties, and considers the JA's: (i) Structure; (ii) Legal form; (iii) Contractual terms; (iv) Other facts and circumstances (refer to boxes below).




### (i) Structure

JAs not structured through a separate vehicle are classified as a **joint operation**.
JAs structured through a separate vehicle may be classified as a either a joint operation or joint venture depending on analysis of (i),(ii),(iii) below.

### (ii) Legal form

The legal form of the separate vehicle may be relevant in determining whether parties have rights to assets and obligations for liabilities, or the rights to net assets of the JA. However, must consider whether any contractual terms (iii) and/or other facts and circumstances (iv) impact the rights of the parties conferred by the legal form.

**Partnerships**: legal form that may give the parties rights to assets and liabilities, rather than net assets. JA therefore may be classified as a joint operation or joint venture depending on the rights and obligations that the parties to the arrangement have and the legal environment of in the country of incorporation.

**Unlimited liability vehicles:** Legal form does not give parties rights to assets, merely guarantees liabilities. JA is therefore classified as a joint venture.

### (iii) Contractual terms

Usually, the rights and obligations agreed in the contractual terms are consistent, or do not conflict, with those conferred by legal form (ii).

However parties must assess contractual terms to confirm is in fact the case.

On their own, guarantees provided to third parties, and obligations for unpaid or additional capital do not result in an obligation for liabilities and hence classification as a joint operation.

### (iv) Other facts and circumstances

Other facts and circumstances may:

- Give parties rights to substantially all economic benefits from the JA
- Cause the JA to depend on the parties to continuously settle its liabilities.

E.g. JAs designed to primarily sell output to the parties give the parties substantially all economic benefits, and means the JA relies on cash flows from the parties to settle its liabilities. JA is therefore classified as a joint operation.

# IFRS 11 *Joint Arrangements*



Effective Date
Periods beginning on or after 1 January 2013

## RECOGNITION AND MEASUREMENT: JOINT CONTROLLING PARTIES

### Joint operations

***Consolidated/Individual Financial Statements***

A joint operator recognises in relation to interest in a joint operation:
a) Its assets, including its share of any assets held jointly
b) Its liabilities, including its share of any liabilities incurred jointly
c) Its revenue from the sale of its share of the output arising from the joint operation
d) Its expenses, including its share of any expenses incurred jointly.

The above are accounted for in accordance with the applicable IFRSs.

***Separate Financial Statements***

Same treatment as for consolidated/individual financial statements detailed above.

### Joint ventures

***Consolidated/Individual Financial Statements***

Apply the equity method in accordance with IAS 28 *Investments in Associates and Joint Ventures* (unless the entity is exempted from applying the equity method)[1].

***Separate Financial Statements***

Recognise interest either:
- At cost
- As a financial asset in accordance with IFRS 9 *Financial Instruments* or IAS 39 *Financial Instruments: Recognition and Measurement*.

## RECOGNITION AND MEASUREMENT: ENTITIES THAT PARTICIAPTE, BUT DO NOT HAVE JOINT CONTROL ('NON-JOINT CONTROLLING PARTIES')

**In some instances, there may be other parties who are investees in a joint arrangement but do not themselves have joint control of the joint arrangement.**

### Joint operations

**(non-joint controlling party has contractual rights and obligations to assets, liabilities, expenses, and revenues)**

Account for its contractual share of assets, liabilities, expenses, and revenues in both its
- Consolidated/Individual financial statements
- Separate financial statements.

### Joint ventures

Identical to joint operations where the non-joint controlling party does not have contractual rights and obligations to assets, liabilities, expenses and revenues (i.e. assess for significant influence, and then account for accordingly).

### Joint operations

**(non-joint controlling party does not have contractual rights and obligations to assets, liabilities, expenses, and revenues)**

***Consolidated/Individual Financial Statements***

Assess for significant influence in accordance with IAS 28 (i.e. as an associate):
- If present: apply the equity method[1] in accordance with IAS 28 (unless the entity is exempted from applying the equity method)[1].
- If not present: financial asset (IAS 39/IFRS 9).

***Separate Financial Statements***

Assess for significant influence in accordance with IAS 28:
- If present: either (i) at cost (ii) financial asset (IAS 39/IFRS 9)
- If not present: financial asset (IAS 39/IFRS 9).

### [1] Equity method exemption

Venture capital organisation, mutual funds, unit trusts, investment-linked insurance funds, and similar entities may elect to measure associates and joint ventures at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments* rather than apply the equity method.

### DISCLOSURE

Refer to IFRS 12 *Disclosure of Interests in Other Entities.*

## TRANSITION REQUIREMENTS

The general principle of retrospective application applies to the adoption of IFRS 11.

However Appendix C of IFRS 11 contains a number of simplified transition requirements and relief from certain disclosures usually required with retrospective application, including:

- Retrospective application from the beginning of the immediately preceding period (i.e. not the earliest period presented)
- Disclosure of the effect of the change in accounting policy (IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors paragraph 28(f)) only for the immediately preceding period (i.e. not the current period or any other earlier period presented).

Appendix C of IFRS 11 also contains specific transition application guidance in respect of:

- Joint ventures—transition from proportionate consolidation to the equity method
- Joint operations—transition from the equity method to accounting for assets and liabilities
- Transition provisions in an entity's separate financial statements.

### Amendments to IFRS 11

(Effective 1 January 2016)

An entity is required to apply all of the principles of IFRS 3 *Business Combinations* when it acquires an interest in a joint operation that constitutes a business as defined by IFRS 3.

# IFRS 12 *Disclosure of Interests in Other Entities*



Effective Date
Periods beginning on or after 1 January 2013

## SCOPE

Applied by entities that have an interest in: **Subsidiaries; joint arrangements, associates; and unconsolidated structured entities.**

IFRS 12 does not apply to:

- Post-employment benefit plans or other long-term employee benefit plans to which IAS 19 *Employee Benefits* applies
- Separate financial statements, where IAS 27 *Separate Financial Statements* applies
- An interest held by an entity that participates in, but does not have joint control or significant influence over, a joint arrangement
- Interests accounted for in accordance with IFRS 9 *Financial Instruments,* except for Interests in an associate or joint venture measured at fair value as required by IAS 28 *Investments in Associates and Joint Ventures.*

Some, but not all, disclosure requirements apply to interests classified as held for sale in accordance with IFRS 5.

## DEFINITIONS

**Structured entity** - An entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

**Income from a structured entity** – Includes (but not is limited to) fees, interest, dividends, gains or losses on the remeasurement or derecognition of interests in structured entities and gains or losses from the transfer of assets and liabilities to the structured entity.

**Interest in another entity** - Refers to contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. Evidenced by holding: debt instruments, equity instruments, and other forms of involvement.

The following terms used in IFRS 12 are defined in IAS 27 *Separate Financial Statements,* IAS 28 *Investments in Associates and Joint Ventures* IFRS 10 *Consolidated Financial Statements*, and IFRS 11 *Joint Arrangements*:

- Associate; consolidated financial statements; control of an entity; equity method; group; joint arrangement; joint control; joint operation; joint venture; non-controlling interest (NCI); parent; protective rights; relevant activities; separate financial statements; separate vehicle; significant influence; and subsidiary.

## SIGNIFICANT JUDGEMENTS AND ASSUMPTIONS

Disclose information about significant judgements and assumptions the made (and changes to those judgements and assumptions) in determining:

- Control over another entity
- Joint control over an arrangement
- Significant influence over another entity
- When a joint arrangement has been structured through a separate vehicle, its classification (i.e. joint operation or joint venture).

## (a) INTERESTS IN SUBSIDIARIES – REQUIRED DISCLOSURES

**Information that enables users…**

***To understand:***

**(i)** The composition of the group and the interest that NCI's have in the group's activities and cash flows.

***To evaluate:***

**(ii)** The nature and extent of significant restrictions on the ability to access or use assets, and settle liabilities, of the group

**(iii)** The nature of, and changes in, the risks associated with interests in consolidated structured entities

**(iv)** The consequences of changes in ownership interest in a subsidiary that do not result in a loss of control

**(v)** The consequences of losing control of a subsidiary during the reporting period.

### (i) Composition of the group and NCI interests in group activities

Composition of the group

For each of subsidiary with material NCI's:

- Name of the subsidiary
- Principal place of business and country of incorporation of the subsidiary
- Proportion of ownership interests held by NCI
- Proportion of NCI voting rights, if different from the proportion of ownership interests held
- Profit or loss allocated to non-controlling interests of the subsidiary during the reporting period
- Accumulated NCI of the subsidiary at the end of the reporting period
- Summarised financial information about the subsidiary.

### (ii) Nature and extent of restrictions

Significant restrictions on ability to access or use the assets and settle the liabilities of the group, such as:

- Those that restrict the ability to transfer cash or other assets to (or from) other entities within the group
- Guarantees or other requirements that may restrict dividends and other capital distributions being paid, or loans and advances being made or repaid, to (or from) other entities within the group.

The nature and extent to which protective rights of NCI can significantly restrict the entity's ability to access or use the assets and settle the liabilities of the group.

The carrying amounts of the assets and liabilities to which those restrictions apply.

### (iii) Nature of risks in consolidated structured entities (CSE)

Terms of any contractual arrangements that could require the parent or its subsidiaries to provide financial support to a CSE.

If financial or other support has been provided to a CSE in the absence of a contractual obligation to do so:

- The type and amount of support provided, including obtaining financial support, and
- The reasons for providing the support.

If financial (or other) support has been provided to a previously unconsolidated structured entity that resulted in control, explanation of the relevant factors in reaching that decision.

Any current intentions to provide financial (or other) support to a consolidated structured entity (including any intentions to assist in obtaining financial support).

### (iv) Consequences of changes in a parent's ownership interest in a subsidiary that do not result in a loss of control

Present a schedule showing the effects on the equity (attributable to owners of the parent) of any changes in ownership interest that do not result in a loss of control.

### (v) Consequences of losing control of a subsidiary

Disclose the gain or loss, if any, and:

- The portion of that gain or loss attributable to measuring any investment retained in the former subsidiary at its fair value at the date when control is lost
- The line item(s) in profit or loss in which the gain or loss is recognised.

# IFRS 12 *Disclosure of Interests in Other Entities*



Effective Date
Periods beginning on or after 1 January 2013

## (b) INTERESTS IN JOINT ARRANGEMENTS AND ASSOCIATES – REQUIRED DISCLOSURES

**Information that enables users to evaluate:**

(i) The nature of, and changes in, risks associated with interests held

(ii) The nature, extent, and financial effects of interests in joint arrangements and associates (including contractual relationships with the other investors with joint control or significant influence).

**(i) Risks associated with an entity's interests in joint ventures and associates**

**Commitments** relating to joint ventures

**Contingent liabilities** incurred relating to joint ventures or associates (including its share of contingent liabilities incurred jointly with other investors), unless the probability of loss is remote.

**(ii) Nature, extent and financial effects of an entity's interests in joint arrangements and associates**

- The name of the joint arrangement or associates
- The nature of the entity's relationship with the joint arrangement or associate
- The principal place of business (and country of incorporation, if applicable and different from the principal place of business) of the joint arrangement or associate
- The proportion of ownership interest or participating share held by the entity and, if different, the proportion of voting rights held (if applicable)
- Measurement: whether equity method or at fair value
- If measured using equity method: the fair value of its investment in the joint venture or associate (if a quoted market price is available)
- Summarised financial information about the joint venture or associate.

- Financial information about the entity's investments in joint ventures and associates that are not individually material:
  - In aggregate for all individually immaterial joint ventures
  - In aggregate for all individually immaterial associates.
- The nature and extent of any significant restrictions on the ability of joint ventures or associates to transfer funds to the entity in the form of cash dividends, or to repay loans or advances made by the entity
- When there is a difference in reporting date of a joint venture or associate's financial statements used in applying the equity method:
  - The date of the end of the reporting period of the financial statements of that joint venture or associate.
  - The reason for using a different date or period.
- The unrecognised share of losses of a joint venture or associate, both for the reporting period and cumulatively, if the entity has stopped recognising its share of losses of the joint venture or associate when applying the equity method.

## (c) INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES (UCSE) – REQUIRED DISCLOSURES

**Information that enables users…**

***To understand:***

(i) The nature and extent of its interests in UCSE.

***To evaluate:***

(ii) The nature of, and changes in, the risks associated with its interests in UCSE.

Including, information about the exposure to risk from involvement in previous periods (even if the entity no longer has any contractual involvement with the entity at reporting date).

**(i) Nature of interests**

Qualitative and quantitative information, including (but not limited to):

- Nature, purpose, size and activities of the structured entity and how the structured entity is financed.

If an entity has sponsored UCSE, for which it does not provide information (e.g. because it holds no interest at reporting date), disclose:

- How it has determined which structured entities it has sponsored
- Income from those structured entities during the reporting period, including a description of types of income presented
- The carrying amount (at the time of transfer) of all assets transferred to those structured entities during the reporting period.

An entity is required to present the information above:

- In tabular format (unless another format is more appropriate)
- Classify its sponsoring activities into relevant categories.

**(ii) Nature of risks**

Disclose in tabular format (unless another format is more appropriate) a summary of:

- The carrying amounts of the assets and liabilities recognised in its financial statements relating to interests in UCSE.
- The line items in the statement of financial position in which those assets and liabilities are recognised
- The amount that best represents the entity's maximum exposure to loss from its interests in UCSE, including how the maximum exposure to loss is determined. If an entity cannot quantify its maximum exposure to loss from its interests in UCSE it is required to disclose that fact and the reasons
- A comparison of the carrying amounts of the assets and liabilities of the entity that relate to its interests in UCSE and the entity's maximum exposure to loss from those entities.

If during the reporting period an entity has, without having a contractual obligation to do so, provided financial (or other) support to an UCSE in which it previously had or currently has an interest, disclose:

- The type and amount of support provided, including situations in which the entity assisted the structured entity in obtaining financial support
- The reasons for providing the support.

An entity is required to disclose any current intentions to provide financial or other support to UCSE, including intentions to assist the structured entity in obtaining financial support.

## TRANSITION REQUIREMENTS

Refer to Appendix C of IFRS 12.

# IFRS 13 *Fair Value Measurement*



Effective Date
Periods beginning on or after 1 January 2013

## SCOPE AND SCOPE EXEMPTIONS

IFRS 13 applies when another IFRS requires or permits fair value measurements (both initial and subsequent) or disclosures about fair value measurements, except as detailed below:

Exemption from both **measurement** and **disclosure** requirements:
- Share-based payment transactions within the scope of IFRS 2 *Share-based Payment*
- Leasing transactions within the scope of IAS 17 *Leases*
- Measurements that have some similarities to fair value, but are not fair value, such as:
  - Net realisable value in IAS 2 *Inventories*
  - Value-in-use in IAS 36 *Impairment of Assets*.

Exemption from **disclosure** requirements only:
- Plan assets measured at fair value in accordance with IAS 19 *Employee Benefits*
- Retirement benefit plan investments measured at fair value in accordance with IAS 26 *Accounting and Reporting by Retirement Benefit Plans*
- Assets for which recoverable amount is fair value less costs of disposal in accordance with IAS 36.

## DEFINITION OF FAIR VALUE

**Fair Value:** measurement-date price received to sell and asset, or paid to transfer a liability, in an orderly transaction between market participants.

**Price**

The price is determined at measurement date under current market conditions (i.e. an exit price).

This is regardless of whether that price is directly observable or estimated using another valuation technique.

**Asset or liability**

Fair value considers specific characteristics:
- Asset condition and location
- Any restrictions on the sale.

**Transaction**

Is assumed to takes place either in:
- The **principal market** (i.e. market with the greatest volume and level of activity), or in the absence of a principal market
- The **most advantageous market** (i.e. the market that maximises /minimises the amount received/ paid, after transaction and transport costs).

**Market participants**

Fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability (assuming they act in their own economic best interest)

Market participants do not need to be identified.

## APPLICATION TO NON-FINANCIAL ASSETS

### Highest and best use (HBU)

Fair value measurement of non-financial assets considers a **market participant's** ability (not the entity's) to either:
- Generate economic benefits by using the asset in its HBU
- Sell the asset to another market participant who would then use the asset in its HBU.

Factors to consider in determining HBU:
- Physically possible
- Legally permitted
- Financially viable.

### Valuation premise - stand alone

If the HBU is on a stand-alone basis:
- Fair value is the price that would be received in a current sale, to a market participant, that would use the asset on a standalone basis.

### Valuation premise - combination

If the HBU is in combination with other assets:
- Fair value is the price that would be received in a current sale. to market participants. assuming the asset will be used in combination with those assets (which are also assumed to be available to the market participants).

## APPLICATION TO LIABILITIES AND AN ENTITY'S OWN EQUITY INSTRUMENTS

### General principles

**Liabilities**: Assume that these would remain outstanding and the market participant transferee would be required to fulfil the obligation. The liability would not be settled with the counterparty or otherwise extinguished on the measurement date.

**Entity's own equity instruments**: Assume that these would remain outstanding and the market participant transferee would take on the rights and responsibilities associated with the instrument. The instrument would not be cancelled or otherwise extinguished on measurement date.

### Whether held (or not held) by other parties as assets

When a quoted price for the transfer of an identical (or a similar) liability or entity's own equity instrument is not available, and that identical (or similar) item is held by another party as an asset:
- Measure the fair value of from the perspective of a market participant that holds the identical item as an asset at the measurement date, by:
  - Using the quoted price in an active market for the identical item, or if not available
  - Using other observable inputs, or if not available
  - Using another valuation technique (i.e. income approach, or market approach).

When a quoted price for the transfer of an identical (or a similar) liability or entity's own equity instrument is not available, and that identical (or similar) item is not held by another party as an asset:
- Measure the fair value using a valuation technique from the perspective of a market participant that either:
  - Owes the liability
  - Has issued the claim on equity.

### Restriction preventing transfer

The inclusion of a separate input (or an adjustment to other inputs) relating to the existence of a restriction that prevents the transfer of the item liability or entity's own equity instrument, is not permitted when determining fair value.

The effect of such a restriction is either implicitly or explicitly included in the other inputs to the fair value measurement.

### Liabilities - Non-performance risk, and liabilities with a demand feature

**Non-performance risk (NPR)**
- NPR is reflected in the fair value of a liability and includes (but is not limited to) an entity's own credit risk
- NPR is assumed to be the same before and after the transfer of the liability
- NPR considers the effect of an entity's credit risk and any other factors that might influence the likelihood that the obligation will or will not be fulfilled. That effect may differ depending on the liability, for example:
  - Whether the liability is an obligation to deliver cash (a financial liability), or an obligation to deliver goods or services (a non-financial liability)
  - The terms of credit enhancements related to the liability, if any.

**Liabilities with a demand feature (i.e. a 'demand deposit')**

Fair value is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

# IFRS 13 *Fair Value Measurement*



Effective Date
Periods beginning on or after 1 January 2013

## APPLICATION TO FINANCIAL ASSETS AND FINANCIAL LIABILITIES WITH OFFSETTING POSITIONS IN MARKET RISKS OR COUNTERPARTY CREDIT RISK

An entity that holds a group of financial assets and financial liabilities is exposed to:
(i) **Market risks**
(ii) **Credit risk** of each of the counterparties.

If these are managed on either a market risk or a credit risk net exposure basis:

- The entity is permitted to apply an exception ('offsetting exemption') to IFRS 13 for measuring fair value. Fair value would be based on the price:
  - Received to sell a net long position (i.e. an asset) for a particular risk exposure, or
  - To transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants.

Fair value of this 'offset group' of financial assets and financial liabilities is made consistently with how market participants would price the net risk exposure.

### Offsetting exemption

Can only be used if the entity does all the following:

- Manages the offset group on the basis of net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy.
- Provides information on that basis about the offset group to the entity's key management personnel, as defined in IAS 24 Related Party Disclosures.
- Is required (or has elected) to measure the offset group at fair value in the statement of financial position at the end of each reporting period.

The exception does not relate to presentation.

IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* must be applied when using the offsetting exception.

### (i) Exposure to market risk

When using the offsetting exception:

- Apply the price within the bid-ask spread that is most representative of fair value in the circumstances to the entity's net exposure to those market risks
- Ensure that the market risk (or risks) within the offset group are substantially the same:
  - Any basis risk resulting from the market risk parameters not being identical are taken into account in the fair value measurement of the financial assets / liabilities within the offset group
  - Similarly, the duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities of the offset group must be substantially the same.

### (ii) Exposure to credit risk

When using the offsetting exception:

- Include the effect of the entity's net exposure to the credit risk of that counterparty's net exposure to the credit risk of the entity in the fair value measurement when market participants would take into account any existing arrangements that mitigate credit risk exposure in the event of default.

Fair value is required to reflect market participants' expectations about the likelihood that such an arrangement would be legally enforceable in the event of default.

## FAIR VALUE AT INITIAL RECOGNITION

The transaction price is the price paid / received to acquire an asset or to assume a liability (i.e. entry price).

In contrast, fair value is the price that would be received to sell the asset or paid to transfer the liability (i.e. exit price).

However, in many cases the transaction price will equal the fair value – however it is still necessary to take into account factors specific to the transaction and to the asset or liability.

## VALUATION TECHNIQUES

Must use appropriate valuation techniques in the circumstances and for which sufficient data are available to measure fair value.

Changes in the valuation technique or its application are accounted for as a change in accounting estimate in accordance with IAS 8.

**Inputs to valuation techniques**

- Must aim to maximise the use of relevant observable inputs and minimise the use of unobservable inputs.
- If an asset/liability measured at fair value has both a bid and ask price, the price within the bid-ask spread that is most representative of fair value is used - regardless of where the input is categorised within the fair value hierarchy.

## TRANSITION REQUIREMENTS

Refer to Appendix C of IFRS 13.

## FAIR VALUE HIERARCHY

IFRS 13 includes a fair value hierarchy that categorises the inputs to valuation techniques used to measure fair value into three (input) levels:

- **Level 1**: Observable quoted prices, in active markets
- **Level 2**: Quoted prices are not available but fair value is based on observable market data
- **Level 3**: Unobservable inputs.

The level of an item is based on its lowest input level.

## RECURRING OR NON-RECURRING

IFRS 13 requires specific disclosures based on whether fair value measurement is recurring (RFVM) or non-recurring (NRFVM).

RFVM and NRFVM are not defined in IFRS 13.

However, in general:

- **RFVM**: Fair value measurement is required at reporting date by other IFRSs (e.g. investment property, biological assets etc.)
- **NRFVM**: Fair value measurement is triggered by particular events/circumstances (e.g. assets held for sale under IFRS 5 etc.).

## UNIT OF ACCOUNT

In most cases, the unit of account is not specified by IFRS 13.

Instead, the unit of account is specified by the IFRS that permits or requires fair value measurement and disclosure of the item.

## DISCLOSURE

| Disclosure requirement | RFVM | NRFVM | FV Disclosed |
|---|---|---|---|
| Fair value at reporting date | X | X | |
| Reasons for fair value measurement | | X | |
| Fair value hierarchy level i.e. Level 1, 2, or 3 | X | X | X |
| Transfers between Level 1 and 2 (including reasons for the transfer and the entity's policy for transfer) | X | | |
| Valuation technique, inputs, changes, reasons for change etc. - Level 2 and 3 | X | X | X |
| Level 3 valuation processes /policies | X | X | |
| Level 3 unobservable inputs | X | X | |

| Disclosure requirement | RFVM | NRFVM | FV Disclosed |
|---|---|---|---|
| Level 3 reconciliation of total gains or losses in P&L and OCI, purchases, sales issues, settlements, and transfers | X | | |
| Level 3 unrealised gains /losses recognised in P&L | X | | |
| Level 3 sensitivity to changes in unobservable inputs (Qualitative for non-financial instruments, quantitative for financial instruments) | X | | |
| Reasons if HBU differs from current use | X | X | X |

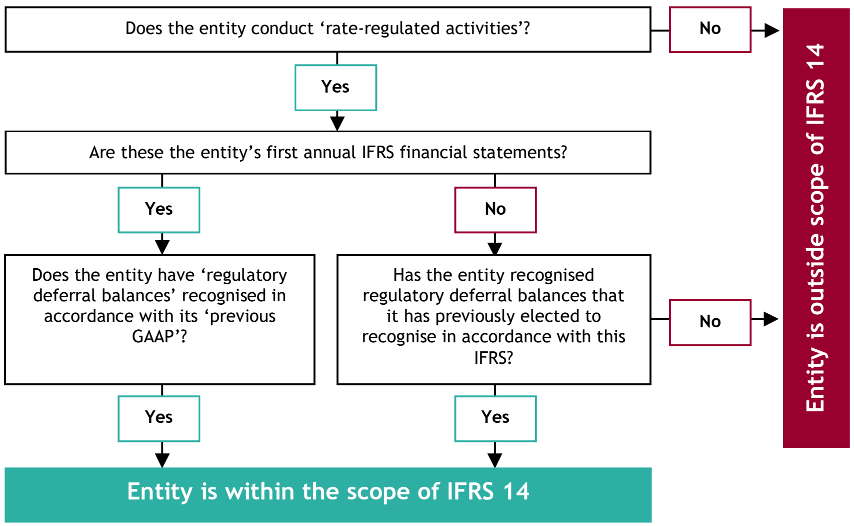
| | |
|---|---|
| FV Disclosed | Refers to items that are measured on a basis other than fair value, but where applicable IFRSs require the items fair value to be determined and disclosed. |

The EU will not endorse this standard

# IFRS 14 *Regulatory Deferral Accounts*

Effective Date
Periods beginning on or after 1 January 2016

## SCOPE




## DEFINITIONS

**Rate-regulated activities:** Activities that are subject to rate regulation.

| | | |
|---|---|---|
| **Rate regulation:**<br>A framework that establishes prices for goods and/or services that are subject to the oversight/approval of a 'rate regulator'. | **Rate regulator:**<br>A body that has been empowered through statute or legislation to establish (a range of) rates that bind an entity. | **Regulatory deferral account balance:**<br>A balance that would not otherwise be recognised in accordance with other IFRSs, but qualifies for deferral as it is (expected to be) included in establishing the (range of) rates. |
| **Previous GAAP:**<br>The basis of accounting used immediately prior to a first-time adopter adopting IFRS. | **First-time adopter:**<br>An entity presenting its first IFRS financial statements. | **First IFRS financial statements:**<br>An entity's first financial statements in which there is an unreserved statement of compliance with IFRS. |

## PRESENTATION

**Statement of financial position**

The total of regulatory deferral account debit balances, and regulatory deferral account credit balances, are presented separately from, and after, al other items.

They are not split into current and non-current portions.

**Statement of profit or loss and other comprehensive income**

The net movements in regulatory deferral account balances related to both:

- Profit or loss, and
- Other comprehensive income.

Are presented separately from, and after, all other items and subtotalled appropriately.

## RECOGNITION AND MEASURMENT

An entity within the scope of IFRS 14 is able to make a voluntary irrevocable election in its first annual IFRS financial statements whether or not to recognise regulatory deferral balances in accordance with IFRS 14.

An entity that has elected to apply IFRS 14 in its first annual IFRS financial statements, continues to apply the recognition, measurement, impairment and derecognition requirements in accordance with its previous GAAP to all its regulatory deferral account balances.

Changes are only permitted if they result in the financial statements being either:

- More relevant and no less reliable, or
- More reliable and no less relevant.

## INTERACTION WITH OTHER IFRSs - APPLICATION GUIDANCE WITHIN IFRS 14

- Estimates used in determining regulatory deferral account balances (IAS 10)
- Scope of income tax requirements (IAS 12)
- Where rates are permitted or required to be increased to recover some or all of an entity's tax expense (IAS 12)
- Presentation with respect to income taxes (IAS 12)
- Consistent accounting policies for associates and joint ventures (IAS 28)
- Presentation of basic and diluted earnings per share (IAS 33)
- Impairment of regulatory deferral account balances (IAS 36)
- Impairment of cash generating units (CGU) containing regulatory deferral account balances (IAS 36).
- Recognition and measurement of regulatory deferral account balances in an acquiree (IFRS 3)
- Presentation in respect of non-current assets held for sale and discontinued operations (IFRS 5)
- Consistent accounting policies for subsidiaries (IFRS 10)
- Disclosures of regulatory deferral account balances in material subsidiaries with non-controlling interests, material joint ventures, and material associates (IFRS 12)
- Disclosures of gain or loss on the loss of control over a subsidiary (IFRS 12).

## DISCLOSURE

IFRS 14 requires a number of disclosures to enable users to assess:

- The nature of and risks associated with the rate regulation the entity is exposed to
- The effects of that rate regulation of the entity's financial position and financial performance.

BDO

# IFRS 15 *Revenue from Contracts with Customers*



Effective Date
Periods beginning on or after 1 January 2018

## SCOPE

Applies to all contracts with customers, except:
- Lease contracts (refer to IAS 17)
- Insurance contracts (refer to IFRS 4)
- Financial instruments and other contractual rights or obligations (refer to IFRS 9/IAS 39, IFRS 10, IFRS 11, IAS 27, and IAS 28)
- Certain non-monetary exchanges.

## DEFINITIONS

**Contract:**
An agreement between two or more parties that creates enforceable rights and obligations.

**Revenue:**
Income arising in the course of an entity's ordinary activities.

**Distinct:**
Refer to Step 2 below.

**Customer:**
A party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.

**Income:**
Increases in economic benefits in the form of inflows or enhancements of assets or decreases of liabilities that result in an increase in equity (other than those from equity participants).

**Stand-alone selling price:**
The price at which a good or service would be sold separately to a customer.

**Performance obligation:**
A promise to transfer to the customer either:
(i) A distinct (bundle of) good(s) or service(s)
(ii) A series of substantially the same distinct goods or services that have the same pattern of transfer to the customer, and the pattern of transfer is both over time and represents the progress towards complete satisfaction of the performance obligation.

## THE 'FIVE STEP' MODEL

Revenue from contracts with customers is recognised based on the application of a principle-based 'five step' model:

| Step 1 and 2<br>Identify… | | Step 3<br>Determine… | Step 4<br>Allocate… | Step 5<br>Recognise… |
|---|---|---|---|---|
| …the contract | …the performance obligation(s) | …the transaction price | …the transaction price to each performance obligation | …revenue when each performance obligation is satisfied |

## STEP 1 - IDENTIFY THE CONTRACT

**Features of a 'contract' under IFRS 15**

Contracts, and approval of contracts, can be written, oral or implied by an entity's customary business practices.

IFRS 15 requires contracts to have all of the following attributes:
- The contract has been approved
- The rights and payment terms regarding goods and services to be transferred can be identified
- The contract has commercial substance
- It is probable that the consideration will be received (considering only the customer's ability and intention to pay).

If each party to the contract has a unilateral enforceable right to terminate a wholly unperformed contract without compensating the other party (or parties), no contract exists under IFRS 15.

**Combining multiple contracts**

Contracts are combined if they are entered into at (or near) the same time, with the same customer, if either:
- The contracts are negotiated as a package with a single commercial objective
- The consideration for each contract is interdependent on the other, or
- The overall goods or services of the contracts represent a single performance obligation.

**Contract modifications**

A change in enforceable rights and obligations (i.e. scope and/or price) is only accounted for as a contract modification if it has been approved, and creates new or changes existing enforceable rights and obligations.

Contract modifications are accounted for as a separate contract if, and only if:
- The contract scope changes due to the addition of distinct goods or services, and
- The change in contract price reflects the standalone selling price of the distinct good or service.

Contract modifications that are not accounted for as a separate contract are accounted for as either:

(i) *Replacement of the original contract with a new contract* (if the remaining goods or services under the original contract are distinct from those already transferred to the customer)

(ii) *Continuation of the original contract* (if the remaining goods or services under the original contract are not distinct from those already transferred to the customer, and the performance obligation is partially satisfied at modification date).

(iii) *Mixture of (i) and (ii)* (if elements of both exist).

# IFRS 15 *Revenue from Contracts with Customers*

Effective Date
Periods beginning on or after 1 January 2018

## STEP 2 - IDENTIFY THE PERFORMANCE OBLIGATIONS

Performance obligations are the contractual promise by an entity, to transfer to a customer, distinct goods or services, either individually, in a bundle, or as a series over time (Refer to the 'Definitions' section above).

Activities of the entity that do not result in a transfer of goods or services to the customer (e.g. certain internal administrative 'set-up activities') are not performance obligations of the contract with the customer and do not give rise to revenue.

### DEFINITION OF 'DISTINCT' (TWO CRITERIA TO BE MET)

**(i) The customer can 'benefit' from the good or service**

Benefit from the good or service can be through either:
- Use, consumption, or sale (but not as scrap)
- Held in a way to generate economic benefits.

Benefit from the good or service can be either:
- On its own
- Together with other readily available resources (i.e. those which can be acquired by the customer from the entity or other parties).

**(ii) The promise to transfer a good or service is separable from other promises in the contract**

The assessment requires judgement, and consideration of all relevant facts and circumstances.

A good or service may not be separable from other promised goods or services in the contract, if:
- There are significant integration services with other promised goods or services
- It modifies/customises other promised goods or services
- It is highly dependent/interrelated with other promised goods or services.

## STEP 3 - DETERMINE THE TRANSACTION PRICE

The transaction price is the amount of consideration an entity expects to be entitled to in exchange for transferring the promised goods or services (not amounts collected on behalf of third parties, e.g. sales taxes or value added taxes).

The transaction price may be affected by the nature, timing, and amount of consideration, and includes consideration of significant financing components, variable components, amounts payable to the customer (e.g. refunds and rebates), and non-cash amounts.

**Accounting for a significant financing component**

If the timing of payments specified in the contract provides either the customer or the entity with a significant benefit of financing the transfer of goods or services.

The transaction price is adjusted to reflect the cash selling price at the point in time control of the goods or services is transferred.

A significant financing component can either be explicit or implicit.

Factors to consider include:
- Difference between the consideration and cash selling price
- Combined effect of interest rates and length of time between transfer of control of the goods or services and payment.

A significant financing component does not exist when
- Timing of the transfer of control of the goods or services is at the customer's discretion
- The consideration is variable with the amount or timing based on factors outside of the control of the parties
- The difference between the consideration and cash selling price arises for other non-financing reasons (i.e. performance protection).

*Discount rate to be used*

- Must reflect credit characteristics of the party receiving the financing and any collateral/security provided.

*Practical expedient - period between transfer and payment is 12 months or less*

- Do not account for any significant financing component.

**Accounting for variable consideration**

E.g. Discounts, rebates, refunds, credits, concessions, incentives, performance bonuses, penalties, and contingent payments.

Variable consideration must be estimated using either:

(i) **Expected value method**: based on probability weighted amounts within a range (i.e. for large number of similar contracts)

(ii) **Single most likely amount**: the amount within a range that is most likely to arise (e.g. where the contract has only two possible outcomes).

*Constraining (limiting) the estimates of variable consideration*

- Variable consideration is only recognised if it is highly probable that a subsequent change in its estimate would not result in a significant revenue reversal (i.e. a significant reduction in cumulative revenue recognised).

**Accounting for consideration payable to the customer**

Includes cash paid (or expected to be paid) to the customer (or the customer's customers) as well as credits or other items such as coupons and vouchers.

Accounted for as a reduction in the transaction price, unless payment is in exchange for a good or service received from the customer in which case no adjustment is made - except where:
- The consideration paid exceeds the fair value of the goods or services received (the difference is set against the transaction price)
- The fair value of the goods or services cannot be reliably determined (full amount taken against the transaction price).

**Accounting for non-cash consideration**

Is accounted for at fair value (if not reliably determinable, it is measured indirectly by reference to stand-alone selling price of the goods or services).

# IFRS 15 *Revenue from Contracts with Customers*

Effective Date
Periods beginning on or after 1 January 2018

## STEP 4 - ALLOCATE THE TRANSACTION PRICE TO EACH PERFORMANCE OBLIGATION

The transaction price (determined in **Step 3**) is allocated to each performance obligation (determined in **Step 2**) based on the *stand-alone selling price* of each performance obligation.

If the *stand-alone selling price(s)* are not observable, they are estimated. Approaches to estimate may include:

(i) **Adjusted market assessment approach**
(ii) **Expected cost plus a margin approach**
(iii) **Residual approach** (i.e. residual after observable stand-alone selling prices of other performance obligations have been deducted).

Note that restrictive criteria must be met for approach (iii) to be applied.

**Allocating a 'discount'**

A discount exists where the sum of the stand-alone selling price of each performance obligation exceeds the consideration payable.

Discounts are allocated on a proportionate basis, unless there is observable evidence that the discount relates to one or more specific performance obligation(s) after meeting all of the following criteria:

- The goods or services (or bundle thereof) in the performance obligation are regularly sold on a stand-alone basis, and at a discount
- The discount is substantially the same in amount to the discount that would be given on a stand-alone basis.

**Allocating variable consideration**

Variable consideration is allocated entirely to a performance obligation (or a distinct good or service within a performance obligation), if both:

- The terms of the variable consideration relate specifically to satisfying the performance obligation (or transferring the distinct good or service within the performance obligation)
- The allocation of the variable consideration is consistent with the principle that the transaction price is allocated based on what the entity expects to receive for satisfying the performance obligation (or transferring the distinct good or service within the performance obligation).

## STEP 5 - RECOGNISE REVENUE AS EACH PERFORMANCE OBLIGATION IS SATISFIED

The transaction price allocated to each performance obligation (determined in **Step 4**) is recognised as/when the performance obligation is satisfied, either

(i) Over time, or
(ii) At a point in time.

Satisfaction occurs when **control** of the promised good or service is transferred to the customer:

- Ability to direct the use of the asset
- Ability to obtain substantially all the remaining benefits from the asset.

Factors to consider when assessing transfer of **control**:

- Entity has present right to payment for the asset
- Entity has physically transferred the asset
- Legal title of the asset
- Risks and rewards of ownership
- Acceptance of the asset by the customer.

### (i) RECOGNISING REVENUE OVER TIME (APPLIES IF ANY OF THE FOLLOWING THREE CRITERIA ARE MET)

**(a) Customer simultaneously receives and consumes all of the benefits**

e.g. many recurring service contracts (such as cleaning services).

If another entity would not need to substantially re-perform the work already performed by the entity in order to satisfy the performance obligation, the customer is considered to be simultaneously receiving and consuming benefits.

**(b) The entity's work creates or enhances an asset controlled by the customer**

The asset being created or enhanced (e.g. a work in progress asset) could be tangible or intangible.

**(c) The entity's performance does not create an asset with an alternative use to the entity, and the entity has an enforceable right to payment for performance completed to date.**

*(i) Alternate use*

Assessment requires judgment and consideration of all facts and circumstances.

An asset does not have an alternate use if the entity cannot *practically* or *contractually* redirect the asset to another customer, such as:

- Significant economic loss, i.e. through rework, or reduced sale price (*practical*)
- Enforceable rights held by the customer to prohibit redirection of the asset (*contractual*).

Whether or not the asset is largely interchangeable with other assets produced by the entity should also be considered in determining whether practical or contractual limitations occur.

*(ii) Enforceable right to payment*

Consider both the specific contractual terms and any applicable laws or regulations.
Ultimately, other than due to its own failure to perform as promised, an entity must be entitled to compensation that approximates the selling price of the goods or services transferred to date.
The profit margin does not need to equal the profit margin expected if the contract was fulfilled as promised. For example, it could be a proportion of the expected profit margin that reflects performance to date.

Revenue that is recognised over time is recognised in a way that depicts the entity's performance in transferring control of goods or services to customers. Methods include:

- Output methods: (e.g. Surveys of performance completed to date, appraisals of results achieved, milestones reached, units produced/delivered etc.)
- Input methods: (e.g. Resources consumed, labour hours, costs incurred, time lapsed, machine hours etc.), excluding costs that do not represent the seller's performance.

### (ii) RECOGNISING REVENUE AT A POINT IN TIME

Revenue is recognised at a point in time if the criteria for recognising revenue over time are not met.

Revenue is recognised at the point in time at which the entity transfers control of the asset to the customer (see adjacent box).

# IFRS 15 *Revenue from Contracts with Customers*



Effective Date
Periods beginning on or after 1 January 2018

## APPLICATION GUIDANCE WITHIN IFRS 15

IFRS 15 contains application guidance for:
- **Contract costs**
- Sale with a right of return
- **Warranties**
- Principal versus agent considerations
- Customer options for additional goods or services
- Customers' unexercised rights
- **Non-refundable upfront fees (and some related costs)**
- **Licensing**
- Repurchase agreements
- Consignment arrangements
- Bill-and-hold arrangements
- Customer acceptance.

A summary is set out on this page for those items in bold type above.

**Contract costs**

Only incremental costs of obtaining a contract that are incremental and expected to be recovered can be recognised as an asset.

If costs to fulfil a contract are within the scope of other IFRSs (e.g. IAS 2, IAS 16, IAS 38 etc.) apply those IFRSs.
If not, a contract asset is recognised under IFRS 15 if, and only if, the costs:
- Are specifically identifiable and directly relate to the contract (e.g. direct labour, materials, overhead allocations, explicitly on-charged costs, other unavoidable costs (e.g. sub-contractors))
- Create (or enhance) resources of the entity that will be used to satisfy performance obligation(s) in the future, and
- Are expected to be recovered.

*Costs that are recognised as an expense as incurred*
- General and administrative expenses
- Wastage, scrap, and other (unanticipated) costs not incorporated into pricing the contract
- Costs related to (or can't be distinguished from) past performance obligations.

*Amortisation and impairment of contract assets*
- **Amortisation** is based on a systematic basis consistent with the pattern of transfer of the goods or services to which the asset relates
- **Impairment** exists where the contract carrying amount is greater than the remaining consideration receivable, less directly related costs to be incurred.

**Licensing (of an entity's intellectual property (IP))**

*(i) If the licence is **not** distinct from other goods or services*

- It is accounted for together with other promised goods or services as a single performance obligation
- A licence is not distinct if either:
  - It is an integral component to the functionality of a tangible good, or
  - The customer can only benefit from the licence in conjunction with a related service.

*(ii) If the licence is distinct from other goods or services*

- It is accounted for as a single performance obligation.
- Revenue from a distinct licence is recognised over time (refer **Step 5**) if, and only if:
  - (a) The entity (is reasonably expected to) undertakes activities that will significantly affect the IP to which the customer has rights
  - (b) The customer's rights to the IP expose it to the positive/negative effects of the activities that the entity undertakes in (a).
  - (c) No goods or services are transferred to customer as the entity undertakes the activities in (a).
- Revenue from a distinct licence is recognised at a point in time (refer to **Step 5**) if the criteria for recognition over time (above) are not met. The right is over the IP in its form and functionality at the point at which the licence is granted to the customer.
  - Revenue is recognised at the point in time at which control of the licence is transferred to the customer.

**Warranties (fall into either one of the two categories):**

(i) Assurance type (apply IAS 37):
- An assurance to the customer that the good or service will function as specified
- The customer cannot purchase this warranty separately from the entity.

(ii) Service type (accounted for separately in accordance with IFRS 15):
- A service is provided in addition to an assurance to the customer that the good or service will function as specified
- This applies regardless of whether the customer is able to purchase this warranty separately from the entity.

In determining the classification (or part thereof) of a warranty, an entity considers:
- *Legal requirements:* (warranties required by law are usually assurance type)
- *Length:* (longer the length of coverage, more likely additional services are being provided)

**Non-refundable upfront fees**

Includes additional fees charged at (or near) the inception of the contract (e.g. joining fees, activation fees, set-up fees etc.).

Treatment dependents on whether the fee relates to the transfer of goods or services to the customer (i.e. a performance obligation under the contract):

- Yes: Recognise revenue in accordance with IFRS 15 (as or when goods or services transferred)
- No: Treated as an **advance payment** for the performance obligations to be fulfilled.
  (Note: Revenue recognition period may in some cases be longer than the contractual period if the customer

## PRESENTATION

**Statement of financial position**
- Contract assets and contract liabilities from customers are presented separately
- Unconditional rights to consideration are presented separately as a receivable.

**Statement of profit or loss and other comprehensive income**
- Line items (revenue and impairment) are presented separately in accordance with the requirements of IAS 1 *Presentation of Financial Statements.*

## TRANSITION (APPENDIX C)

**Retrospective application (either)**
- For each prior period presented in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; or
- Cumulative effect taken to the opening balance of retained earnings in the period of initial application.

**For full retrospective application, practical expedients (for)**
- Restatement of completed contracts
- Determining variable consideration of completed contracts
- Disclosures regarding the transaction price allocation to performance obligations still to be satisfied.

**For both approaches there is a practical expedient for contracts modified in earlier periods.**

## DISCLOSURE

Overall objective to disclose sufficient information to enable users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

**Contracts with customers (information regarding):**
- Disaggregation of revenue
- Contract assets and contract liabilities
- Performance obligations (incl. remaining).

**Use of practical expedients (related to):**
- Significant financing component (12 month)
- Contract costs (12 month amortisation).

**Significant judgements:**
- Performance obligation satisfaction
- Transaction price (incl. allocation)
- Determining contract costs capitalised.

**Contract costs capitalised:**
- Method of amortisation
- Closing balances by asset type
- Amortisation and impairment.

# IFRS 16 *Leases*



Effective Date
Periods beginning on or after 1 January 2019

## BACKGROUND (PROJECT TO REPLACE IAS 17 AND RELATED INTERPRETATIONS)

The development of a new leases standard was originally a joint project between the IASB and FASB, and though they will not issue converged standards, both will bring leases on balance sheet for lessees. IFRS 16 removes the distinction between operating ("off balance sheet") and finance ("on balance sheet") leases for lessees. This will result in significant changes for lessees' financial statements, including:

- All leases being recorded on balance sheet (except, as an option, for low value and short-term leases)
- Increased disclosure about the entity's leasing activities including tables for the types of assets leased

For lessors, the recognition and measurement principles of IAS 17 have been brought forward mostly unchanged. However, lessors will be subject to significantly increased disclosure requirements relating to assets under operating leases and residual value risks.

## DEFINITIONS

**Lease** – a contract, or part of a contract, that conveys the right to use an asset (the **underlying asset**) for a period of time in exchange for consideration.

**Lease term** – the non-cancellable period for which a lessee has the right to use an underlying asset, together with both (a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and (b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

## SCOPE

**All arrangements that meet the definition of a lease except for:**

(a) Leases to explore for minerals, oil, natural gas and similar non-regenerative resources
(b) Leases of biological assets within the scope of IAS 41 Agriculture held by a lessee
(c) Service concession arrangements within the scope of IFRIC 12
(d) Licenses of intellectual property granted by a lessor within the scope of IFRS 15 Revenue from Contracts with Customers
(e) Rights held by a lessee under a licensing agreement within the scope of IAS 38 Intangible Assets (eg. Rights to motion pictures, video recordings, plays, patents and copyrights, etc.)

A lessee is also permitted, but not required, to apply IFRS 16 to leases of intangible assets other than those described in (e) above.

## LESSEES

### INITIAL RECOGNITION AND MEASUREMENT

The following measurement requirements apply to all leases, unless a lessee makes use of optional exemptions for short-term leases (those having a term of 12 months or less, including the effect of extension options) and leases for which the underlying asset is of low value (eg telephones, laptop computers, and office furniture). The election for short term leases is by class of asset, and for low value leases can be made on a lease-by-lease basis

| LEASE LIABILITY | RIGHT-OF-USE ASSET |
|---|---|
| At the commencement date of the lease, a lessee recognises a lease liability for the unpaid portion of payments, discounted at the rate implicit in the lease or, if this is not readily determinable, the incremental rate of borrowing, comprising:<br><br>(a) Fixed payments (including in-substance fixed payments), less any lease incentives receivable;<br>(b) Variable lease payments dependant on an index or rate;<br>(c) Residual value guarantees;<br>(d) The exercise price of a reasonably certain purchase options; and<br>(e) Lease termination penalties, if a lessee termination option was considered in setting the lease term. | At the commencement date of the lease, a lessee recognises a right-of-use asset at cost, comprising:<br><br>(a) The amount of the lease liability recognised;<br>(b) Any lease payments made at or before the commencement date, less any lease incentives;<br>(c) Any initial direct costs incurred; and<br>(d) An estimate of costs to be incurred to dismantle and remove an asset and restore the site based on the terms and conditions of the lease. |

## SUBSEQUENT MEASUREMENT

### LEASE LIABILITY

After the commencement date, a lessee remeasures the lease liability by:

(a) Increasing the carrying amount to reflect interest on the lease liability;
(b) Reducing the carrying amount to reflect the lease payments made; and
(c) Remeasuring the carrying amount to reflect any reassessment, lease modifications or revised in-substance fixed lease payments.

The lease term is updated if there is a change in the non-cancellable period of the lease when the lessee:

(a) Exercises an existing option not previously included in the determination of the lease term;
(b) Does not exercise an option that was previously included in the determination of the lease term;
(c) An event occurs that obliges the lessee to exercise an option not previously included in the determination of the lease term; or
(d) An event occurs that contractually prohibits the lessee from exercising an option previously included in the previous determination of the lease term.

Variable lease payments that have not been included in the initial measurement of the lease liability are recognised in the period in which the event or condition that triggers the payments occurs.

**Lease modifications:** a lessee accounts for a lease modification as a separate lease if (a) the modification increases the scope of the lease by adding the right to use one or more additional underlying assets; and (b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope (including any appropriate adjustments to reflect the circumstances of that contract).

### RIGHT-OF-USE ASSET (THREE OPTIONS)

#### COST MODEL (IAS 16)

- Apply IAS 16 *Property, Plant and Equipment* to record depreciation.
- Depreciation period is the useful life of the asset if the lease transfers ownership of the underlying asset; otherwise earlier of the asset's useful life and lease term.
- Adjust carrying value based on any remeasurements as required from reassessment of the lease liability.
- Apply IAS 36 *Impairment of Assets* to measure impairment.

#### REVALUATION MODEL (IAS 16)

- If lessee applies the revaluation model to a class of asset, it may elect to apply that model to the same class of right-of-use assets.

#### INVESTMENT PROPERTY (IAS 40)

- If a lessee applies the fair value model to its investment property, the lessee is required to apply that model to right-of-use assets that meet the definition of investment property in IAS 40.

## PRESENTATION

Statement of Financial Position

**Right-of-use assets:**
(a) Present right-of-use assets separately from other assets; or
(b) Include right-of-use assets within the same line item as the underlying asset

The requirement in a) does not apply to right-of-use-assets that meet the definition of investment property, which shall be presented in the statement of financial position as investment property.

**Lease liabilities:** present separately from other liabilities or disclose the line item in which they are included.

Statement of Profit or Loss and Other Comprehensive Income

Interest expense on the lease liability is presented separately from depreciation of the right-of-use asset, as a component of finance costs.

Statement of Cash Flows - classification

- Principal payments on the lease liability as financing activities.
- Payments of interest in accordance with guidance for interest paid in IAS 7 *Statement of Cash Flow*.
- Short-term and low-value asset leases and variable lease payments that are not included in the measurement of lease liabilities are classified within operating activities.

## SALE AND LEASEBACK TRANSACTIONS

Follow IFRS 15 guidance to determine if the transaction is a sale of the underlying asset or not.

### TRANSFER IS A SALE

- The right-of-use asset is recorded in proportion to the previous carrying amount of the asset that relates to the right of use retained.
- Gains and losses are limited to the amount relating to the rights transferred.
- Adjustments required if sale is not at fair value or lease payments are not at market rates

### TRANSFER IS NOT A SALE

- The asset continues to be recognised and a financial liability is recognised equal to the proceeds transferred.
- The financial liability is accounted for in accordance with IFRS 9.

## DISCLOSURE

Extensive disclosure requirements including qualitative information on the lessee's leasing activities and the rights and obligations arising from its major lease contracts, as well as significant quantitative disclosure on lease commitments, variable lease payments, extension and termination options, residual value guarantees, and whether the option to exclude short-term and low-value leases has been used.

## TRANSITION

Effective for periods beginning on or after January 1, 2019. Early adoption is permitted, but if done, an entity must also early adopt IFRS 15. A lessee applies IFRS 16 either:

(a) Retrospectively to each prior reporting period in accordance with IAS 8; or
(b) Retrospectively with the cumulative effect of applying the standard recognised at the date of initial application by way of an adjustment to retained earnings or other component of equity as appropriate.

IFRS 16 contains optional transitional exemptions including simplification for the initial measurement of existing leases, not requiring leases ending within 12 months of the effective date to be recognised and a number of other practical expedients.

Effective Date
Periods beginning on or after 1 January 2019

# LESSORS

## DEFINITIONS

**Finance Lease -** a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.
**Operating lease** – lease other than a finance lease.

## CLASSIFICATION

**Indicators that would normally lead to a lease being classified as a finance lease are:**
**(a) The lease transfers ownership of the underlying asset to the lessee by the end of the lease term;**
**(b) The lessee has a bargain purchase option;**
**(c) The lease term is for a major part of the economic life of the asset;**
**(d) The present value of the lease payments amounts to at least substantially all of the asset's fair value;**
**(e) The underlying asset is of such a specialized nature that only the lessee can use it without modification;**
**Other indicators that could also lead to a lease being classified as a finance lease are:**
**(f) If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee; (g) Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee; or**
**(h) The lessee has the ability to continue the lease for a secondary period at a rent substantially lower than market.**

## ACCOUNTING TREATMENT – OPERATING LEASE

- Lease contracts accounted for on an executory basis
- Lessor retains leased asset on its statement of financial position
- Lease income is normally recognised on a straight line basis over the lease term

## ACCOUNTING TREATMENT – FINANCE LEASE

- The leased asset is derecognised and a gain or loss is recognised
- Lessor recognises a receivable equal to the net investment in the lease
- Finance income is recognised based on a pattern reflecting a constant periodic rate of return on the net investment in the lease.

## SALE AND LEASEBACK TRANSACTIONS

Follow IFRS 15 guidance to determine if the transaction is a sale of the underlying asset or not.

| TRANSFER IS A SALE | TRANSFER IS NOT A SALE |
|---|---|
| • Account for the purchase of the asset applying the applicable IFRS.<br>• Account for the lease under the lessor accounting requirements of IFRS 16. | • Do not recognise the transferred asset and recognise a financial asset equal to the transfer proceeds.<br>• The financial asset is accounted for in accordance with IFRS 9. |

## DISCLOSURE

IFRS 16 requires significantly enhanced disclosure compared to IAS 17. A lessor must disclose qualitative and quantitative information about its leasing activities including the nature of the lessor's leasing activities, how the lessor manages risks associated with any retained rights in assets, a maturity analysis of lease payments receivable and a reconciliation of the discounted lease payments receivable to the net investment in the lease.

## TRANSITION

Except for intermediate lessors, lessors are not required to record transitional adjustments on adoption of IFRS 16, as the lessor guidance is substantially unchanged from IAS 17. However, an intermediate lessor:

(a) Reassesses subleases that were classified as operating leases under IAS 17 and are ongoing at the date of initial application of IFRS 16, to determine whether each sublease should be classified as operating or finance under IFRS 16. The intermediate lessor makes this assessment at the time of transition based on the remaining contractual terms and conditions of the head lease and sublease.
(b) For any lease reclassified as a finance lease, account for the sublease as a new finance lease entered into at the date of initial application of IFRS 16.

# IFRS 17 *Insurance Contracts*



Effective Date
Periods beginning on or after 1 January 2021

## DEFINITIONS

**Insurance risk** – Risk, other than financial risk, transferred from the holder of a contract to the issuer.
**Financial risk** – The risk of a possible change in one or more of a specified interest rate, financial instrument price, commodity price, currency exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.
**Insurance contract** – A contract under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.
**Reinsurance contract -** An insurance contract issued by one entity (the reinsurer) to compensate another entity for claims arising from one or more insurance contracts issued by that other entity (underlying contracts)
**Group of insurance contracts** – A set of insurance contracts resulting from the division of a portfolio of insurance contracts into, at a minimum, contracts written within a period of no longer than one year and that at initial recognition:
- (a) Are onerous, if any;
- (b) Have no significant possibility of becoming onerous subsequently, if any; or
- (c) Do not fall into either (a) or (b), if any.

**Portfolio of insurance contracts** – Insurance contracts subject to similar risks and managed together
**Fulfilment cash flows** - An explicit, unbiased and probability-weighted estimate (i.e. expected value) of the present value of the future cash outflows minus the present value of the future cash inflows that will arise as the entity fulfils insurance contracts, including a risk adjustment for non-financial risk
**Investment contract with discretionary participation features** – A financial instrument that provides a particular investor with the contractual right to receive, as a supplement to an amount not subject to the discretion of the issuer, additional amounts:
- (a) That are expected to be a significant portion of the total contractual benefits;
- (b) The timing or amount of which are contractually at the discretion of the issuer; and
- (c) That are contractually based on
  - (i) The returns on a specified pool of contracts or a specified type of contract;
  - (ii) Realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or
  - (iii) The profit or loss of the entity or fund that issues the contract

**Liability for incurred claims** – An entity's obligation to investigate and pay valid claims for insured events that have already occurred, including events that have occurred but for which claims have not been reported, and other incurred insurance expenses.
**Liability for remaining coverage -** An entity's obligation to investigate and pay valid claims under existing insurance contracts for insured events that have not yet occurred (ie the obligation that relates to the unexpired portion of the coverage period).
**Risk adjustment for non-financial risk** – The compensation an entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the entity fulfils insurance contracts.

## MANDATORY SCOPE INCLUSIONS

**IFRS 17 applies to:**
- (a) Insurance contracts and reinsurance contracts issued;
- (b) Reinsurance contracts held; and
- (c) Investment contracts with discretionary participation features if the entity also issues insurance contracts.

## OTHER SCOPE INCLUSIONS

**IFRS 17 may apply to:**
- (a) Financial guarantee contracts if the entity has asserted it regards such contracts as insurance contracts (otherwise such contracts are within the scope of IFRS 9); and
- (b) Some service contracts, such as separately priced warranties on consumer goods that are serviced by third parties rather than the manufacturer (otherwise such contracts are within the scope of IFRS 15);

## UNIT OF ACCOUNT

IFRS 17 is applied at the level of groups of insurance contracts and not individual insurance contracts (though it is possible for groups of insurance contracts to consist of only a single contract). The composition of the group is not subsequently reassessed.

At a minimum, contracts written within a period of no longer than one year are sub-divided at initial recognition into groups that contain contracts that are:
- (a) Onerous, if any;
- (b) Have no significant possibility of becoming onerous subsequently, if any; and
- (c) Do not fall into either (a) or (b), if any.

An insurance contract is onerous if the fulfilment cash flows, any previously recognised acquisition cash flows and any cash flows arising from the contract are a net outflow.

## MODELS FOR APPLICATION OF THE REQUIREMENTS

**General model -** applies to all insurance contracts in the scope of IFRS 17, except for those covered by the premium allocation approach and the variable fee approach. The general model is also modified for reinsurance contracts held.

**Premium allocation approach ("PAA") -** a method that simplifies the measurement of the liability for remaining coverage. The PAA is available for groups of contracts where the coverage period for all contracts is one year or less or if the entity reasonably expects that the PAA would produce a measurement of the liability for remaining coverage for the group that would not differ materially from the general model.

**Variable fee approach ("VFA") -** insurance contract liability is measured based on the obligation to pay the policyholder an amount equal to the value of the underlying items, net of consideration charged for the contract ("a variable fee"). Approach applies to direct participating contracts, based on policyholders being entitled to a significant share of the profit from a clearly identified pool of underlying items.

# IFRS 17 *Insurance Contracts*



**Effective Date**
**Periods beginning on or after 1 January 2021**

## GENERAL MODEL

| | | COMPONENT | INITIAL MEASUREMENT | SUBSEQUENT MEASUREMENT | EFFECT ON COMPREHENSIVE INCOME |
|---|---|---|---|---|---|
| Insurance Contract Assets / Liabilities | Liability of Remaining Coverage | **Present value of future cash flows** - estimate of all cash flows within the boundary of each contract in the group (e.g. premiums, acquisition cash flows, claims payments, claims handling costs, etc.). If certain requirements are met, fulfilment cash flows may be estimated at a higher level and then allocated to individual groups. | Estimate must be unbiased, reflect the perspective of the entity and be a current measure using all reasonable and supportable information available without undue cost or effort, discounted to reflect the time value of money. | Updated at each reporting period based on information available, with the effect of the discount unwinding over time | Accretion of the discount reflected in profit or loss (or OCI -> see <u>Discounting</u>). |
| | | **Risk adjustment for non-financial risk** - The compensation an entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the entity fulfils insurance contracts. | The risk adjustment must be an explicit estimate and will be entity-specific, which should be the amount of compensation an entity would require to make itself indifferent between a fixed series of cash flows and uncertain cash flows in the group of contracts. | Updated at each reporting period based on information available, with the effect of the discount unwinding over time. The release from risk may occur evenly over time or not depending on the nature of the risks insured. | Release of risk over time is reflected as insurance revenue, unless accounting policy choice is elected to reflect the accretion of the discount in insurance finance expense (see <u>Discounting</u>). |
| | | **Contractual service margin ("CSM")** - represents the unearned profit the entity will recognise as it provides services under the insurance contracts in the group. | The CSM is set at an amount that makes a group of insurance contracts zero at the time of initial recognition (i.e. offsets fulfilment cash flows). If the fulfilment cash flows are negative (i.e. an onerous group of contracts exists), the loss is recognised immediately and no CSM exists. | CSM is updated for the effect of the discount unwinding and the unwinding of the CSM as services are provided in the period based on the allocation of the CSM over the current and remaining coverage period. | Accretion of the discount reflected in profit or loss (or OCI -> see <u>Discounting</u>), with the movement related to services provided reflected as insurance revenue. |
| | Liability for Incurred Claims | **Present value of future cash flows** - once a loss event occurs, the best estimate of the cash flows required to settle the claim, including investigation, handling and settlement costs. | Same methodology as liability for remaining coverage. | Same methodology as liability for remaining coverage. | Accretion of the discount reflected in profit or loss (or OCI -> see <u>Discounting</u>). The effects of changes in estimates are recorded in insurance services expenses. |
| | | **Risk adjustment for non-financial risk** - same methodology as liability for remaining coverage. | Same methodology as liability for remaining coverage. | Same methodology as liability for remaining coverage. | The effects of changes in estimate are reflected in insurance services expenses. |

# IFRS 17 *Insurance Contracts*

Effective Date
Periods beginning on or after 1 January 2021

| | | PREMIUM ALLOCATION APPROACH – MEASUREMENT AT INITIAL RECOGNITION | PREMIUM ALLOCATION APPROACH – SUBSEQUENT MEASUREMENT | VARIABLE FEE APPROACH |
|---|---|---|---|---|
| Insurance Contract Liabilities | Remaining Coverage | **If certain conditions are met, simplified measurement equal to:**<br>(a) Premiums received at initial recognition<br>(b) Minus insurance acquisition cash flows *; plus<br>(c) Plus or minus any amount arising from the derecognition at that date of the asset or liability recognised for insurance acquisition cash flows<br>*May elect to expense acquisition cash flows as incurred.<br>Conditions required to be met:<br>(a) There is a reasonable expectation that the measurement of the liability will not be materiality different from measurement using the full model in IFRS 17; and<br>(b) The coverage period of each contract in the group is one year or less. | **If certain conditions are met, simplified measurement equal to:**<br>(a) Carrying amount at start of period<br>(b) Plus premiums received in the period<br>(c) Minus insurance acquisition cash flows *<br>(d) Plus any amounts relating to the periodic amortisation of insurance acquisition cash flows recognised as an expense<br>(e) Plus adjustment for financing component<br>(f) Minus the amount recognised as insurance revenue **<br>(g) Minus any investment component paid or transferred<br>*May expense acquisition cash flows as incurred<br>**Expected premiums are allocated to revenue on the basis of the passage of time unless the expected pattern of release of risk during the coverage period differs significantly from the passage of time. | Similar to the general model, except that changes in estimates relating to the future fees an entity expects to earn from direct participating contract policyholders are adjusted against the contractual service margin.<br><br>The contractual service margin on direct participating contracts is recognised in profit or loss as part of insurance service results on the basis of the passage of time.<br><br>The accretion of interest relating to the contractual service margin is based on a current rate included in balance sheet measurements of specific assets, rather than a locked in rate as required in the general model. |
| | Incurred Claims | Measurement is consistent with the general model. However, discounting is not required if the cash flows on incurred claims are expected to be paid in one year or less from the date the claims are incurred. | | Measurement is consistent with the general model. |

| | |
|---|---|
| **INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES** | General model is modified as follows:<br><br>(a) the date of initial recognition is the date the entity becomes party to the contract.<br>(b) the contract boundary is modified so that cash flows are within the contract boundary if they result from a substantive obligation of the entity to deliver cash at a present or future date. The entity has no substantive obligation to deliver cash if it has the practical ability to set a price for the promise to deliver the cash that fully reflects the amount of cash promised and related risks.<br>(c) the allocation of the CSM is modified so that it is recognised over the duration of the group of contracts in a systematic way that reflects the transfer of investment services under the contract. |

| | | |
|---|---|---|
| **REINSURANCE CONTRACTS HELD** | General model is modified as follows:<br><br>Group of reinsurance contracts held recognised:<br><br>(a) Proportionate coverage: later of the beginning of the coverage period of the group or at initial recognition of the underlying contract;<br>(b) All other cases: the beginning of the coverage period of the group of reinsurance contracts held.<br><br>The net cost or net gain from a group of reinsurance contracts is deemed to be the CSM, unless the net cost relates to events that occurred before the purchase of the group of reinsurance contracts, in which case, the cost is recognised immediately. | The CSM is subsequently measured as the previous carrying amount adjusted for:<br><br>(a) The effect of any new contracts;<br>(b) Interest accrued on the CSM;<br>(c) Changes in the fulfilment cash flows;<br>(d) The effect of any foreign exchange; and<br>(e) The allocation of the CSM.<br><br>Changes in fulfilment cash flows that result from changes in the risk of non-performance by the issuer of the reinsurance contracts held do not relate to future service and therefore do not adjust the CSM.<br><br>The premium allocation approach may be used for reinsurance contracts held if certain criteria are met. |

# IFRS 17 *Insurance Contracts*



Effective Date
Periods beginning on or after 1 January 2021

## DISCOUNTING

For components of insurance contracts that must be discounted, the discount rate must:

(a) reflect the time value of money;
(b) be consistent with observable market prices for an instrument with cash flows whose characteristics are consistent with the insurance contracts; and
(c) exclude the effect of factors that influence such observable market prices, but do not affect the future cash flows of the insurance contracts.

Entities may elect to reflect in profit or loss only the finance expense related to a systematic allocation of the expected total finance expense over the duration of the group of insurance contracts. The other impact of the discount on the insurance contracts being a current measure is reflected in other comprehensive income.

## MODIFICATIONS

Derecognise original contract only if any of the following apply:
(a) Had the modified terms been included at contract inception:
  (i) It would have been outside the scope of IFRS 17;
  (ii) Different components would have been separated from the host contract;
  (iii) It would have had a substantially different contract boundary; or
  (iv) It would have been included in a different group of insurance contracts.
(b) The original, but not modified, contract met the definition of an insurance contract with direct participation features (or vice versa).
(c) The premium allocation approach was applied to the original contract, but the eligibility criteria for that approach is not met for the modified contract.

If none of the above apply, do not derecognise the contract and instead treat changes in cash flows caused by the modification as changes in estimates of fulfilment cash flows.

## DERECOGNITION

Derecognise only when:
(a) It is extinguished, i.e. when the obligation expires, is discharged or cancelled; or
(b) A modification meets any of the conditions for the insurance contract to be derecognised.

The purchase of reinsurance results in the derecognition of the underlying insurance contract(s) only when the underlying insurance contract(s) is (or are) extinguished.

Accounting for the derecognition of of insurance contract from within a group of contracts requires an adjustment to fulfilment cash flows, and contractual service margin of the group. and remaining coverage units

Specific requirements apply to the accounting on the derecognition of an insurance contract arising from either:
- A modification that meets any of the conditions for the insurance contract to be derecognised; or
- The transfer of the insurance contract to a third party.

## PRESENTATION

Separately for both insurance contracts issued and reinsurance contracts held, by group:

Statement of Financial Position

(a) Insurance contracts issued that are assets;
(b) Insurance contracts issued that are liabilities.

Statement of Financial Performance

(a) Insurance revenue;
(b) Insurance service expenses (e.g. incurred claims, other incurred insurance service expenses, amortisation of acquisition cash flows, etc.)
(c) Insurance finance income or expenses

The difference between (a) and (b) comprises the insurance service result which must be presented in the statement of financial performance.

## DISCLOSURE

Overall objective is to disclose sufficient information to gives a basis for users to assess the effect that insurance contracts have on an entity.

Disclosure requirements are significant and include both quantitative and qualitative disclosures about the amounts recognised in the statements of financial position, performance and cash flows, including reconciliations of amounts and the components comprising insurance contract assets and liabilities and significant judgments concerning their recognition and valuation.

For entities applying the premium allocation approach, some disclosure simplifications exist, however, disclosure requirements concerning the liability for incurred claims remain extensive, including the level used to determine the risk adjustment, the yield curve used for discounting, and the nature and extent of risks by major groups of contracts

## TRANSITION

Effective for periods beginning on or after January 1, 2021. Early adoption is permitted, however, entities must also adopt IFRS 9 and IFRS 15 on or before the date of initial application of IFRS 17.

IFRS 17 must be applied retrospectively unless it is impracticable, with the net effect of adoption being recognised in equity as at the beginning of the comparative period.

If it is impracticable for an entity to adopt IFRS 17 retrospectively, it may apply:

(a) Modified retrospective approach: several simplifications relating to the initial application are offered (e.g. CSM, insurance finance expense, etc.); or
(b) Fair value approach: determine the CSM (or loss component) at the date of initial application as the difference between the fair value of a group of contracts and the fulfilment cash flows.

BDO

# IAS 1 *Presentation of Financial Statements*

Effective Date
Periods beginning on or after 1 January 2005

## OVERALL CONSIDERATIONS

| Fair presentation and compliance with IFRSs | Going concern | Accrual basis of accounting | Presentation consistency | Materiality and aggregation | Offsetting | Comparative information |
|---|---|---|---|---|---|---|
| Financial statements are required to be presented fairly as set out in the framework and in accordance with IFRS and are required to comply with all requirements of IFRSs. | Financial statements are required to be prepared on a going concern basis (unless entity is in liquidation or has ceased trading or there is an indication that the entity is not a going concern). | Entities are required to use accrual basis of accounting except for cash flow information. | An entity is required to retain presentation and classification from one period to the next. | Each material class of similar assets and items of dissimilar nature or function is to be presented separately. | Offsetting of assets and liabilities or income and expenses is not permitted unless required by other IFRSs. | At least 1 year of comparative information (unless impractical). |

## COMPONENTS OF FINANCIAL STATEMENTS

**A complete set of financial statements comprises:**
- Statement of financial position
- Statement of profit or loss and other comprehensive income for the period
- Statement of changes in equity
- Statement of cash flows
- Notes.

All statements are required to be presented with equal prominence.

## STRUCTURE AND CONTENT

### IDENTIFICATION OF THE FINANCIAL STATEMENTS

Financial statements must be clearly identified and distinguished from other information in the same published document, and must identify:
- Name of the reporting entity
- Whether the financial statements cover the individual entity or a group of entities
- The statement of financial position date (or the period covered)
- The presentation currency
- The level of rounding used.

### NOTES TO THE FINANCIAL STATEMENTS

- Statement of compliance with IFRSs
- Significant accounting policies, estimates, assumptions, and judgements must be disclosed
- Additional information useful to users understanding/ decision making to be presented
- Information that enables users to evaluate the entity's objectives, policies and processes for managing capital.

### STATEMENT OF FINANCIAL POSITION

- Present current and non-current items separately; or
- Present items in order of liquidity.

| Current assets | Current liabilities |
|---|---|
| • Expected to be realised in, or is intended for sale or consumption in the entity's normal operating cycle<br>• Held primarily for trading<br>• Expected to be realised within 12 months<br>• Cash or cash equivalents.<br>All other assets are required to be classified as non-current. | • Expected to be settled in the entity's normal operating cycle<br>• Held primarily for trading<br>• Due to be settled within 12 months<br>• The entity does not have an unconditional right to defer settlement of the liability for at least 12 months.<br>All other liabilities are required to be classified as non-current. |

- Information required to be presented on the face of the statement of financial position is detailed in IAS 1.54
- Further information required to be presented on the face or in the notes is detailed in IAS 1.79 – 80.

### REPORTING PERIOD

- Accounts presented at least annually
- If longer or shorter, entity must disclose that fact.

### STATEMENT OF CASH FLOWS

- Provides users of financial statements with cash flow information – refer IAS 7 *Statement of Cash Flows*.

### STATEMENT OF COMPREHENSIVE INCOME

- An entity presents all items of income and expense recognised in a period, either:
  - In a single statement of comprehensive income
  - In two statements: a statement displaying components of profit or loss (separate income statement) and a second statement of other comprehensive income.
- Information required to be presented in the:
  - Statement of comprehensive income is defined in IAS 1.82 - 87
  - Profit or loss as defined in IAS 1.88
  - Other comprehensive income in IAS 1.90-96.
  - Further information required to be presented on the face or in the notes to the Statement of Comprehensive Income is detailed in IAS 1.97
- Entities must choose between 'function of expense method' and 'nature of expense method' to present expense items
- Line items within other comprehensive income are required to be categorised into two categories:
  - Those that could subsequently be reclassified to profit or loss
  - Those that cannot be re-classified to profit or loss.

### THIRD STATEMENT OF FINANCIAL POSTION

The improvement clarifies in regard to a third statement of financial position required when an entity changes accounting policies, or makes retrospective restatements or reclassifications:
- Opening statement is only required if impact is material
- Opening statement is presented as at the beginning of the immediately preceding comparative period required by IAS 1 (e.g. if an entity has a reporting date of 31 December 2012 statement of financial position, this will be as at 1 January 2011)
- Only include notes for the third period relating to the change.

### STATEMENT OF CHANGES IN EQUITY

Information required to be presented:
- Total comprehensive income for the period, showing separately attributable to owners or the parent and non-controlling interest
- For each component of equity, the effects of retrospective application/restatement recognised in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- The amounts of transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners
- For each component in equity a reconciliation between the carrying amount at the beginning and end of the period, separately disclosing each change
- Amount of dividends recognised as distributions to owners during the period (can alternatively be disclosed in the notes)
- Analysis of each item of OCI (alternatively to be disclosed in the notes).

# IAS 2 *Inventories*

Also refer:
IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*

Effective Date
Periods beginning on or after 1 January 2005

## DEFINITION

Inventories are assets:
- Held for sale in ordinary course of business
- In the process of production for such sale
- In the form of materials or supplies to be consumed in the production process or in the rendering of services.

## SCOPE

All inventories except:
- Construction contracts (IAS 11 *Construction Contracts*)
- Financial instruments (IAS 32 *Financial Instruments: Presentation* & 39 *Financial Instruments: Recognition and measurement*)
- Biological assets (IAS 41 *Agriculture*).

Does not apply to measurement of inventories held by:
- Producers of agricultural and forest products measured at NRV
- Minerals and mineral products measured at NRV
- Commodity brokers who measure inventory at fair value less costs to sell.

## INVENTORIES ARE MEASURED AT THE LOWER OF COST AND NET REALISABLE VALUE (NRV)

(This is an implicit impairment test, thus inventories are excluded from the scope of IAS 36 *Impairment of Assets*)

## COST

**Includes:**
- Costs of purchase, including non-recoverable taxes, transport and handling
- Net of trade volume rebates
- Costs of conversion
- Other costs to bring inventory into its present condition and location.

**Excludes:**
- Abnormal waste
- Storage costs (unless necessary for the production process)
- Admin overheads not related to production
- Selling costs
- Interest cost (where settlement is deferred)
  - IAS 23 *Borrowing Costs* identifies rare circumstances where borrowing costs can be included.

**Cost Formulas:**
- For non-interchangeable items:
  - Specific identification.
- For interchangeable items, either:
  - FIFO
  - Weighted average cost.
- Use of LIFO is prohibited.

**Measurement Techniques:**

*Standard cost method*
- Takes into account normal levels of materials and supplies, labour, efficiency and capacity utilisation. They are regularly reviewed and, if necessary, revised in the light of current conditions.

*Retail method*
- Often used in the retail industry for measuring inventories of large numbers of rapidly changing items with similar margins for which it is impracticable to use other costing methods. The cost of the inventory is determined by reducing the sales value of the inventory by the appropriate percentage gross margin.

## NET REALISABLE VALUE

NRV is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs to make the sale.

# IAS 7 *Statement of Cash Flows*

Effective Date
Periods beginning on or after 1 January 1994

## COMPONENTS

**Operating activities**
Main revenue producing activities of the entity and other activities that are not investing or financing activities (including taxes paid/received, unless clearly attributable to investing or financing activities).

**Investing activities**
Activities that relate to the acquisition and disposal of long-term assets and other investments that are not included in cash equivalents.

**Financing activities**
Activities that cause changes to contributed equity and borrowings of an entity.

Received or paid interest and dividends are disclosed separately and can be classified as operating, investing or financing, based on their nature and as long as they are consistently treated from period to period.

## REPORTING CASH FLOWS FROM OPERATING ACTIVITIES

Cash flows from operating activities can be reported using the direct or indirect method.

### DIRECT METHOD

- Cash received from customers
- Cash paid to suppliers
- Cash paid to employees
- Cash paid for operating expenses
- Interest paid
- Taxes paid
- Dividends paid
- Net cash from operating activities.

### INDIRECT METHOD

The net cash flow from operating activities is determined by adjusting profit or loss for the effects of:

- Changes during the period in inventories and operating receivables and payables
- Non-cash items such as depreciation, provisions, deferred taxes, unrealised foreign currency gains and losses, and undistributed profits of associates
- All other items for which the cash effects are investing or financing cash flows.

## DEFINITION: CASH AND CASH EQUIVALENTS

- Short term (where the original maturity is 3 months or less, irrespective of maturity timing post balance date)
- Highly liquid investments
- Readily convertible to known amounts of cash
- Subject to insignificant risk of changes in value.

## CONSIDERATIONS TO NOTE

- Non cash investing and financing activities must be disclosed separately
- Cash flows must be reported gross. Set-off is only permitted in very limited cases and additional disclosures are required (refer to IAS 7.24 for examples relating to term deposits and loans)
- Foreign exchange transactions should be recorded at the rate at the date of the cash flow
- Acquisition and disposal of subsidiaries are investment activities and specific additional disclosures are required
- Where the equity method is used for joint ventures and associates, the statement of cash flows should only show cash flows between the investor and investee
- Disclose cash not available for use by the group
- Assets and liabilities denominated in a foreign currency generally include an element of unrealised exchange difference at the reporting date
- Disclose the components of cash and cash equivalents and provide a reconciliation back to the statement of financial position amount if required
- Non-cash investing and financing transactions are not included in the statement of cash flows and should be disclosed elsewhere in the financial statements.
- Disclose changes in liabilities arising from financing activities, distinguishing between changes from:
  - financing cash flows;
  - obtaining or losing control of subsidiaries and other businesses;
  - the effect of changes in foreign exchange;
  - fair value movements; and
  - other changes.

# IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

Effective Date
Periods beginning on or after 1 January 2005

## ACCOUNTING POLICIES

**Definition:**
Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

Selection and application of accounting policies:
- If a standard or interpretation deals with a transaction, use that standard or interpretation
- If no standard or interpretation deals with a transaction, judgment should be applied. The following sources should be referred to, to make the judgement:
  - Requirements and guidance in other standards/interpretations dealing with similar issues
  - Definitions, recognition criteria in the framework
  - May use other GAAP that use a similar conceptual framework and/or may consult other industry practice / accounting literature that is not in conflict with standards / interpretations.

**Consistency of accounting policies:**
Policies should be consistent for similar transactions, events or conditions.

Only change a policy if:
- Standard/interpretation requires it, or
- Change will provide more relevant and reliable information.

**Principle**
If change is due to new standard / interpretation, apply **transitional provisions.** If no transitional provisions, apply **retrospectively**.

If impractical to determine period-specific effects or cumulative effects of the change, then retrospectively apply to the earliest period that is practicable.

**Disclosure**
- The title of the standard / interpretation that caused the change
- Nature of the change in policy
- Description of the transitional provisions
- For the current period and each prior period presented, the amount of the adjustment to:
  - Each line item affected
  - Earnings per share.
- Amount of the adjustment relating to prior periods not presented
- If retrospective application is impracticable, explain and describe how the change in policy was applied
- Subsequent periods need not repeat these disclosures.

## CHANGES IN ACCOUNTING ESTIMATES

**Definition**
A change in an accounting estimate is an adjustment of the carrying amount of an asset or liability, or related expense, resulting from reassessing the expected future benefits and obligations associated with the asset or liability.

**Principle**
Recognise the change **prospectively** in profit or loss in:
- Period of change, if it only affects that period; or
- Period of change and future periods (if applicable).

**Disclosure**
- Nature and amount of change that has an effect in the current period (or expected to have in future)
- Fact that the effect of future periods is not disclosed because of impracticality

## ERRORS

**Definition**
Prior period errors are omissions from, and misstatements in, an entity's financial statements for one or more prior periods arising from failure to use/misuse of reliable information that:
- Was available when the financial statements for that period were issued
- Could have been reasonably expected to be taken into account in those financial statements.

Errors include:
- Mathematical mistakes
- Mistakes in applying accounting policies
- Oversights and misinterpretation of facts
- Fraud.

**Principle**
- Correct all errors **retrospectively**
- Restate the comparative amounts for prior periods in which error occurred or if the error occurred before that date - restate opening balance of assets, liabilities and equity for earliest period presented.

If impractical to determine period-specific effects of the error (or cumulative effects of the error), restate opening balances (restate comparative information) for earliest period practicable.

**Disclosure**
- Nature of the prior period error
- For each prior period presented, if practicable, disclose the correction to:
  - Each line item affected
  - Earnings per share (EPS).
- Amount of the correction at the beginning of earliest period presented
- If retrospective application is impracticable, explain and describe how the error was corrected
- Subsequent periods need not to repeat these disclosures.

# IAS 10 *Events after the Reporting Period*

**Effective Date**
**Periods beginning on or after 1 January 2005**

## DEFINITION

Favourable or unfavourable event, that occurs between the reporting date and the date that the financial statements are authorised for issue.

## ADJUSTING EVENTS

An event after the reporting date that provides further evidence of conditions that existed at the reporting date.

Examples:

- Events that indicate that the going concern assumption in relation to the whole or part of the entity is not appropriate
- Settlement after reporting date of court cases that confirm the entity had a present obligation at reporting date
- Bankruptcy of a customer that occurs after reporting date that confirms a loss existed at reporting date on trade receivables
- Sales of inventories after reporting date that give evidence about their net realisable value at reporting date
- Determination after reporting date of cost of assets purchased or proceeds from assets sold, before reporting date
- Discovery of fraud or errors that show the financial statements are incorrect.

Financial statements are **adjusted** for conditions that existed at reporting date.

## GOING CONCERN

An entity shall **not** prepare its financial statements on a going concern basis if management determines after the reporting date either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.

## NON-ADJUSTING EVENTS

An event after the reporting date that is indicative of a condition that **arose after** the reporting date.

Examples:

- Major business combinations or disposal of a subsidiary
- Major purchase or disposal of assets, classification of assets as held for sale or expropriation of major assets by government
- Destruction of a major production plant by fire after reporting date
- Announcing a plan to discontinue operations
- Announcing a major restructuring after reporting date
- Major ordinary share transactions
- Abnormal large changes after the reporting period in assets prices or foreign exchange rates
- Changes in tax rates or tax law
- Entering into major commitments such as guarantees
- Commencing major litigation arising solely out of events that occurred after the reporting period.

Financial statements are **not adjusted** for condition that arose after the reporting date.

## DIVIDENDS

Dividends that are declared after reporting date are **non-adjusting** events.

## DISCLOSURE

Disclose for each material category of non-adjusting events:

- The nature of the event
- An estimate of its financial effect or the statement that such estimate cannot be made.

## DISCLOSURES FOR ADJUSTING AND NON-ADJUSTING EVENTS

- Date of authorisation of issue of financial statements and by whom
- If the entity’s owners or others have the power to amend the financial statements after issue, the entity is required to disclose that fact
- For any information received about conditions that existed at reporting date, disclosure that relate to those conditions should be updated with the new information.

# IAS 11 *Construction Contracts*

Also refer:
IFRIC 15 *Agreements for the Construction of Real Estate*

Effective Date
Periods beginning on or after 1 January 1995

## DEFINITIONS

A construction contract is a contract specifically negotiated for the construction of an asset, (or combination of assets), that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

**A fixed price contract** is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.

**A cost plus contract** is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs, plus a percentage of these costs or a fixed fee.

## COMBINING CONTRACTS

- Comprises the initial amount agreed in the contract, plus revenue from variations in the original work, plus claims and incentive payments that:
  - It is probable that they will result in revenue
  - Can be measured reliably.
- Measure revenue at the fair value of the consideration received or receivable.

## SEGMENTING CONTRACTS

Comprises:
- Costs directly related to the specific contract
- Costs attributable to general contract activity that can be allocated to the contract
- Such other costs that are specifically chargeable to the customer under the contract terms
  - Refer to paragraphs 17-21 for included and excluded costs.

## ACCOUNTING

### CONTRACT REVENUE

Two or more contracts (same or different customers) should be accounted for as a **single contract**, if: i) negotiated together, ii) work is interrelated, and iii) performed concurrently.

### ESTIMATION OF OUTCOME

**Can be estimated reliably**
- Outcome can be reliably estimated if the entity can make an assessment of the revenue, the stage of completion and the costs to complete the contract
- If the outcome can be measured reliably - revenue and costs on the contract should be measured with reference to **stage of completion basis**. Under this basis, contract revenue is matched with the contract costs incurred in reaching the stage of completion, resulting in the reporting of revenue, expenses and profit which can be attributed to the proportion of work completed
- When it is probable that the total contract costs will exceed contract revenue, the expected loss is recognised as an expense immediately.

**Cannot be estimated reliably**
- No profit recognised
- Revenue recognised only to the extent costs are recoverable
- Costs are recognised as an expense when incurred
- Expected losses are required to be recognised as an expense as soon as a loss is probable.

### SEPARATING CONTRACTS

- If the contract covers multiple assets, the assets should be accounted for separately if:
  - Separate proposals were submitted for each asset;
  - The contract for each asset were negotiated separately; and
  - The costs and revenues of each asset can be identified.

  Otherwise the contract should be accounted for in its entirety.
- If the contract provides an option to the customer to order additional assets, the additional assets will be accounted for separately if:
  - The additional asset differs significantly from the original asset; and
  - The price of the additional asset is negotiated separately.

### DISCLOSURE

- The amount of contract revenue recognised as revenue in the period
- Methods used to determine the contract revenue recognised in the period
- The methods used to determine the stage of completion of contracts in progress
- The gross amount due from customers for contract work as an asset (WIP that has not been expensed)
- The gross amount due to customers for contract work as a liability (prepayment from customers)
- An entity is required disclose each of the following for contracts in progress at the end of the reporting period:
  - The aggregate amount of costs and profits (less recognised losses) to date
  - The amount of advances received
  - The amount of retentions.

# IAS 12 *Income Taxes*

Also refer:
SIC-25 *Income Taxes - Changes in the Tax Status of an Entity or its Shareholders*

Effective Date
Periods beginning on or after 1 January 1998

## CURRENT TAX

- Recognise liability for unsettled portion of tax expense
- Recognise an asset to the extent amounts paid exceed amounts due
- Tax loss which can be used against future taxable income can be recognised as an asset (deferred tax asset).

## CURRENT TAX MEASUREMENT

Measure the asset/liability using the tax rates that are enacted or substantially enacted at the reporting date.

## REBUTTABLE PRESUMPTION - FOR INVESTMENT PROPERTY AT FAIR VALUE UNDER IAS 40

Presumption - for investment properties at fair value, deferred tax is calculated assuming the recovery of the carrying amount of the investment property, will ultimately be entirely through sale - regardless of whether this is actually managements intention or not.

Presumption is rebutted and the carrying amount will ultimately be recovered through use over the life of the asset rather than sale:

- If the asset is depreciable; and
- The asset is held in order to consume the assets benefits over the life of the asset.

**Land** - land is not depreciable and therefore the recovery of land is always through sale.

## DEFINITIONS - TEMPORARY DIFFERENCE AND TAX BASE

Temporary difference: Difference between the carrying amount of an asset/liability and its tax base.

**Tax base of an asset**

- Is the amount that will be deductible for tax purposes against any taxable economic benefits that will flow to the entity when it recovers the carrying amount of the asset
- If those economic benefits will not be taxable, the tax base of the asset is equal to its carrying amount.

**Tax base of a liability**

- Is its carrying amount
- Less any amount that will be deductible for tax purposes in respect of the liability in future periods.

**Tax base of income received in advance**

- Is its carrying amount
- Less any revenue that will not be taxable in the future.

## TEMPORARY DIFFERENCES

**Taxable temporary differences** will result in taxable amounts in future when the carrying amount of an asset is recovered or liability is settled.

**Deductible temporary differences** will result in deductible amounts in future when the carrying amount of an asset is recovered or a liability is settled.

## DEFERRED TAX

**Deferred tax liabilities**
Recognise liabilities for all taxable temporary differences, except to the extent it arises from:

- Initial recognition of goodwill
- Initial recognition of an asset/liability that does not affect accounting or tax profit and the transaction is not a business combination
- Liabilities from undistributed profits from investments in subsidiaries, branches and associates, and interests in joint ventures where company can control the timing of the reversal.

**Deferred tax assets**
Recognise for deductible temporary differences, unused tax losses, unused tax credits to the extent that taxable profit will be available against which the asset can be used, except to the extent it arises from the initial recognition of an asset/liability that:

- Is not a business combination; and
- does not affect accounting/tax profit.

Recognise for deductable temporary differences arising from investments in subsidiaries and associates to the extent it is probable the temporary difference will reverse in the foreseeable future and there will be available tax profit to be utilised.

A deferred tax asset is recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available (i.e. the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profits will be available against which the unused tax losses or unused tax credits can be utilised).

## DEFERRED TAX - MEASUREMENT

- Measure the balance at tax rates that are expected to apply in the period in which the asset is realised or liability settled based on tax rates that have been enacted or substantively enacted by the end of the reporting period
- Deferred tax assets and liabilities are not discounted
- The applicable tax rate depends on how the carrying amount of an asset or liability is recovered or settled
- Current and deferred tax shall be recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different period, directly in equity or other comprehensive income, or a business combination
- Current tax and deferred tax are charged or credited directly to equity or other comprehensive income if the tax relates to items that are credited or charged, in the same or a different period, directly to equity or other comprehensive income.

# IAS 16 *Property Plant and Equipment*

Also refer:
IFRIC 12 *Service Concession Arrangements*
IFRIC 18 *Transfers of Assets to Customers*
SIC-29 *Disclosure - Service Concession Arrangements*
SIC-32 *Intangible Assets - Web Site Costs*

Effective Date
Periods beginning on or after 1 January 2005

## RECOGNITION AND MEASUREMENT

**Recognise** when it is probable that:
- The future economic benefits associated with the asset will flow to the entity; and
- The cost of the asset can be reliably measured.

**Measurement:**
- Initially recorded at cost
- Subsequent costs are only recognised if costs can be reliably measured and these will lead to additional economic benefits flowing to the entity.

**Cost comprises:**
- Purchase price plus import duties and taxes
- Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in a manner intended by management
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

## SUBSEQUENT MEASUREMENT

### THE COST MODEL

The asset is carried at cost less accumulated depreciation and impairment losses.

**Depreciation**
- The depreciable amount is allocated on a systematic basis over the asset's useful life
- The residual value, the useful life and the depreciation method of an asset are reviewed annually at reporting date
- Changes in residual value, depreciation method and useful life are changes in estimates are accounted for prospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- Depreciation is charged to profit or loss, unless it is included in the carrying amount of another asset
- Depreciation commences when the asset is available for use.

***Amendments to IAS 16 (Effective 1 January 2016)***
- Revenue based depreciation is prohibited.
- Depreciation method reflects the pattern in which future economic benefits are expected to be consumed.

### OTHER

**Component accounting**
- Significant parts/components are required to be depreciated over their estimated useful life
- Costs of replacing components are required to be capitalised
- Continued operation of an item of property, plant and equipment (PPE) may require regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognised in the carrying amount of the item of PPE as a replacement if the recognition criteria are satisfied.

**Spare parts, stand-by or servicing equipment**
- Are classified as PPE when they meet the definition of PPE, and are classified as inventory when definition is not met.

**Disposals**
- Remove the asset from the statement of financial position on disposal or when withdrawn from use and no future economic benefits are expected from its disposal
- The gain or loss on disposal is the difference between the proceeds and the carrying amount and is recognised in profit or loss
- When a revalued asset is disposed of, any revaluation surplus may be transferred directly to retained earnings. The transfer to retained earnings is not made through profit or loss.

### THE REVALUATION MODEL

The asset is carried at a revalued amount, being its fair value at the date of the revaluation, less subsequent depreciation, provided that fair value can be measured reliably.

- Revaluations should be carried out regularly (the carrying amount of an asset should not differ materially from its fair value at the reporting date - either higher or lower)
- Revaluation frequency depends upon the changes in fair value of the items measured (annual revaluation for volatile items or intervals between 3 - 5 years for items with less significant changes)
- If an item is revalued, the entire class of assets to which that asset belongs is required to be revalued
- Revalued assets are depreciated the same way as under the cost model
- The net carrying amount of the asset is adjusted to the revalued amount and either
  - The gross carrying amount is adjusted in a manner consistent with the net carrying amount. Accumulated depreciation is adjusted to equal the difference between the gross and net carrying amount; or
  - Accumulated depreciation is eliminated against the gross carrying amount.
- Transfer between reserves - depreciation on revaluation amount
- An increase in value is credited to other comprehensive income under the heading revaluation surplus unless it represents the reversal of a revaluation decrease of the same asset previously recognised as an expense, in this case the increase in value is recognised in profit or loss.

### DISCLOSURE

Disclosures include but are not limited to (refer to paragraphs 73 - 79):
- Measurement bases used for determining the gross carrying amount
- Depreciation methods used
- Useful lives or the depreciation rates used
- Gross carrying amount and the accumulated depreciation at the beginning and end of the period
- A reconciliation of the carrying amount at the beginning and end of the period showing: additions / assets classified as held for sale or included in a disposal group classified as held for sale / other disposals / acquisitions through business combinations / changes resulting from revaluations and from impairment losses recognised or reversed in other comprehensive / impairment losses recognised in profit or loss / impairment losses reversed in profit or loss / depreciation / exchange differences / other changes.
- Existence and amounts of restrictions on title, and PPE pledged as security for liabilities
- Contractual commitments for the acquisition of PPE.

# IAS 17 *Leases*

Also refer:
SIC-15 *Operating Leases - Incentives*
SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*
IFRIC 4 *Determining Whether an Arrangement Contains a Lease*

Effective Date
Periods beginning on or after 1 January 2005

## DEFINITIONS

**Lease** - agreement whereby the lessor, conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time.

**Operating lease** - lease other than a finance lease.

### ACCOUNTING TREATMENT

**Lessor**
- Treats contract as an executory contract
- Retains leased asset on the statement of financial position
- Recognises lease income on a straight line basis over the lease term.

**Lessee**
- Treats contract as an executory contract
- Does not recognise leased asset on the statement of financial position
- Recognises lease expense on a straight line basis over the lease term.

### CONSIDERATIONS TO NOTE

- A lessee may classify a property interest held under an operating lease as an investment property. If this is done, then that interest is accounted for as if it were a finance lease
- Lessors and lessees recognise incentives granted to a lessee under an operating lease as a reduction in lease rental income or expense over the lease term
- A lease of land and building should be treated as two separate leases, a lease of the land and a lease of the building, and the two leases may be classified differently
- A series of linked transactions in the legal form of a lease is accounted for based on the substance of the arrangement; the substance may be that the series of transactions is not a lease
- Special requirements apply to manufacturer or dealer lessors granting finance leases.

**Finance lease** - a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

### CLASSIFICATION

**Finance lease**
(Meeting only one criterion leads to financial lease classification)
1. The lease transfers ownership of the asset to the lessee by the end of the lease term
2. The lessee has a bargain purchase option and it is certain at the date of inception that the option will be exercised
3. The lease term is for the major part of the economic life of the asset even if title is not transferred
4. At the inception of the lease the present value of the minimum lease payments amounts to substantially all of the fair value of the leased asset
5. The leased assets are of such a specialised nature that only the lessee can use them without major modifications
6. Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee
7. The lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent
8. If the lessee can cancel the lease, the lessor's associated losses are borne by the lessee.

### ACCOUNTING TREATMENT

**Lessor**
- Derecognises the tangible asset (and recognises resultant gain/loss)
- Lessor recognises a receivable equal to the net investment of the lease
- Leased asset not recognised on the statement of financial position
- Recognises finance income based on a pattern reflecting a constant periodic rate of return on the lease.

**Lessee**
- Recognises a leased asset on the statement of financial position at the lower of the fair value of the leased asset and present value of lease payments
- Discount rate is the implicit rate in the lease
- Liability recognised
- Lease payments made are apportioned between finance charges and reduction of liability
- The finance charge allocation is allocated to a period to produce a constant rate of interest over the period.

### SALE AND LEASEBACK TRANSACTIONS

**Finance lease**
Any excess of sale proceeds over carrying amount is recognised by the lessor over the lease term and not immediately.

**Operating lease**
- If the sale price is at fair value, any excess of sale proceeds over carrying amount is recognised by the lessor immediately
- If the sale is below fair value, any profit or loss should be recognised immediately unless the loss is in respect of future lease payments below market value in which case it is deferred
- If the sale price is above market value, the excess of fair value is amortised over the lease period.

# IAS 18 *Revenue*

Also refer:
IFRIC 13 *Customer Loyalty Programmes*
IFRIC 15 *Agreements for the Construction of Real Estate*
SIC-31 *Revenue - Barter Transactions Involving Advertising Services*

Effective Date
Periods beginning on or after 1 January 1995

## REVENUE- DEFINITION

Revenue is the gross inflow of economic benefits (cash, receivables, other assets) arising from the ordinary operating activities of an enterprise (such as sales of goods, sales of services, interest, royalties, and dividends). Revenue does not comprise gains on the sale of property plant and equipment (PPE) – unless the PPE items were leased out under an operating lease - or other fixed assets and net finance income.

## MEASUREMENT

- Revenue is measured at the fair value of the consideration received or receivable (Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date)
- If the inflow of cash or cash equivalents is deferred, the fair value of the consideration receivable is less than the nominal amount of cash and cash equivalents to be received, and discounting is appropriate. Examples of this are if the seller is providing interest-free credit to the buyer or is charging a below-market rate of interest. Interest must be imputed based on market rates
- An exchange for goods or services of a similar nature and value is not regarded as a transaction that generates revenue. However, an exchange for a dissimilar item is regarded as generating revenue.

## RECOGNITION

### SALE OF GOODS

Revenue arising from the sale of goods is recognised when all of the following criteria have been satisfied:

- The significant risks and rewards of ownership are transferred
- Seller does not have continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold
- The amount of revenue can be measured reliably
- It is probable that the economic benefits associated with the transaction will flow to the seller
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

### RENDERING OF SERVICES

When the outcome of a transaction can be estimated reliably, revenue is recognised by reference to the stage of completion of the transaction at the reporting date, provided that all of the following criteria are met:

- The amount of revenue can be measured reliably
- It is probable that the economic benefits will flow to the seller
- The stage of completion at the reporting date can be measured reliably
- The costs incurred, or to be incurred, in respect of the transaction can be measured reliably.

When the outcome of a transaction cannot be estimated reliably, revenue arising from the rendering of services is recognised only to the extent the expenses recognised are recoverable.

### INTEREST, ROYALTIES AND DIVIDENDS

For interest, royalties and dividends, if it is probable that the economic benefits will flow to the enterprise and the amount of revenue can be measured reliably, revenue should be recognised as follows:

- **Interest**: on a time-proportionate basis that takes into account the effective yield
- **Royalties**: on an accruals basis in accordance with the substance of the relevant agreement
- **Dividends**: when the shareholder's right to receive payment is established.

## DISCLOSURE

- The accounting policy adopted for recognising each type of revenue
- For each of the categories, disclose the amount of revenue from exchanges of goods or services
- The amount of each significant category of revenue, including:
  - Sale of goods
  - Rendering of services
  - Interest
  - Royalties
  - Dividends.

# IAS 19 *Employee Benefits*

Also refer:
IFRC 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

Effective Date
Periods beginning on or after 1 January 2013

## SCOPE

All employee benefits except IFRS 2 *Share-based Payment*.

## DEFINITION

**Employee benefits** are all forms of consideration given by an entity in exchange for services rendered or for the termination of employment.

## EMPLOYEE BENEFITS

### SHORT TERM EMPLOYEE BENEFITS

Employee benefits are those expected to be settled wholly within the 12 months after the reporting period end, in which the employee has rendered the related services.

If the entity's expectations of the timing of settlement change temporarily, it need not reclassify a short-term employee benefit.

**Compensated absences**

- *Accumulating* – recognise expense when service that increases entitlement is rendered. e.g. leave pay
- *Non-accumulating* – recognise expense when absence occurs.

**All short term benefits**
Recognise the undiscounted amount as an expense / liability e.g. wages, salaries, bonuses, etc.

### OTHER LONG TERM EMPLOYEE BENEFITS

Employee benefits other than short-term employee benefits, post-employment benefits, and termination benefits.

**Statement of financial position**

- Carrying amount of liability = present value of obligation minus the fair value of any plan assets
- Actuarial gains and losses and past service costs are recognised immediately in OCI in full and profit or loss in full respectively in the statement of comprehensive income.

**Statement of comprehensive income**
Recognise the **net** total of: Current service cost + Net interest on net defined benefit liability/(asset) + remeasurement of the net defined benefit liability/(asset).

### PROFIT SHARING AND BONUS SCHEMES

Recognise the expense when entity has a present legal or constructive obligation to make payments; and a reliable estimate of the obligation can be made.

### POST EMPLOYMENT BENEFITS

Employee benefits payable after the completion of employment (excluding termination and short term benefits), such as:

- Retirement benefits (e.g. pensions, lump sum payments)
- Other post-employment benefits (e.g. post employment life insurance, medical care).

### DEFINED BENEFIT PLAN (DBP)

These are post employment plans other than defined contribution plans. IAS 19 (2011) prohibits delayed recognition of actuarial gains and losses and past-service-cost, with the actual net defined benefit liability/(asset) presented in the statement of financial position.

**Statement of financial position**
Entities recognise the net defined benefit liability (asset) in the statement of financial position (being equal to the deficit (surplus) in the defined benefit plan and the possible effect of the asset ceiling).

When an entity has a surplus in a DBP, it measures the net defined benefit asset at the lower of:

- The surplus in the defined benefit plan
- The asset ceiling (being the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan), determined using the discount rate in reference to market yields at the end of the reporting period on high quality corporate bonds (IAS 19.83).

**Statement of comprehensive income**
Actuarial gains and losses are recognised in other comprehensive income in the period in which they occur.

Past-service-costs are recognised in profit or loss in the period incurred.

The net interest on the net defined benefit liability/(asset) is recognised in profit or loss:

- Being equal to the change of the defined benefit liability/(asset) during the period that arises from passage of time. Determined by multiplying the net defined benefit liability/(asset) by the discount rate, taking into account actual contributions and benefits paid during the period.

**Presentation of the three components of 'defined benefit cost'**

- Service cost (current, past, curtailment loss/(gain), and settlement loss/(gain) in profit or loss
- Net Interest (refer above) in profit or loss
- Remeasurements (actuarial gains, the return on plan assets (excl. net interest), change in the effect of the asset ceiling) in other comprehensive income (OCI).

### TERMINATION BENEFITS

Employee benefits provided in exchange for the termination of an employee's employment, as a result of either:

a) An entity's decision to terminate an employee's employment before the normal retirement date
b) An employee's decision to accept an offer of benefits in exchange for the termination of employment.

- Recognise liability and expense at the earlier of:
  - The date the entity can no longer withdraw the benefit or offer
  - The date the entity recognises restructuring costs under IAS 37.
- If termination benefits settled wholly before 12 months from reporting date – apply requirements for short-term employee benefits
- If termination benefits are not settled wholly before 12 months from reporting date – apply requirements for other long term employee benefits.

### MULTI EMLOYER PLANS

- These are post-employment plans other than state plans that pool the assets of various entities that are not under common control and use those assets to provide benefits to employees of more than one entity
- May be a defined contribution or defined benefit plan
- If the plan is a defined benefit plan, an entity may apply defined contribution accounting when sufficient information is not available to apply the accounting requirements for defined benefit plans.

### DEFINED CONTRIBUTION PLAN

- The entity pays fixed contributions into a fund and does not have an obligation to pay further contributions if the fund does not hold sufficient assets
- Recognise the contribution expense /liability when the employee has rendered the service.

### DISCLOSURE

IAS 19 (2011) requires extensive disclosures in respect of DBP, including narrative descriptions of: the regulatory framework; funding arrangements; potential (non-) financial risks; and/or asset ceiling tests.

# IAS 20 *Government Grants*

Also refer:
SIC-10 *Government Assistance – No Specific Relation to Operating Activities*

Effective Date
Periods beginning on or after 1 January 1984

## DEFINITION

**Government grants:**

- Assistance by government
- In the form of transfers of resources to an entity
- In return for past or future compliance with certain conditions relating to the operating activities of the entity
- Exclude forms of government assistance which cannot reasonably have a value placed on them and which cannot be distinguished from the normal trading transactions of the entity.

## SCOPE

The standard does not deal with:

- Government assistance that is provided for an entity in the form of benefits that are available in determining taxable income or are determined or limited to the basis of income tax liability
- Government participation in the ownership of an entity
- Government grants covered by IAS 41 *Agriculture*.

## TYPES OF GOVERNMENT GRANTS

### GRANTS RELATED TO INCOME

A grant receivable as compensation for costs, either:

- Already incurred
- For immediate financial support, with no future related costs.

Recognise as income in the period in which it is receivable.

A grant relating to income may be presented in one of two ways:

- Separately as 'other income'
- Deducted from the related expense.

### GRANTS RELATED TO ASSETS

A grant relating to assets may be presented in one of two ways:

- As deferred income (and released to profit or loss when related expenditure impacts profit or loss)
- By deducting the grant from the asset's carrying amount.

### NON-MONETARY GRANTS

Non-monetary grants, such as land or other resources, are usually accounted for at fair value, although recording both the asset and the grant at a nominal amount is permitted.

### RECOGNITION OF GRANTS

Grants are recognised when both:

- There is reasonable assurance the entity will comply with the conditions attached to the grant
- The grant will be received.

The grant is recognised as income over the period necessary to match it with the related costs, for which it is intended to compensate on a systematic basis and should not be credited directly to equity.

### DISCLOSURE

- Accounting policy adopted for grants, including method of statement of financial position presentation
- Nature and extent of grants recognised in the financial statements
- An indication of other forms of government assistance from which the entity has directly benefited
- Unfulfilled conditions and contingencies attaching to recognised grants.

BDO

# IAS 21 *The Effects of Changes in Foreign Exchange Rates*

Effective Date
Periods beginning on or after 1 January 2005

## FUNCTIONAL CURRENCY

An entity's functional currency is the currency of the primary economic environment in which it operates.

Determine functional currency of each entity within a group - currency of primary economic environment in which entity operates.

## START

**Primary factors**
When determining the appropriate functional currency, management should give priority to the following factors:

- Currency influencing sales prices for goods and services
- Currency of country whose competitive forces and regulations determine sale prices
- Currency mainly influencing input costs.

**Secondary factors**
The primary indicators may be determinative. However, the following two indicators serve as supporting evidence.
Currency in which funds/receipts:

- from financing activities are generated
- from operating activities are retained.

**Is the entity a foreign operation?**

If yes, is the foreign operation 'integral' to its 'parent'? That is, does it carry on business as if it is an extension of the parent's own operations?

If it is 'integral' to its 'parent', the foreign operation has the same functional currency as the parent.

(Parent: the entity that has the foreign operation as its subsidiary, branch associate or joint arrangement).

## FUNCTIONAL CURRENCY ESTABLISHED

## FOREIGN CURRENCY TRANSACTIONS

**Initial recognition**
Spot rate at transaction date

**Subsequent measurement**

**Monetary items**
Units of currency held and assets/ liabilities to be received/paid in a fixed or determinable amount of money.

- Translated at closing rate at reporting date
- Gain or loss is recognised in profit or loss.

**Non-monetary items**

- Rate at transaction date (if item at historical cost)
- Rate at revaluation date (if item carried at revalued amount).

**Impairment test**
Measure non-monetary assets at the lower of either:

- Carrying amount **x** historical rate
- Net realisable value/recoverable amount **x** closing rate at the end of the period.

Translation gains or losses on asset/liability recognised in profit or loss.

## CONSOLIDATION OF FOREIGN ENTITIES AND TRANSLATION OF FINANCIAL STATEMENTS TO A PRESENTATION CURRENCY

**Loan forming part of net investment in subsidiary**
Exchange gains and losses to equity on consolidation only. Recorded in profit or loss in the separate (entity only) financial statements.

**Disposal of a subsidiary**
The cumulative amount of exchange differences that was recognised in equity is reclassified to profit and loss (recycled).

**General principle**
Foreign exchange gain or loss to profit or loss

**Exception**
Where a gain or loss on a non-monetary item is recognised in equity, the foreign exchange gain or loss is also recognised in equity.

**Translation method**

- Assets & liabilities - closing rate
- Income and expenses - rate at transaction date (for practical purposes a monthly or quarterly rate might approximate the transaction date rates)
- The resulting exchange differences are recognised in other comprehensive income (foreign currency translation reserve).

## KEY PRINCIPLES

- No need to present financial statements in functional currency. A presentation currency can be selected
- Accounting records must be kept in functional currency
- A group does not have a functional currency. Functional currency is assessed separately for each entity in the group.

# IAS 23 *Borrowing Costs*

Also refer:
IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*
IFRIC 12 *Service Concession Arrangements*

Effective Date
Periods beginning on or after 1 January 2009

## DEFINITIONS

### BORROWING COSTS

- Borrowing costs are interest and other costs incurred by an entity in connection with the borrowing of funds
- Borrowing costs may include:
  - Interest on bank overdrafts and short-term and long-term borrowings (including intercompany borrowings)
  - Amortisation of discounts or premiums relating to borrowings
  - Amortisation of ancillary costs incurred in connection with the arrangement of borrowings
  - Finance charges in respect of finance leases
  - Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

### QUALIFYING ASSET

- A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale
- Examples include:
  - Inventories (that are not produced over a short period of time)
  - Manufacturing plants
  - Power generation facilities
  - Intangible assets
  - Investment properties.

## RECOGNITION

- Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are required to be capitalised as part of the cost of that asset
- Other borrowing costs are recognised as an expense when incurred
- If funds are borrowed specifically, the amount of borrowing costs eligible for capitalisation are the actual borrowing costs incurred on that borrowing less any investment income on the temporary investment of any excess borrowings not yet used
- If funds are borrowed generally, the amount of borrowing costs eligible for capitalisation are determined by applying a capitalisation rate (weighted average of borrowing costs applicable to the general borrowings) to the expenditures on that asset. The amount of the borrowing costs capitalised during the period cannot exceed the amount of borrowing costs incurred during the period.
- Once a qualifying asset funded through specific borrowings becomes ready for its intended use or sale (such that borrowing costs incurred on the specific borrowings can no longer be capitalised as part of the cost of that qualifying asset), those borrowings then become part of the pool of general borrowings. (R)

Capitalisation commences when:
- Expenditures for the asset are being incurred
- Borrowing costs are being incurred
- Activities that are necessary to prepare the asset for its intended use or sale are in progress.

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the construction of a qualifying asset is completed in parts and each part is capable of being used while construction continues on other parts, capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare that part for its intended use or sale are completed.

### TRANSITIONAL PROVISIONS

- When application of the revised IAS 23 constitutes a change in accounting policy, IAS 23 is applied to qualifying assets for which commencement date for capitalisation is on or after the effective date of the Standard
- Entities may designate any date prior to the effective date to apply the revised IAS 23 relating to all qualifying assets for which commencement date is on or after that date.

### DISCLOSURE

- Amount of borrowing cost capitalised during the period
- Capitalisation rate used.

# IAS 24 *Related Party Disclosures*

Effective Date
Periods beginning on or after 1 January 2011

## Scope

**IAS 24 shall be applied in:**
- Identifying related party relationships and transactions;
- Identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items above is required; and
- determining the disclosures to be made about those items.

**IAS 24 requires disclosure of:**
- Related party relationships
- Related party transactions
- Outstanding balances with related parties
- Commitments to related parties.

**The disclosures have to be made in the related consolidated and separate financial statements of:**
- A parent
- Investors with joint control of an investee
- Investor with significant influence over an investee.

## DEFINITIONS

**Key management personnel**
Those persons having authority and responsibility for:
- Planning, directing, and controlling the activities of the entity, directly or indirectly, including all directors (executive and non-executive).

**Close family member**
Includes, but is not limited to:
- Children and Dependents
- Spouse/Partner
- Children and Dependents of Spouse/Partner.

Need to assess the level of influence on a case-by-case basis.

**Related party**
- Refer to diagram on next page

**Related party transaction**
Transfer of the following between related parties:
- Resources
- Services
- Obligations between related parties, whether a price is charged or not.

**Government-related entity**
Entity that is controlled, jointly controlled or significantly influenced by a 'government'.

**Government**
Refers to government, government agencies and similar bodies whether local, national or international.

## GOVERNMENT-RELATED ENTITIES

**Government-related entities** are exempt from the disclosure requirements of paragraph 18 in relation to related party transactions and outstanding balances, including commitments.

Refer to paragraphs 25 -27 of IAS 24 for specific details of the exemptions.

## DISCLOSURE

**Relationships between parents and subsidiaries**
- Regardless of whether there have been transactions, disclosure of the name of the parent or ultimate controlling party (if different) is required.

If parent or ultimate controlling party did not prepare consolidated financial statements for public use, the name of the next senior parent that does so needs to be disclosed as well.

**Key management personnel compensation**
**Disclose in total for the following categories:**
- Short-term employee benefits
- Post-employment benefits
- Other long-term benefits
- Termination benefits
- Share-based payments.

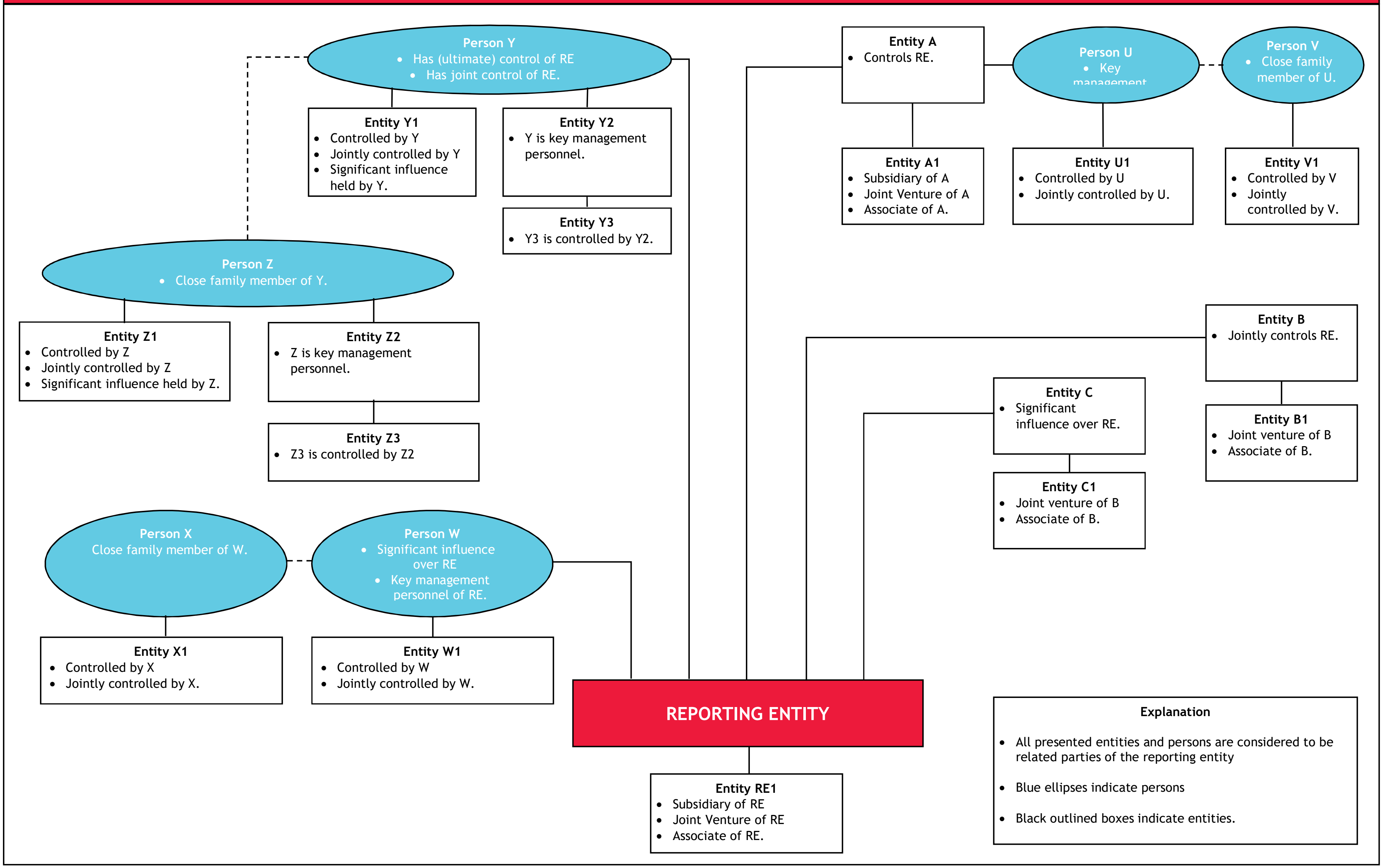
**Management entities (Effective Date 1 July 2014):**
- If an entity obtains key management personnel services from a management entity the requirements of IAS 24.17 to analyse compensation into short term, post-employment, other long term and termination benefits, and share-based payments, do not have to be applied to the compensation paid by the management entity to the management entity's employees or directors.
- Instead, the entity has to disclose the amount incurred for the service fee paid to the management entity.

**Related party transactions**
**Only if there have been transactions, disclose:**
- The nature of related party relationship
- Information about transactions
- Information about outstanding balances to understand the potential effect on the Annual Financial Statements
- Information about impairment or bad debts with related parties.

Disclose related party transactions for each category of related parties.

The above disclosures shall be presented separately for each of the following categories:
- The parent
- Entities with joint control of, or significant influence over, the entity
- Subsidiaries
- Associates
- Joint ventures in which the entity is a joint venturer
- Key management personnel of the entity or its parent
- Other related parties.

## EXAMPLE SHOWING RELATED PARTIES



# IAS 26 *Accounting and Reporting by Retirement Benefit Plans*

Effective Date
Periods beginning on or after 1 January 1988

## DEFINITIONS

**Retirement benefit plans**: an arrangement by which an entity provides benefits (annual income or lump sum) to employees after they terminate from service.

**Defined benefit plans**
A retirement benefit plan by which employees receive benefits based on a formula usually linked to employee earnings.

**Defined contribution plans**
A retirement benefit plan by which benefits to employees are based on the amount of funds contributed to the plan plus investment earnings thereon.

## DEFINED BENEFIT PLANS

The report of a defined benefit plan should contain either:
- A statement that shows the net assets available for benefits; the actuarial present value of promised retirement benefits (distinguishing between vested benefits and non-vested benefits) and the resulting excess or deficit
- A statement of net assets available for benefits, including either a note disclosing the actuarial present value of promised retirement benefits (distinguishing between vested benefits and non-vested benefits) or a reference to this information in an accompanying actuarial report.

- If an actuarial valuation has not been prepared at the reporting date of a defined benefit plan, the most recent valuation should be used as a base and the date of the valuation disclosed
- The actuarial present value of promised retirement benefits should be based on the benefits promised under the terms of the plan on service rendered to date, using either current salary levels or projected salary levels, with disclosure of the basis used
- The effect of any changes in actuarial assumptions that have had significant effect on the actuarial present value of promised retirement benefits should be disclosed
- The report should explain the relationship between the actuarial present value of promised retirement benefits and the net assets available for benefits, and the policy for the funding of promised benefits.

## DEFINED CONTRIBUTION PLANS

The report of a defined contribution plan should contain:
- A statement of net assets available for benefits and a description of the funding policy.

## VALUATION OF PLAN ASSETS

Retirement benefit plan investments must be carried at fair value. If fair values cannot be estimated for certain retirement benefit plan investments, disclosure should be made of the reason why fair value is not used.

## SCOPE

Financial statements of retirement benefit plans (where such financial statements are prepared).

## DISCLOSURE

Disclosure requirements of IAS 26 are onerous. The main disclosures required are set out below. This list is not exhaustive. It is recommended that entities refer to IAS 26.34 - 36 for all disclosure requirements.

- Statement of net assets available for benefit, showing:
  - Assets at the end of the period
  - Basis of valuation
  - Details of any single investment exceeding 5% of net assets or 5% of any category of investment
  - Details of investment in the employer (if any)
  - Liabilities other than the actuarial present value of plan benefits.
- Statement of net assets available for benefits, showing:
  - Employer contributions
  - Employee contributions
  - Investment income
  - Other income
  - Benefits paid
  - Administrative expenses
  - Other expenses
  - Income taxes
  - Profit or loss on disposal of investments
  - Change in fair value of investments
  - Transfer to/from other plans.
- Description of funding policy
- Summary of significant accounting policies
- Other details about the plan
- Description of the plan and of the effect of any changes in the plan during the period
- Disclosures for defined benefit plans:
  - Actuarial present value of promised benefit obligations distinguishing between vested and non-vested benefits
  - Description of actuarial assumptions
  - Description of the method used to calculate the actuarial present value of promised benefit obligations.

# IAS 27 *Separate Financial Statements*

**Effective Date**
**Periods beginning on or after 1 January 2013**

## SCOPE

When an entity elects (or is required by local regulations) to present separate financial statements, IAS 27 applies in accounting for investments in:

- Subsidiaries
- Joint ventures
- Associates.

IAS 27 does not mandate which entities produce separate financial statements.

## DEFINITIONS

**Separate financial statements**

Financial statements presented by a parent (i.e. an investor with control of a subsidiary) or an investor with joint control of; or significant influence over an investee, in which the investments are accounted for at cost, at fair value, or using the equity method.

**Consolidated financial statements**

The financial statements of a group in which the assets, liabilities, equity, income, expenses, and cash flows, of the parent and its subsidiaries are presented as a single economic entity.

For definitions of: associate; control of an investee; group; joint control; joint venture; joint venturer; parent; significant influence; and subsidiary - please refer to the below standards:

- IFRS 10 *Consolidated Financial Statements*
- IFRS 11 *Joint Arrangements*
- IAS 28 *Investments in Associates and Joint Ventures.*

## SEPARATE FINANCIAL STATEMENTS

- Separate financial statements can, but are not required to be presented in addition to consolidated financial statements or, where an entity does not have subsidiaries, individual financial statements in which investments in associates and joint ventures are accounted for using the equity method. Separate financial statements do not need to be attached to, or accompany, those consolidated or individual financial statements
- Investments are accounted for: (i) At cost; (ii) in accordance with IFRS 9 *Financial Instruments;* or (iii) using the equity method in accordance with IAS 28
- An entity that is exempt in accordance with IFRS 10.4(a) from consolidation or IAS 28.17 (as amended in 2011) from applying the equity method may present separate financial statements as its only financial statements.

## PREPARATION OF SEPARATE FINANCIAL STATEMENTS

**Investment in subsidiaries, joint ventures, and associates**

Accounted for either:

- At cost,
- At fair value in accordance with IFRS 9, or
- Using the equity method (see IAS 28).

The entity is required to apply the same accounting for each category of investments.

**Investments in subsidiaries, joint ventures, and associates classified as held for sale**

When investments are classified as held for sale or for distribution to owners (or included in a disposal group that is classified as held for sale or for distribution to owners), they are accounted for:

- In accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, if previously accounted for at cost
- In accordance with IFRS 9, if previously accounted for in accordance with IFRS 9.

**Investments in associates or joint ventures at fair value**

Investments in associates or joint ventures that are measured at fair value in accordance with IFRS 9 are required to be measured in the same way in the separate and consolidated financial statements (i.e. at fair value).

**Dividends received**

Dividends received from subsidiaries, joint ventures, and associates are recognised when the right to receive the dividend is established and accounted for as follows:

- in profit or loss, if the investment is accounted for at cost or at fair value;
- as a reduction from the carrying amount of the investment, if the investment is accounted for using the equity method.

## DISCLOSURE

An entity is required to apply all applicable IFRSs when providing disclosures in its separate financial statements.

**When a parent qualifies and elects not to prepare consolidated financial statements (IFRS 10 paragraph 4(a)) and instead prepares separate financial statements, it is required to disclose:**

- That the financial statements are separate financial statements
- That the paragraph 4(a) exemption has been used
- The name, principal place of business, address, and country of incorporation, of the entity whose IFRS compliant consolidated financial statements are publicly available
- A list of significant investments in subsidiaries, joint ventures and associates, including:
  - The name of those investees
  - The investees principal place of business and country of incorporation
  - The proportion of the ownership interest and its proportion of the voting rights held in those investees.
- A description of the method used to account for the investments listed under the previous bullet point.

**When a parent (other than a parent using the consolidation exemption) or an investor with joint control of, or significant influence over, an investee prepares separate financial statements, it is required to disclose:**

- That the financial statements are separate financial statements
- The reasons why the separate financial statements are prepared if not required by law
- A list of significant investments in subsidiaries, joint ventures and associates, including:
  - The name of those investees
  - The investees principal place of business and country of incorporation
  - The proportion of the ownership interest and the proportion of voting rights held in those investees.
- A description of the method used to account for the investments listed
- The financial statements prepared in accordance with IFRS 10, IFRS 11, or IAS 28 to which they relate.

# IAS 28 *Investments in Associates and Joint Ventures*

Effective Date
Periods beginning on or after 1 January 2013

## SCOPE

Applies to all entities that are investors with joint control of, or significant influence over, an investee.

## DEFINITIONS

**Associate**
An entity over which the investor has significant influence.

**Significant influence**
Power to participate in financial and operating policy decisions of the investee.
But not control or joint control over those policies.

**Joint arrangement**
Arrangement of which two or more parties have joint control.

**Joint control**
The contractually agreed sharing of control of an arrangement - decisions require the unanimous consent of the parties sharing control.

**Joint venture**
A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The **equity method** is a method of accounting:
- That initially recognises an investment in an investee at cost
- Thereafter adjusts the investment for the post-acquisition change in the investor's share of net assets of the investee (IAS 28.2)
- The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

Refer to IFRS 10 appendix A, for definitions of:
- Control
- Group
- Parent
- Separate financial statements
- Subsidiary.

## APPLICATION

### SIGNIFICANT INFLUENCE

- Rebuttable presumption: 20% - 50% shareholding gives rise to significant influence
- Evidenced in one or more of the following ways:
  - Representation on the board of directors or equivalent governing body of the investee
  - Participation in policy-making processes, including participation in decisions about dividends or other distributions
  - Material transactions between the investor and the investee
  - Interchange of managerial personnel
  - Provision of essential technical information.

### EXEMPTION FROM EQUITY METHOD

If the entity is a parent that is exempt from preparing consolidated financial statements, as set out in IFRS 10 *Consolidated Financial Statements* paragraph 4(a), or if:
- The investor is a wholly owned subsidiary and its owners have been informed about the decision
- The investor's debt or equity instruments are not publicly traded
- The investor did not file its financial statements with a securities commission or other regulator for the purposes of issuing its shares to the public
- The ultimate or intermediate parent of the investor produces consolidated financial statements that comply with IFRSs.
- The investments are held by venture capital organisations, mutual funds, unit trusts and similar entities for which the investor elects to account for at fair value through profit or loss.

### DISCLOSURES

The disclosure requirements for Investments in Associates and Joint Ventures are provided in IFRS 12 *Disclosure of Interests in Other Entities.*

### EQUITY METHOD

- The investment is initially recognised at cost
- Subsequently, the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition (IAS 28.10):
  - The investor's share of the profit or loss of the investee is recognised in the investor's profit or loss
  - Distributions received from an investee reduce the carrying amount of the investment
  - Adjustments to the carrying amount may also arise from changes in the investee's other comprehensive income (OCI) (i.e. revaluation of property, plant and equipment and foreign exchange translation differences. The investr's share of those changes is recognised in OCI of the investor
  - An investment in an investee that meets the definition of a 'non-current asset held for sale' should be recognised in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.*
- The equity method is used from the date significant influence arises, to the date significant influence ceases.

### IMPAIRMENT LOSSES

- Entities apply IAS 39 *Financial Instruments: Recognition and Measurement* to determine whether an impairment loss with respect to its net investment in the investee
- Goodwill that forms part of the carrying amount of an investment in an investee is not separately recognised and therefore not tested separately for impairment – instead the entire investment is tested as 'one' in accordance with IAS 36.

### SEPARATE FINANCIAL STATEMENTS

An investment in an investee is required to be accounted for in the entity's separate financial statements either at cost or at fair value in accordance with IFRS 9.

### ISSUES TO NOTE

- Potential voting rights are taken into account to determine whether significant influence exists, but equity accounting is based on actual interest only
- Financial statements of the investor and investee used must not differ by more than 3 months in terms of the reporting date
- The investors' share in the investee's profits and losses resulting from transactions with the investee are eliminated in the equity accounted financial statements of the parent
- Use uniform accounting policies for like transactions and other events in similar circumstances
- If an investor's share of losses of an investee exceeds its interest in the investee, discontinue recognising share of further losses. The interest in an investee is the carrying amount of the investment in the investee under the equity method, and any long-term interests that, in substance, form part of the investor's net investment in the investee. E.g., an item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension of the entity's investment in that investee
- If ownership interest is reduced, but equity method remains, the entity reclassifies to profit or loss the gain or loss that had previously been recognised in OCI.

### DISCONTINUING THE USE OF THE EQUITY METHOD

An entity is required to discontinue the use of the equity method from the date when its investment ceases to be an associate or a joint venture as follows:
- If an investment becomes a subsidiary, the entity follows the guidance in IFRS 3 *Business Combinations* and IFRS 10
- If any retained investment is held as a financial asset, the entity applies IFRS 9 *Financial Instruments*, and recognise in profit or loss the difference between:
  - The fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture
  - The carrying amount of investment at date equity method discontinued.
- Account for all amounts recognised in OCI in relation to that investment on same basis as if investee had directly disposed of related assets and liabilities.

# IAS 29 *Financial Reporting in Hyperinflationary Economies*

Also refer:
IFRIC 7 *Applying the Restatement Approach under IAS 29*

Effective Date
Periods beginning on or after 1 January 2007

## SCOPE

IAS 29 is applied to the individual financial statements, and the consolidated financial statements, of any entity whose functional currency is the currency of a hyperinflationary economy.

## INDICATORS OF HYPERINFLATION

Hyperinflation is indicated by characteristics of the economic environment of a country which include, but are not limited to, the following:

- The general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency
- The general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency
- Sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period
- Interest rates, wages and prices are linked to a price index
- The cumulative inflation rate over three years is approaching, or exceeds, 100%.

## RESTATEMENT OF FINANCIAL STATEMENTS – HYPERINFLATIONARY ECONOMIES

The financial statements of an entity whose functional currency is the currency of a hyperinflationary economy are stated in terms of the measuring unit current at the end of the reporting period. Corresponding figures in relation to prior periods are also restated. The gain or loss on the net monetary position is included in profit or loss and separately disclosed.

## HISTORICAL COST FINANCIAL STATEMENTS

### STATEMENT OF COMPREHENSIVE INCOME

All items in the statement of comprehensive income are expressed in terms of the measuring unit current at the end of the reporting period. Therefore all amounts need to be restated by applying the change in the general price index from the dates when the items of income and expenses were initially recorded in the financial statements.

### STATEMENT OF FINANCIAL POSITION

Statement of financial position amounts not already expressed in terms of the measuring unit current at the end of the reporting period are restated by applying a general price index.

- Assets and liabilities linked by agreement to changes in prices are adjusted in accordance with the agreement in order to ascertain the amount outstanding at the end of the reporting period.
- Monetary items are not restated because they are already expressed in terms of the monetary unit current at the end of the reporting period.
- All other assets and liabilities are non-monetary. Some non-monetary items are carried at amounts current at the end of the reporting period, such as net realisable value and market value, so they are not restated. All other non-monetary assets and liabilities are restated.

## CURRENT COST FINANCIAL STATEMENTS

### STATEMENT OF FINANCIAL POSITION

Items at current cost are not restated because they are already expressed in the unit of measurement current at the end of the reporting period.

### STATEMENT OF COMPREHENSIVE INCOME

All amounts are restated into the measuring unit current at the end of the reporting period by applying a general price index.

## COMPARATIVES AND STATEMENT OF CASH FLOWS

All items in the statement of cash flows are expressed in terms of the measuring unit current at the end of the reporting period. Corresponding figures for the previous reporting period, whether based on either a historical cost approach or a current cost approach, are restated by applying a general price index.

## ECONOMIES CEASING TO BE HYPERINFLATIONARY

When an economy ceases to be hyperinflationary and an entity discontinues the preparation and presentation of financial statements prepared in accordance with IAS 29, it treats the amounts expressed in the measuring unit current at the end of the previous reporting period as the basis for the carrying amounts in its subsequent financial statements.

# IAS 32 *Financial Instruments: Presentation*

Also refer:
IFRIC 2 *Members' Shares in Co-Operative Entities and Similar Instruments*
IFRIC 17 *Distributions of Non-Cash Assets to Owners*

Effective Date
Periods beginning on or after 1 January 2005

## WHAT TYPE OF INSTRUMENT IS IT?

### FAIR VALUE

The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

### OFFSETTING

A financial asset and a financial liability are offset only when there is a legally enforceable right to offset and an intention to settle net or to settle both amounts simultaneously. The right of set-off:

(a) Must not be contingent on a future event
(b) Must be legally enforceable in all of the following circumstances:
- The normal course of business
- The event of default
- The event of insolvency or bankruptcy of the entity and all of the counterparties.

### TREASURY SHARES

The cost of an entity's own equity instruments that it has reacquired (treasury shares) is deducted from equity:

- Gain or loss is not recognised on the purchase, sale, issue, or cancellation of treasury shares
- Treasury shares may be acquired and held by the entity or by other members of the consolidated group (i.e. an entity and its subsidiaries)
- Consideration paid or received is recognised directly in equity.

### OWNER TRANSACTIONS

- Distributions to holders of equity instruments are debited directly in equity
- Transaction costs of equity transactions are accounted for as deductions from equity.

### FINANCIAL INSTRUMENT

A contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

### FINANCIAL ASSET

A financial asset is:

- Cash
- An equity instrument of another entity
- A contractual right to receive cash or another financial asset from another entity; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity
- A contract that will or may be settled in the entity's own equity instruments and is: a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

### COMPOUND FINANCIAL INSTRUMENTS

Compound instruments that have both liability and equity characteristics are split into these components. The split is made on initial recognition of the instruments and is not subsequently revised.

The equity component of the compound instrument is the residual amount after deducting the fair value of the liability component from the fair value of the instrument as a whole. No gain/loss arises from initial recognition.

### EQUITY INSTRUMENT

- Any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities
- Some instruments that meet the definition of a liability, but represent the residual interest in the net assets of the entity may be classified as equity, in certain circumstances, such as puttable instruments that give the holder the right to put the instrument back to the issuer for cash or another financial asset, automatically on the occurrence of either (i) an uncertain future event (ii) death of the instrument holder (common in co-operative structures)
- Equity instruments issued to acquire a fixed number of the entities own non-derivative equity instruments (in any currency) are classified as equity instruments, provided they are issued pro-rata to all existing shareholders of the same class of the entities own non-derivative equity.

### FINANCIAL LIABILITY

A financial liability is:

- A contractual obligation to deliver cash or another financial asset to another entity; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or
- A contract that will or may be settled in the entity's own equity instruments and is a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

### CLASSIFICATION AS LIABILITY OR EQUITY

- The entity must on initial recognition of an instrument classify it as a financial liability or equity. The classification may not subsequently be changed
- An instrument is a liability if the issuer could be obliged to settle in cash or another financial instrument
- An instrument is a liability if it will or may be settled in a variable number of an entities own equity instruments.

Some instruments may have to be classified as liabilities even if they are issued in the form of shares.

# IAS 33 *Earnings per Share*

Effective Date
Periods beginning on or after 1 January 2005

## APPLICABLE TO

- Entities whose ordinary shares or potential ordinary shares are publicly traded
- Entities in the process of listing ordinary shares or potential ordinary shares in public markets.

## TYPES OF EARNINGS PER SHARE (EPS)

### BASIC EPS
(To be disclosed on face of statement of comprehensive income)

### DILUTED EPS (DEPS)
(To be disclosed on face of statement of comprehensive income)

### EARNINGS / WEIGHTED AVERAGE NUMBER OF SHARES

**Basic earnings**
Profit or loss from continuing operations adjusted for:
- Non-controlling interest's share of profit
- Dividends on preference shares (after tax), differences arising in settlement of preference shares, and other similar effects where preference shares are classified as equity.

**Basic - Weighted average number of shares**
- Time weighted average number of shares issued from date consideration receivable
- For additional shares where no consideration received - time weighted average number of shares from beginning of year / date of issue of shares with consideration (e.g. bonus issue)
- Restate comparatives.

**Diluted earnings**
Basic earnings adjusted for after-tax effect of:
- Changes in Statement of Comprehensive Income that will result from conversion of all dilutive potential ordinary shares (e.g. interest on loan no longer charged once converted to equity).

**Diluted - Weighted average number of shares**
- Starting point is the weighted average number of shares in Basic EPS
- If any consideration will be received on conversion the dilutive impact is based only on the number of shares issued for no consideration
- Adjust for number of shares that would be issued on conversion
- Adjust presuming conversion at beginning of year / date of issue of potential ordinary shares
- Diluted EPS presented for only those instruments which result in a reduction of EPS - i.e. instruments which prove to be anti-dilutive are excluded.

### OTHER
(To be disclosed in notes to the financial statements)

- Same number of shares, different numerator (earnings number)
- Disclose in notes to annual financial statements - not on face of statement of comprehensive Income
- Examples:
  - Headline earnings per share
  - Net assets value per share
  - Core earnings per share.

### CONSIDERATIONS TO NOTE

- Where an entity presents discontinued operations, Basic EPS and diluted EPS are required to be presented for continuing and discontinuing operations. Continuing operations amount is presented on face of statement of comprehensive income
- Complex areas:
  - Contingently issuable shares
  - Share-based payment transactions
  - Contracts settled in shares / in cash
  - Written put options
  - Options, warrants and their equivalents
  - Potential ordinary shares of subsidiaries.

# IAS 34 *Interim Financial Reporting*

Also refer:
IFRIC 10 *Interim Financial Reporting and Impairment*

Effective Date
Periods beginning on or after 1 January 1999

- Applies to entities required by legislation or other pronouncements or that elect to publish interim financial reports
- IAS 34 does not apply where interim financial statements included in a prospectus
- Standard does not mandate which entities should produce interim financial reports.

## DEFINITIONS

- Interim period – financial period shorter than full year
- Interim financial report - either a complete (as described in IAS 1) or condensed set of financial statements.

- If complete set is published in the interim report, full compliance with IFRS is required
- If condensed set is published the interim report is required to include at a minimum:
  - A condensed statement of financial position
  - A condensed statement of comprehensive income (using either the one or two statement approach – see IAS 1)
  - A condensed statement of changes in equity
  - A condensed statement of cash flows
  - Selected explanatory notes (guidance is given in IAS 34.15 – 16A).
- The condensed statements are required to include at least:
  - Headings and subtotals included in most recent annual financial statements
  - Selected minimum explanatory notes - explaining events and transactions significant to an understanding of the changes in financial position/performance since last annual reporting date
  - Selected line items or notes if their omission would make the condensed financial statements misleading
  - Basic and diluted earnings per share (if applicable) on the face of statement of comprehensive income.

## RECOGNITION AND MEASUREMENT

### ACCOUNTING POLICIES

- Principles for recognising assets, liabilities, income and expenses are same as in the most recent annual financial statements, unless:
  - There is a change in an accounting policy that is to be reflected in the next annual financial statements.
- Tax recognised based on weighted average annual income tax rate expected for the full year
- Tax rate changes during the year are adjusted in the subsequent interim period during the year.

### USE OF ESTIMATES

Interim reports require a greater use of estimates than annual reports.

### COSTS INCURRED UNEVENLY

Anticipated or deferred only if it would be possible to defer or anticipate at year end.

### SEASONAL, CYCLICAL OR OCCASIONAL REVENUE

- Revenue received during the year should not be anticipated or deferred where anticipation would not be appropriate at year end
- Recognised as it occurs.

### OTHER

- For highly seasonal entities, consider reporting additional information for 12 months
- Changes in accounting policies accounted as normal in terms of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- See appendix B for examples.

### COMPLIANCE WITH IAS 34

- Disclose the fact that the interim financial statements comply with IAS 34.

## IMPAIRMENT

Guidance on impairment is given in IFRIC 10 *Interim Financial Reporting and Impairment*.

## PERIODS TO BE PRESENTED

- Statement of financial position as at the end of the current interim period (e.g. 30 Sept. 20X2) and as of the end of the immediate preceding financial year (e.g. 31 December 20X1)
- Statements of comprehensive income for the current interim period (e.g. July – Sept. 20X2) and cumulatively for the current financial year (Jan. – Sept. 20X2) (which will be the same for half year ends), with comparatives for the interim period of the preceding financial year (Jan. – Sept. 20X1)
- Statements of changes in equity for the current financial year to date, with comparatives for the year to date of the immediately preceding financial year
- Statements of cash flows for the current financial year to date, with comparatives for the year to date of the immediately preceding financial year.

# IAS 36 *Impairment of Assets*

Effective Date
Periods beginning on or after 31 March 2004

## ASSETS TO BE REVIEWED

- INDIVIDUAL ASSETS
- CASH-GENERATING UNITS (CGUs)

The smallest identifiable group of assets that generates cash flows that are independent of the cash inflows from other assets or group of assets.

## SCOPE

All assets, except: inventories, construction contracts, deferred tax assets, employee benefits, financial assets, investment property, biological assets, insurance contract assets, and assets held for sale.

## IMPAIRMENT = Carrying Amount > Recoverable Amount

## RECOVERABLE AMOUNT = Higher of fair value less costs to sell and value in use

**Fair value less cost to sell**
Amount obtainable in an arm's length transaction less costs of disposal.

**Fair value**
- Binding sale agreement
- Market price in an active market.

**Costs of disposal**
Incremental costs attributable to the disposal of an asset.

**Value-in-use**
Represents the discounted future net pre-tax cash flows from the continuing use and ultimate disposal of the asset.

**Cash flows**
- From continuing use and disposal
- Based on asset in its current form
- Exclude financing activities
- Pre-tax.

**Discount rate**
- Pre-tax
- Risks relating to value in use are reflected either in future cash flows or in the discount rate. The assumptions are otherwise double-counted.

## WHEN TO TEST FOR IMPAIRMENT?

When there is an indicator of impairment.
Indicators are assessed at each reporting date.

**INTERNAL INDICATORS**
- Evidence of obsolescence or physical damage
- Discontinuance, disposal or restructuring plans
- Declining asset performance.

**EXTERNAL INDICATORS**
- Significant decline in market value
- Changes in technological, market, economic or legal environment
- Changes in interest rates
- Low market capitalisation.

**ANNUAL IMPAIRMENT TESTS**

Compulsory for:
- Intangible assets with an indefinite useful life
- Intangible assets not yet available for use
- CGUs to which goodwill has been allocated.

## WHEN TO REVERSE IMPAIRMENT?

**Individual asset** - recognise in profit and loss unless asset carried at revalued amount.

**CGUs** - allocated to assets of CGUs on a pro-rata basis.

**Goodwill** - Impairment of goodwill is never reversed.

**INTERNAL INDICATORS**
- Changes in way asset is used or expected to be used
- Evidence from internal reporting indicates that economic performance of the asset will be better than expected.

**EXTERNAL INDICATORS**
- Significant increase in market value
- Changes in technological, market, economic or legal environment
- Changes in interest rates
- Market interest rates have decreased.

# IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

Also refer:
IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*
IFRIC 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*

Effective Date
Periods beginning on or after 1 July 1999

## SCOPE

Excludes provisions, contingent liabilities and contingent assets arising from:

- Non-onerous executory contracts
- Those covered by other IFRSs:
  - IAS 11 *Construction Contracts*
  - IAS 12 *Income Taxes*
  - IAS 17 *Leases*
  - IAS 19 *Employee Benefits*
  - IFRS 4 *Insurance Contracts*.

## DEFINITIONS

- **Provision** – a liability of uncertain timing or amount.
- **Contingent liability**
  - A possible obligation that arises from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly in the control of the entity; or
  - A present obligation that arises from past events that is not recognised because:
    -it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
    -the amount of the obligation cannot be measured with sufficient reliability.
- **Contingent asset** – possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

## RECOGNITION

### PROVISIONS

Provisions are recognised when all of the folloeing conditions are met:

- The entity has a present legal or constructive obligation as a result of a past event
- It is probable that an outflow or economic benefits will be required to settle the obligation; and
- A reliable estimate can be made of the amount of the obligation.

### CONTINGENT LIABILITIES

Contingent liabilities are not recognised.

### CONTINGENT ASSETS

Contingent assets are not recognised.

## MEASUREMENT

- Provisions are measured at the best estimate of the expenditure required to settle the present obligation at reporting date.
- Where the provision being measured involves a large population of items (i.e. goods' warranties), the obligation is estimated by weighting all possible outcomes by their associated probabilities.
- In determining the best estimate, the related risks and uncertainties are taken into account
- Where the effect of the time value of money is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate used is a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability
  - The discount rate does not reflect risks for which future cash flow estimates have been adjusted.
- Future events that may affect the amount required to settle the obligation are reflected in the amount of the provision where there is sufficient objective evidence that they will occur
- Gains from the expected disposal of assets are not taken into account in measuring the provision
- Reimbursements from third parties for some or all expenditure required to settle a provision are recognised only when it is virtually certain that the reimbursement will be received. The reimbursement is treated as a separate asset, which cannot exceed the amount of the provision
- Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate
- If it is no longer probable that an outflow of economic benefits will be required to settle the obligation, the provision is released
- Provisions are not recognised for future operating losses.

## ONEROUS CONTRACTS

- Onerous contract – one where the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it
- For onerous contract, the provision is recognised and measured at the lower of:
  - The cost of fulfilling the contract
  - The costs/penalties incurred in cancelling the contract.
- Before a separate provision for an onerous contract is recognised, an entity recognises any impairment loss (IAS 36 *Impairment of Assets*) that has occurred on assets dedicated to that contract.

## RESTRUCTURING

Restructuring provisions are only permitted to be recognised when an entity has:

- A detailed formal plan for the restructuring identifying:
  - The business or part of business concerned; principal locations affected; location, function, approximate number of employees to be compensated for termination of their services; expenditures that will be undertaken and when the plan will be implemented.
- Has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing (e.g. by a public announcement) its main features to those affected before the end of the reporting period
- Restructuring provisions only include the direct expenditures arising from the restructuring – i.e. those that are both necessarily entailed by the restructuring and not associated with the entity's on-going activities.

# IAS 38 *Intangible Assets*

Also refer:
SIC-32 *Intangible Assets – Web Site Costs*

Effective Date
Periods beginning on or after 31 March 2004

## RECOGNITION AND MEASUREMENT

### SEPARATE ACQUISITION

1. Probable - expected future economic benefits will flow to the entity; and
2. Cost can be reliably measured.

Recognition at cost.

### ACQUIRED IN BUSINESS COMBINATION

2. Probable - always met if fair value (FV) can be determined; FV reflects expectation of future economic benefits.
3. Cost - FV at acquisition date.
   - Acquirer recognises it separately from goodwill
   - Irrespective of whether the acquiree had recognised it before acquisition.

### INTERNALLY GENERATED

**Research phase** - expense costs as incurred.

**Development phase** - Capitalise if all criteria are met:

- Technical feasibility of completion of intangible asset
- Intention to complete
- Ability to use or sell the intangible asset
- Adequate technical, financial and other resources to complete
- Probable future economic benefits
- Expenditure measured reliably.

### EXCHANGE OF ASSETS

- Measure acquired asset at its fair value
- If not possible, at book value of asset given up.

### INTERNALLY GENERATED GOODWILL

Internally generated goodwill is never recognised as it is not an identifiable resource that can be measured reliably.

Examples include:

- Internally generated brands
- Customer lists.

### GOVERNMENT GRANT

Initially recognised at either:

- Fair value
- Nominal value plus direct expenses to prepare for use.

Examples include:

- License to operate national lottery
- Radio station.

## DEFINITION

**Intangible assets -** identifiable, non-monetary assets, without physical substance.

**Assets -** resources, controlled from past events and with future economic benefits expected.

Identifiable if either:

- Capable of being separated and sold, licensed, transferred, exchanged or rented separately
- Arise from contractual or other legal rights.

## SCOPE

Scope exclusions: financial and intangible assets covered by other IFRSs (IAS 2, IAS 12, IAS 17, IAS 19, IAS 32, IFRS 4, IFRS 5).

## SUBSEQUENT ACCOUNTING

**Finite useful life** - Choose either amortised cost or revaluation model:

**Cost model**

- Determine useful life
- Residual value - assumed zero unless active market exists or a commitment by third party to purchase the intangible asset exists
- Determine amortisation method
- Review above annually
- Amortisation begins when available for use.

***Amendments to IAS 38 (Effective 1 January 2016)***

- Rebuttable presumption that revenue based amortisation is inappropriate
- Amortisation method reflects the pattern in which future economic benefits are expected to be consumed.

**Revaluation model**

- Fair value at revaluation date
- Fair value determined by referring to active market
- If no active market, use cost model
- Revaluation done regularly
- The net carrying amount of the asset is adjusted to the revalued amount and
  - The gross carrying amount is adjusted in a manner consistent with the net carrying amount. Accumulated amortisation is adjusted to equal the difference between the gross and net carrying amount; or
  - Accumulated amortisation is eliminated against the gross carrying amount.
- Credit to revaluation surplus net of Deferred Tax
- Transfer to retained earnings on realisation.

**Indefinite useful lives**

- No foreseeable limit to future expected economic benefits
- Not amortised
- Test for impairment annually or when an indication exists
- Review annually if events and circumstances still support indefinite useful life
- If no longer indefinite change to finite useful life.

## OTHER

Past expenses cannot be capitalised in a later period.

BDO

# IAS 39 *Financial Instruments: Recognition and Measurement*



Also refer:
IFRIC 9 *Reassessment of Embedded Derivatives*    IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

Effective Date
Periods beginning on or after 1 January 2005

## INITIAL RECOGNITION

Financial instruments are recognised on the statement of financial position when the entity becomes party to the contractual provisions of the instrument.

## INITIAL MEASUREMENT

All financial instruments are measured initially at fair value, directly attributable transaction costs are added to or deducted from the carrying value of those financial instruments that are not subsequently measured at fair value through profit or loss.

- **Fair value** - is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (see IFRS 13 *Fair Value Measurement)*
- **Directly attributable transaction costs** - incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

## SUBSEQUENT MEASUREMENT

Subsequent measurement depends on the category into which the financial instrument is classified.

### FINANCIAL ASSETS

#### Fair value through profit or loss

Includes financial assets held for trading; derivatives, unless accounted for as hedges, and other financial assets designated to this category under the fair value option (strict rules apply).

- e.g. shares held for trading, options, interest rate swaps.

**Measured at:**

- Fair value with all gains and losses being recognised in profit or loss.

#### Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturity that the entity has the positive intent and ability to hold to maturity.

- e.g. bonds, redeemable preference shares, redeemable debentures.

**Measured at:**

- Amortised cost using the effective interest method, less impairment losses.

#### Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

- e.g. trade receivables, long-term bank depositsintercompany loans receivable.

**Measured at:**

- Amortised cost using the effective interest method, less impairment losses.

#### Available-for-sale

Includes all financial assets that are not classified in another category and any financial asset designated to this category on initial recognition.

- e.g. shares held for investment purposes.

**Measured at:**

- Fair value with gains and losses recognised in other comprehensive income
- Impairment losses and foreign exchange differences are recognised in profit or loss.

### FINANCIAL LIABILITIES

#### Fair value through profit or loss

Includes financial liabilities held for trading; derivatives; and financial liabilities designated as at fair value through profit or loss on initial recognition (strict rules apply).

**Measured at:**

- Fair value with all gains and losses being recognised in profit or loss.

#### Amortised cost

All financial liabilities that are not classified at fair value through profit or loss.

**Measured at:**

- Amortised cost using the effective interest method.

# IAS 39 *Financial Instruments: Recognition and Measurement*



Effective Date
Periods beginning on or after 1 January 2005

## FINANCIAL GUARANTEE CONTRACTS

**Financial guarantee contract** – a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

## MEASUREMENT

- Initially measured at fair value plus directly attributable transaction costs
- Subsequently measured at the higher of:
  - The amount determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and
  - The amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 *Revenue*.

## IMPAIRMENT

Assess at each reporting date whether there is objective evidence that a financial asset (group of financial assets) is impaired. If there is evidence of impairment:

**Financial assets at amortised cost**

- Amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted using the asset's original effective interest rate. Future credit losses that have not been incurred are excluded
- The carrying amount of the asset is reduced either directly or through the use of an allowance account
- The impairment loss is recognised in profit or loss
- Reversals of impairment are recognised in profit or loss. Reversals cannot result in a carrying amount that exceeds what the amortised cost would have been had no impairment been recognised.

**Financial assets at cost**

- Amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

**Available for sale financial assets**

- When a decline in the fair value of the asset has been recognised directly in OCI and there is objective evidence that the asset is impaired, the cumulative loss recognised directly in OCI is removed from OCI and recognised in profit or loss
- Subsequent reversals of impairment losses recognised in profit or loss on equity instruments are recognised in OCI, not profit or loss
- Subsequent reversals of impairment losses recognised in profit or loss on debt instruments are recognised in profit or loss.

## RECLASSIFICATION

**Financial instruments at fair value through profit or loss**

- Derivative financial instruments may not be reclassified out of this category while it is held or issued
- Any financial instrument designated into this category on initial recognition may not be reclassified out of this category
- May reclassify instruments that would have met the definition of loans and receivables out of this category to loans and receivables if the entity has the intention and ability to hold for the foreseeable future or until maturity. Any gain or loss already recognised in profit or loss is not reversed. The fair value on date of reclassification becomes the new cost or amortised cost
- May reclassify instruments to held to maturity or available for sale in rare circumstances
- May not reclassify a financial instrument into the fair value through profit or loss category after initial recognition.

**Held to maturity instruments**

- If no longer appropriate to classify investment as held to maturity, reclassify as available for sale and remeasure to fair value
- Difference between carrying amount and fair value recognised in equity
- Prohibited from classifying any instruments as HTM in the current and following two financial years.

**Available for sale instruments**

- May reclassify instruments that would have met the definition of loans and receivables out of this category to loans and receivables if the entity has the intention and ability to hold for the foreseeable future or until maturity.

**Financial instruments measured at cost as unable to reliably measure fair value**

- If a reliable fair value measure becomes available for which a fair value measure was previously not available, the instrument is required to be measured at fair value
- Difference between carrying amount and fair value recognised in equity for available for sale instruments
- Difference between carrying amount and fair value recognised in profit or loss for financial instruments measured at fair value through profit or loss.

**Fair value measurement is no longer reliably measureable**

- If a financial instrument currently carried at fair value subsequently has to be carried at cost or amortised cost because fair value is no longer reliably measurable, the fair value carrying amount at that date becomes the new cost or deemed cost
- Prior gain/loss on financial asset with no fixed maturity recognised in equity remains in equity until the financial asset is derecognised at which time it is released to profit or loss.

# IAS 39 *Financial Instruments: Recognition and Measurement*



Effective Date
Periods beginning on or after 1 January 2005

## DERECOGNITION

### FINANCIAL ASSETS

Consolidate all subsidiaries (including special purpose entities (SPEs).

Determine whether the derecognition principles below are applied to all or part of the asset.

Have the rights to the cash flows from the asset expired?
- YES → **Derecognise the asset**
- NO ↓

Has the entity transferred its rights to receive the cash flows from the asset?
- NO ↓

Has the entity assumed an obligation to pay the cash flows from the asset that meets the conditions in IAS 39.19?
- NO → **Continue to recognise the asset**
- YES ↓ (YES → back to "Has the entity transferred its rights to receive the cash flows from the asset?")

Has the entity transferred substantially all risks and rewards?
- YES → **Derecognise the asset**
- NO ↓

Has the entity retained substantially all risks and rewards?
- YES → **Continue to recognise the asset**
- NO ↓

Has the entity retained control of the asset?
- NO → **Derecognise the asset**
- YES ↓

Continue to recognise asset to the extent of the entity's continuing involvement.

### FINANCIAL LIABILITIES

- A financial liability is derecognised only when extinguished i.e., when the obligation specified in the contract is discharged, cancelled or it expires
- An exchange between an existing borrower and lender of debt instruments with substantially different terms or substantial modification of the terms of an existing financial liability of part thereof is accounted for as an extinguishment
- The difference between the carrying amount of a financial liability extinguished or transferred to a 3rd party and the consideration paid is recognised in profit or loss.

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- If an entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognises either a servicing asset or liability for that servicing contract
- If, as a result of a transfer, a financial asset is derecognised, but the entity obtains a new financial asset or assumes a new financial liability or servicing liability, the entity recognises the new financial asset, financial liability or servicing liability at fair value
- On derecognition of a financial asset, the difference between the carrying amount and the sum of (i) the consideration received and (ii) any cumulative gain or loss that was recognised directly in equity is recognised in profit or loss.

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IAS 39.19 – where an entity retains the contractual rights to receive the cash flows of a financial asset, but assumes a contractual obligation to pay those cash flows to one or more entities, three conditions need to be met before an entity can consider the additional derecognition criteria:
- The entity has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset
- The entity is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients
- The entity has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay. The entity is not entitled to reinvest the cash flows except for the short period between collection and remittance to the eventual recipients. Any interest earned thereon is remitted to the eventual recipients.

# IAS 39 *Financial Instruments: Recognition and Measurement*



Also refer:
IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*

Effective Date
Periods beginning on or after 1 January 2005

## HEDGE ACCOUNTING

Hedge accounting may be applied if, and only if, all the following criteria are met:

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge
- The hedge is expected to be highly effective (80 – 125 % effective) in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship
- For cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss
- The effectiveness of the hedge can be reliably measured, i.e., the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured
- The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

### CASH FLOW HEDGE

- **Definition** - a hedge of the exposure to variability in cash flows that (i) is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction and (ii) could affect profit or loss
- The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in OCI; and the ineffective portion of the gain or loss on the hedging instrument is recognised in profit or loss
- If the hedge results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised in OCI are reclassified from equity to profit or loss as a reclassification adjustment in the same period(s) during which the asset acquired or liability assumed affects profit or loss
- If the hedge results in the recognition of a non-financial asset or a non-financial liability, then the entity has an accounting policy election of either:
  - Reclassifying the associated gains and losses that were recognised in OCI to profit or loss as a reclassification adjustment in the same period or periods during which the asset acquired or liability assumed affects profit or loss (such as in the periods that depreciation expense or cost of sales is recognised
  - Removing the associated gains and losses that were recognised in OCI and including them in the initial cost or other carrying amount of the asset or liability.
- Cash flow hedge accounting is discontinued prospectively if:
  - The hedging instrument expires or is sold, terminated or exercised (net amount recognised in OCI remains in equity until forecast transaction occurs and is then treated as described above)
  - The hedge no longer meets the criteria set out in the above block (net amount recognised in OCI remains in equity until forecast transaction occurs and is then treated as described above)
  - The forecast transaction is no longer expected to occur (net amount recognised in OCI is transferred immediately to profit and loss as a reclassification adjustment)
  - The entity revokes the designation (net amount recognised in OCI remains in equity until forecast transaction occurs and is then treated as described above).

### FAIR VALUE HEDGE

- **Definition** - a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss
- Gain/loss from remeasuring the hedging instrument at fair value or the foreign currency component of its carrying amount is recognised in profit or loss
- Gain/loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognised in profit or loss
- Fair value hedge accounting is discontinued prospectively if:
  - The hedging instrument expires or is sold, terminated or exercised
  - The hedge no longer meets the criteria set out above
  - The entity revokes the designation.
- Where hedge accounting is discontinued, adjustments to the carrying amount of a hedged financial asset for which the effective interest rate is used are amortised to profit or loss. The adjustment is based on a recalculated effective interest rate at the date amortisation begins.

### HEDGE OF A NET INVESTMENT IN A FOREIGN OPERATION

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for similarly to cash flow hedges:

- The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in equity; and
- The ineffective portion is recognised in profit or loss.

The gain or loss on the hedging instrument relating to the effective portion of the hedge that has been recognised in OCI is reclassified from equity to profit or loss as a reclassification adjustment on the disposal of the foreign operation.

### NOVATION OF DERIVATIVES (AMENDMENT TO IAS 39)

Hedge accounting continues for novated derivatives so long as:

- The novation is a consequence of laws or regulations (or the introduction of laws or regulations)
- The parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty of each party.
- Any changes to the hedging instrument are limited only to those that are necessary to effect such a replacement of the counterparty (including changes in the collateral requirements, rights to offset receivable and payable balances, charges levied.)

### DESIGNATION OF NON-FINANCIAL ITEMS AS HEDGED ITEMS

If the hedged item is a non-financial asset or non-financial liability, it is designated as a hedged item, either:

- For foreign currency risks
- In its entirety for all risks, because of the difficulty of isolating and measuring the appropriate portion of the cash flows or fair value changes attributable to specific risks other than foreign currency risks.

# IAS 40 *Investment Property*

**Effective Date**
**Periods beginning on or after 1 January 2005**

## CLASSIFICATION

**Property held under an operating lease**
A property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property provided that:
- The rest of the definition of investment property is met
- The operating lease is accounted for as if it were a finance lease in accordance with IAS 17 *Leases*
- The lessee uses the fair value model set out in IAS 40 for all investment properties (see subsequent measurement). .

**Partial own use**
- If the owner uses part of the property for its own use, and part to earn rentals or for capital appreciation, and the portions can be sold or leased out separately under a finance lease, they are accounted for separately. The part that is rented out is investment property
- If the portions cannot be sold or leased out separately, the property is investment property only if the owner-occupied (property, plant and equipment) portion is insignificant.

**Provision of ancillary services to occupants**
If those services (e.g. security or maintenance services) are a relatively insignificant component of the arrangement as a whole, then the entity may treat the property as investment property.

Where the services provided are more significant (such as in the case of an owner-managed hotel), the property should be classified as owner-occupied property, plant and equipment.

**Interrelationship between IFRS 3 and IAS 40**
Judgement is required to determine whether the acquisition of investment property is the acquisition of an asset, a group of assets or a business combination in the scope of IFRS 3 *Business Combinations*.
The judgement of whether the acquisition of investment property is a business combination is based on the guidance in IFRS 3. Judgements needed to distinguish investment property from owner-occupied property are based on the guidance in IAS 40.

**Inter-company rentals**
Property rented to a parent, subsidiary, or fellow subsidiary is not investment property in consolidated financial statements that include both the lessor and the lessee, because the property is owner-occupied from the perspective of the group.

Such property will be investment property in the separate financial statements of the lessor, if the definition of investment property is otherwise met.

**Transfers**
Only permits assets to be reclassified into or out of the investment property category when there is a change in use and provides examles. In isolation, a change in management's intention does not provide evidence of a change in use.

## DEFINITION

Property (land or a building or part of a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both.

### INCLUDES

- Land held for long-term capital appreciation
- Land held for indeterminate future use
- Building leased out under an operating lease
- Vacant building held to be leased out under an operating lease
- Property being constructed/developed for future use as investment property.

### EXCLUDES

- Property held for use in the production or supply of goods or services or for administrative purposes (IAS 16 *Property, Plant and Equipment* applies)
- Property held for sale in the ordinary course of business or in the process of construction or development for such sale (IAS 2 *Inventories* applies)
- Property being constructed or developed on behalf of third parties (IAS 11 *Construction Contracts* applies)
- Owner-occupied property (IAS 16 applies)
- Property leased to another entity under a finance lease (IAS 17 applies).

Transfers to or from investment property can be made only when there has been a change in the use of the property.

## RECOGNITION

Investment property is recognised as an asset when it is probable that the future economic benefits that are associated with the property will flow to the enterprise, and the cost of the property can be reliably measured.

## MEASUREMENT

**Initial measurement**
Investment property is initially measured at cost, including transaction costs.

Cost does not include start-up costs, abnormal waste, or initial operating losses incurred before the investment property achieves the planned level of occupancy.

**Subsequent measurement**
An entity can choose between the fair value and the cost model. The accounting policy choice must be applied to all investment property.

*Fair value model*
- Investment properties are measured at fair value, which is the price that would be received to sell the investment property in an orderly transaction between market participants at the measurement date (see IFRS 13 *Fair Value Measurement)*
- Gains or losses arising from changes in the fair value of investment property must be included in profit or loss for the period in which it arises
- In rare exceptional circumstances if fair value cannot be determined, the cost model in IAS 16 is used to measure the investment property.

*Cost model*
- Investment property is measured in accordance with requirements set out for that model in IAS 16.

# IAS 41 *Agriculture*

Effective Date
Periods beginning on or after 1 January 2003

## DEFINITIONS

**Active market** - Exists when; the items traded are homogenous, willing buyers and sellers can normally be found at any time and prices are available to the public.

**Agricultural activity** - The management of the transformation of a biological asset for sale into agricultural produce or another biological asset.

**Biological asset** - A living animal or plant.

**Agricultural produce** - The harvested produce of the entity's biological assets.

**Biological transformation** - The process of growth, degeneration, production, and procreation that cause an increase in the value or quantity of the biological asset.

**Harvest** - The process of detaching produce from a biological asset or cessation of its life.

<u>Effective for periods beginning on or after 1 January 2016</u>

**Bearer plant** - is a living plant that:

- Is used in the production or supply of agricultural produce
- Is expected to bear produce for more than one period
- Has a remote likelihood of being sold (except scrap sales).

## GOVERNMENT GRANTS

- An unconditional government grant related to a biological asset measured at fair value less estimated point-of-sale costs is recognised as income when, and only when, the government grant becomes available
- A conditional government grant, including where a government grant requires an entity not to engage in specified agricultural activity, is recognised as income when and only when, the conditions of the grant are met.

## SCOPE

Within scope:

- Biological assets
- Agricultural produce at the point of harvest
- Government grants related to biological assets.

Excluded from scope:

- Land related to agricultural activity - covered by IAS 16 *Property, Plant and Equipment* and IAS 40 *Investment Property*
- Intangible assets related to agricultural activity - covered by IAS 38 *Intangible Assets*.

***Amendments to IAS 41 (Effective 1 January 2016)***

- Bearer plants related to agricultural activity
- Government grants related to bearer plants.

## RECOGNITION

- Biological assets or agricultural produce are recognised when:
  - Entity controls the asset as a result of a past event
  - Probable that future economic benefit will flow to the entity; and
  - Fair value or cost of the asset can be measurement reliably.

## MEASUREMENT

**Biological asset**

- Initially:
  - At fair value less estimated point-of-sale costs (except where fair value cannot be estimated reliably)
  - If no reliable measurement of fair value, biological assets are stated at cost.
- Subsequently:
  - At fair value less estimated point-of-sale costs (except where fair value cannot be estimated reliably)
  - If no reliable measurement of fair value, biological assets are stated at cost less accumulated depreciation and accumulated impairment losses.

**Agricultural produce**

- Produce harvested from biological assets is measured at fair value less costs to sell at the point of harvest
- Such measurement is the cost at the date when applying IAS 2 *Inventory* or another applicable IFRS.

## FAIR VALUE GAINS AND LOSSES

**Biological asset**

- The gain or loss on initial recognition is included in profit or loss in the period in which it arises
- Subsequent change in fair value is included in profit or loss in the period it arises.

**Agricultural produce**

- The gain or loss on initial recognition is included in included in profit or loss in the period in which it arises.

## INABILITY TO MEASURE FAIR VALUE

- Once the fair value of the biological asset becomes reliably measureable, the fair value must be used to measure the biological asset
- Once a non-current biological asset meets the criteria to be defined as held for sale (or as part of a disposal group classified as held for sale) then it is presumed fair value can be measured reliably.

# IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*

**Effective Date**
**Periods beginning on or after 1 September 2004**

## BACKGROUND AND ISSUE

Many entities have obligations to dismantle, remove and restore items of property, plant and equipment and in this Interpretation such obligations are referred to as 'decommissioning, restoration and similar liabilities'. Under IAS 16 *Property, Plant and Equipment*, the cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period. IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* contains requirements on how to measure decommissioning, restoration and similar liabilities. This Interpretation provides guidance on how to account for the effect of subsequent changes in the measurement of existing decommissioning, restoration and similar liabilities.

## SCOPE

IFRIC 1 applies to changes in the measurement of any existing decommissioning, restoration or similar liability that is both:
- Recognised as part of the cost of an item of property, plant and equipment in accordance with IAS 16
- Recognised as a liability in accordance with IAS 37.

For example, a decommissioning, restoration or similar liability may exist for decommissioning a plant or rehabilitating environmental damage, in extractive industries, or the removal of equipment.

## CONSENSUS

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or a change in the discount rate, are accounted for as detailed below.

### ASSET MEASURED USING COST MODEL

- Changes in the liability are added to, or deducted from, the cost of the related asset in the current period
- The amount deducted from the cost of the asset cannot exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in profit or loss
- If the adjustment results in an addition to the cost of an asset, the entity considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity tests the asset for impairment by estimating its recoverable amount, and accounts for any impairment loss, in accordance with IAS 36 *Impairment of Assets*.

### RELATED ASSET MEASURED USING REVALUATION MODEL

- Changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - A decrease in the liability is recognised in other comprehensive income and increases the revaluation surplus within equity, except that it is recognised in profit or loss to the extent that it reverses a revaluation deficit on the asset that was previously recognised in profit or loss
  - An increase in the liability is recognised in profit or loss, except that it is recognised in other comprehensive income and reduces the revaluation surplus within equity to the extent of any credit balance existing in the revaluation surplus in respect of that asset
  - In the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in profit or loss
  - A change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period
  - The change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

### DISCOUNT

- The periodic unwinding of discount is recognised in profit or loss as a finance cost as it occurs
- Capitalisation under IAS 23 *Borrowing Costs* is not permitted.

### DEPRECIATION

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability are recognised in profit or loss as they occur. This applies under both the cost model and the revaluation model.

# IFRIC 2 *Members' Shares in Co-operative Entities and Similar Instruments*

**Effective Date**
**Periods beginning on or after 1 January 2005**

## BACKGROUND AND ISSUE

Co-operatives and other similar entities are formed by groups of persons to meet common economic or social needs. Members' interests in a co-operative are often characterised as members' shares or units or the like. IAS 32 *Financial Instruments: Presentation* establishes principles for the classification of financial instruments as financial liabilities or equity.

Many financial instruments, including members' shares, have characteristics of equity, including voting rights and rights to participate in dividend distributions. Some financial instruments give the holder the right to request redemption for cash or another financial asset, but may include or be subject to limits on whether the financial instruments will be redeemed. Questions arise in respect of how those redemption terms should be evaluated in determining whether the financial instruments should be classified as liabilities or equity.

## SCOPE

- IFRIC 2 applies to financial instruments within the scope of IAS 32, including financial instruments issued to members of co-operative entities that evidence the members' ownership interest in the entity
- IFRIC 2 does not apply to financial instruments that will or may be settled in the entity's own equity instruments.

## CONSENSUS

The contractual right of the holder of a financial instrument (including members' shares in co-operative entities) to request redemption does not, in itself, require that financial instrument to be classified as a financial liability. Rather, the entity must consider all of the terms and conditions of the financial instrument in determining its classification as a financial liability or equity.

## MEMBERS SHARES AS EQUITY

Members' shares that would be classified as equity if the members did not have a right to request redemption are equity if either of the conditions described below are present:

- Members' shares are equity if the entity has an unconditional right to refuse redemption of the shares
- If redemption is unconditionally prohibited by local law, regulation or a governing charter, shares are equity.

## EXAMPLES OF APPLICATION

Examples of different scenarios of the application of IFRIC 2 are given in the Appendix, which is an integral part of IFRIC 2.

## DISCLOSURE

When a change in the redemption prohibition leads to a transfer between financial liabilities and equity, the entity discloses separately the amount, timing and reason for the transfer.

## MEASUREMENT AFTER RECOGNITION

- An entity measures its financial liability for redemption at fair value
- In the case of members' shares with a redemption feature, the entity measures the fair value of the financial liability for redemption at no less than the maximum amount payable under the redemption provisions of its governing charter or applicable law discounted from the first date that the amount could be required to be paid.

# IFRIC 4 *Determining whether an Arrangement contains a Lease*

Effective Date
Periods beginning on or after 1 January 2006

## BACKGROUND AND ISSUE

An entity may enter into an arrangement, comprising a transaction or a series of related transactions, that does not take the legal form of a lease but conveys a right to use an asset (e.g. an item of property, plant or equipment) in return for a payment or series of payments. Examples include arrangements in which one entity (the supplier) may convey such a right to use an asset to another entity (the purchaser), often together with related services.

This Interpretation provides guidance for determining whether such arrangements are, or contain, leases that should be accounted for in accordance with IAS 17 *Leases*. It does not provide guidance for determining how such a lease should be classified under that Standard.

In some arrangements, the underlying asset that is the subject of the lease is a portion of a larger asset. This Interpretation does not address how to determine when a portion of a larger asset is itself the underlying asset for the purposes of applying IAS 17. Nevertheless, arrangements in which the underlying asset would represent a unit of account in either IAS 16 *Property, Plant and Equipment* or IAS 38 *Intangible Assets* are within the scope of this Interpretation.

The issues addressed in this Interpretation are:

- How to determine whether an arrangement is, or contains, a lease as defined in IAS 17
- When the assessment or a reassessment of whether an arrangement is, or contains, a lease should be made
- If an arrangement is, or contains, a lease, how the payments for the lease should be separated from payments for any other elements in the arrangement.

## ASSESSING OR REASSESSING WHETHER AN ARRANGEMENT IS, OR CONTAINS, A LEASE

- The assessment of whether an arrangement contains a lease is made at the inception of the arrangement, being the earlier of the date of the arrangement and the date of commitment by the parties to the principal terms of the arrangement, on the basis of all of the facts and circumstances. A reassessment of whether the arrangement contains a lease after the inception of the arrangement is made only if any one of the following conditions is met:
  - There is a change in the contractual terms, unless the change only renews or extends the arrangement
  - A renewal option is exercised or an extension is agreed to by the parties to the arrangement, unless the term of the renewal or extension had initially been included in the lease term in accordance with IAS 17. A renewal or extension of the arrangement that does not include modification of any of the terms in the original arrangement before the end of the term of the original arrangement is evaluated under IFRIC 4 only with respect to the renewal or extension period
  - There is a change in the determination of whether fulfilment is dependent on a specified asset
  - There is a substantial change to the asset, for example a substantial physical change to property, plant or equipment.
- A reassessment of an arrangement is based on the facts and circumstances as of the date of reassessment, including the remaining term of the arrangement. Changes in estimate (for example, the estimated amount of output to be delivered to the purchaser or other potential purchasers) do not trigger a reassessment. If an arrangement is reassessed and is determined to contain a lease (or not to contain a lease), lease accounting is applied (or ceases to apply).

## SCOPE

IFRIC 4 does not apply to arrangements that:

- Are, or contain, leases excluded from the scope of IAS 17
- Are public-to-private service concession arrangements within the scope of IFRIC 12 *Service Concession Arrangements*.

## DETERMINING WHETHER AN ARRANGEMENT IS, OR CONTAINS, A LEASE

Determining whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether:

- Fulfilment of the arrangement is dependent on the use of a specific asset or assets
- The arrangement conveys a right to use the asset.

### FULFILMENT IS DEPENDENT ON THE USE OF A SPECIFIC ASSET

- Although a specific asset may be explicitly identified in an arrangement, it is not the subject of a lease if fulfilment of the arrangement is not dependent on the use of the specified asset, e.g., if the supplier is obliged to deliver a specified quantity of goods or services and has the right and ability to provide those goods or services using other assets not specified in the arrangement, then fulfilment of the arrangement is not dependent on the specified asset and the arrangement does not contain a lease
- A warranty obligation that permits or requires the substitution of the same or similar assets when the specified asset is not operating properly does not preclude lease treatment
- A contractual provision (contingent or otherwise) permitting or requiring the supplier to substitute other assets for any reason on or after a specified date does not preclude lease treatment before the date of substitution.

### ARRANGEMENT CONVEYS RIGHT TO USE THE ASSET

An arrangement conveys the right to use the asset if the arrangement conveys to the purchaser (lessee) the right to control the use of the underlying asset. The right to control the use of the underlying asset is conveyed if any one of the following conditions is met:

- The purchaser has the ability or right to operate the asset or direct others to operate the asset in a manner it determines while obtaining or controlling more than an insignificant amount of the output or other utility of the asset
- The purchaser has the ability or right to control physical access to the underlying asset while obtaining or controlling more than an insignificant amount of the output or other utility of the asset
- Facts and circumstances indicate that it is remote that one or more parties other than the purchaser will take more than an insignificant amount of the output or other utility that will be produced or generated by the asset during the term of the arrangement, and the price that the purchaser will pay for the output is neither contractually fixed per unit of output nor equal to the current market price per unit of output as of the time of delivery of the output.

## SEPARATING PAYMENTS FOR THE LEASE FROM OTHER PAYMENTS

- If an arrangement contains a lease, the parties to the arrangement apply the requirements of IAS 17 to the lease element of the arrangement, unless exempted from those requirements in accordance with IAS 17
- Accordingly, if an arrangement contains a lease, that lease is classified as a finance lease or an operating lease in accordance with IAS 17. Other elements of the arrangement not within the scope of IAS 17 are accounted for in accordance with other IFRSs
- Payments and other consideration required by arrangement are separated at inception or upon reassessment into those for the lease and those other elements on the basis of relative fair values, which may require the use of estimation techniques
- Guidance is provided for circumstances in which it is impracticable to separate payments reliably into the various components.

# IFRC 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*

**Effective Date**
**Periods beginning on or after 1 January 2006**

## BACKGROUND AND ISSUE

The purpose of decommissioning funds is to segregate assets to fund some or all of the costs of decommissioning plant (such as a nuclear plant) or certain equipment (such as cars), or in undertaking environmental rehabilitation (such as rectifying pollution of water or restoring mined land), together referred to as 'decommissioning'. Contributions to these funds, by multiple contributions, may be voluntary or required by regulation or law.

Decommissioning funds generally have the following features:

- Fund is separately administered by independent trustees
- Entity contributions to the fund are invested in a range of assets that are available to help pay contributors decommissioning costs
- Contributors retain the obligation to pay decommissioning costs
- Contributors may have restricted access or no access to any surplus assets of the fund.

The issues addressed by IFRIC 5 relate to how a contributor should account for its interest in a fund and how contributors should account for additional contribution obligations.

## SCOPE

IFRIC 5 applies to accounting in the financial statements of a contributor for interests arising from decommissioning, restoration and environmental funds (hereafter referred to as 'decommissioning funds') that have both of the following features:

- The assets are administered separately (either by being held in a separate legal entity or as segregated assets within another entity)
- A contributor's right to access the assets is restricted.

Residual interests in funds that extend beyond a right of reimbursement may be an equity instrument within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*, and is scoped out of IFRIC 5.

## CONSENSUS

### INTEREST IN A FUND

- The contributor recognises its obligation to pay decommissioning costs as a liability and recognises its interest in the fund separately unless the contributor is not liable to pay decommissioning costs even if the fund fails to pay
- The contributor determines whether it has control, joint control or significant influence over the fund by reference to IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IAS 28 *Investments in Associates and Joint Ventures*. If it does, the contributor accounts for its interest in the fund in accordance with those Standards
- If a contributor does not have control, joint control or significant influence over the fund, the contributor recognises the right to receive reimbursement from the fund as a reimbursement right in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. This reimbursement is measured at the lower of:
  - The amount of the decommissioning obligation recognised
  - The contributor's share of the fair value of the net assets of the fund attributable to contributors.
- Changes in the carrying value of the right to receive reimbursement other than contributions to and payments from the fund are recognised in profit or loss in the period in which these changes occur.

### OBLIGATIONS TO MAKE ADDITIONAL CONTRIBUTIONS

When a contributor has an obligation to make potential additional contributions, e.g., in the event of the bankruptcy of another contributor or if the value of the investment assets held by the fund decreases to an extent that they are insufficient to fulfil the fund's reimbursement obligations, this obligation is a contingent liability that is within the scope of IAS 37.

The contributor recognises a liability only if it is probable that additional contributions will be made.

### DISCLOSURE

- A contributor discloses the nature of its interest in a fund and any restrictions on access to the assets in the fund
- When a contributor has an obligation to make potential additional contributions that is not recognised as a liability, it makes the disclosures required by IAS 37
- When a contributor accounts for its interest in the fund in accordance with paragraph 9 of IFRIC 5, it makes disclosures as required by IAS 37.

# IFRIC 6 *Liabilities arising from Participating in a Specific Market: Waste Electrical and Electronic Equipment*

**Effective Date**
**Periods beginning on or after 1 December 2005**

## BACKGROUND AND ISSUE

IAS 37 *Provisions, Contingent Liabilities and Contingent assets* specifies that an obligating event is a past event that leads to a present obligation that an entity has no realistic alternative to settling and that provisions are recognised only for 'obligations arising from past events existing independently of an entity's future actions'.

The European Union's Directive on Waste Electrical and Electronic Equipment (WE&EE), which regulates the collection, treatment, recovery and environmentally sound disposal of waste equipment, has given rise to questions over when the liability for the decommissioning of WE&EE should be recognised. The Directive states that the cost of waste management for historical household equipment should be borne by producers of that type of equipment that are in the market during a period to be specified in the applicable legislation of each Member State (the Measurement Period). The Directive states that each Member State is required to establish a mechanism to have producers contribute to costs proportionately 'e.g. in proportion to their respective share of the market by type of equipment.' Member states within the EU will have their own interpretation of the WE&EE directive and therefore the detailed requirements are likely to vary from state to state.

The interpretation does not deal with new waste (being waste relating to products sold on or after 13 August 2005) or historical waste from sources other than private households. The IFRIC considers that the liability for such waste management is dealt with by IAS 37.

IFRIC 6 seeks to determine in the context of decommissioning of WE&EE which of the following constitute an obligating event in accordance with IAS 37 for the reconciliation of a provision for waste management costs:

- The manufacture or sale of the historical household equipment
- Participation in the market during the measurement period
- The incurrence of costs in the performance of waste management activities.

## SCOPE

- IFRIC 6 provides guidance on the recognition, in the financial statements of producers, of liabilities for waste management under the European Union (EU) Directive on Waste Electrical and Electronic Equipment (WE&EE) in respect of sales of historical household equipment
- IFRIC 6 does not address new waste or historical waste from sources other than private households. The liability for such waste management is adequately covered in IAS 37. However, if, in national legislation, new waste from private households is treated in a similar manner to historical waste from private households, the principles of the Interpretation apply by reference to the hierarchy in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

## CONSENSUS

- Participation in the market during the measurement period is the obligating event in accordance with IAS 37. As such, a liability for waste management costs for historical household equipment does not arise as the products are manufactured or sold
- As the obligation for historical household equipment is linked to participation in the market during the measurement period, rather than to production or sale of the items to be disposed of, there is no obligation unless and until a market share exists during the measurement period
- The timing of the obligating event may also be independent of the particular period in which the activities to perform the waste management are undertaken and the related costs incurred.

## EXAMPLE

An entity selling electrical equipment in 20X4 has a market share of 4 per cent for that calendar year. It subsequently discontinues operations and is thus no longer in the market when the waste management costs for its products are allocated to those entities with market share in 20X7. With a market share of 0 per cent in 20X7, the entity's obligation is zero. However, if another entity enters the market for electronic products in 20X7 and achieves a market share of 3 per cent in that period, then that entity's obligation for the costs of waste management from earlier periods will be 3 per cent of the total costs of waste management allocated to 20X7, even though the entity was not in the market in those earlier periods and has not produced any of the products for which waste management costs are allocated to 20X7.

# IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*

**Effective Date**
**Periods beginning on or after 1 March 2006**

## BACKGROUND AND ISSUE

IFRIC 7 provides guidance on how to apply the requirements of IAS 29 *Reporting in Hyperinflationary Economies* in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period, and the entity therefore restates its financial statements in accordance with IAS 29.

The questions addressed in IFRIC 7 are:
- How should the requirement stated in terms of the measuring unit current at the end of the reporting period in paragraph 8 of IAS 29 be interpreted when an entity applies the Standard?
- How should an entity account for opening deferred tax items in its restated financial statements?

## CONSENSUS

- In the reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, not having been hyperinflationary in the prior period, the entity applies the requirements of IAS 29 as if the economy had always been hyperinflationary
- For non-monetary items measured at historical cost, the entity's opening statement of financial position at the beginning of the earliest period presented in the financial statements is restated to reflect the effect of inflation from the date the assets were acquired and the liabilities were incurred or assumed until the end of the reporting period
- For non-monetary items carried in the opening statement of financial position at amounts current at dates other than those of acquisition or incurrence (e.g. revalued assets), that restatement reflects instead the effect of inflation from the dates those carrying amounts were determined until the end of the reporting period
- At the end of the reporting period, deferred tax items are recognised and measured in accordance with IAS 12 *Income Taxes*. However, the deferred tax figures in the opening statement of financial position for the reporting period are determined as follows:
  - The entity remeasures the deferred tax items in accordance with IAS 12 after it has restated the nominal carrying amounts of its non-monetary items at the date of the opening statement of financial position of the reporting period by applying the measuring unit at that date
  - The deferred tax items remeasured are restated for the change in the measuring unit from the date of the opening statement of financial position of the reporting period to the end of that reporting period.
- The entity applies the approach above in restating the deferred tax items in the opening statement of financial position of any comparative periods presented in the restated financial statements for the reporting period in which the entity applies IAS 29
- After an entity has restated its financial statements, all corresponding figures in the financial statements for a subsequent reporting period, including deferred tax items, are restated by applying the change in the measuring unit for that subsequent reporting period only to the restated financial statements for the previous reporting period.

# IFRIC 9 *Reassessment of Embedded Derivatives*

**Effective Date**
**Periods beginning on or after 1 June 2006**

## BACKGROUND AND ISSUE

- IAS 39 *Financial Instruments: Recognition and Measurement* requires an entity, when it first becomes party to a contract, to assess whether any embedded derivatives contained in the contract are required to be separated from the host contract and accounted for as derivatives under IAS 39. IFRIC 9 addresses the following issues:
  - Does IAS 39 require such an assessment to be made only when the entity first becomes a party to the contract, or should the assessment be reconsidered throughout the life of the contract?
  - Should a first-time adopter make its assessment on the basis of the conditions that existed when the entity first became a party to the contract, or those prevailing when the entity adopts IFRSs for the first time?

## SCOPE

- IFRIC 9 applies to all embedded derivatives within the scope of IAS 39
- IFRIC 9 does not address remeasurement issues arising from a reassessment of embedded derivatives
- IFRIC 9 does not address the acquisition of contracts with embedded derivatives in a business combination nor their possible reassessment at the date of acquisition.

## CONSENSUS

- An entity assesses whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract

- Subsequent reassessment is prohibited unless there is:
  - A change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract
  - A reclassification of a financial asset out of the fair value through profit or loss model, in which case an assessment is required.

- An entity determines whether a modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract, or both have changed and whether the change is significant relative to the previously expected cash flows on the contract

- The assessment whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative on reclassification of a financial asset out of the fair value through profit or loss category in accordance with paragraph 7 is required to be made on the basis of the circumstances that existed on the later of:
  - When the entity first became a party to the contract
  - A change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

  For the purpose of this assessment paragraph 11(c) of IAS 39 is not applied (ie the hybrid (combined) contract is treated as if it had not been measured at fair value with changes in fair value recognised in profit or loss). If an entity is unable to make this assessment the hybrid (combined) contract remains classified as at fair value through profit or loss in its entirety

- A first-time adopter assesses whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative on the basis of the conditions that existed at the later of the date it first became a party to the contract and the date a reassessment is required.

# IFRIC 10 *Interim Financial Reporting and Impairment*

**Effective Date**
**Periods beginning on or after 1 November 2006**

## ISSUE

IFRIC 10 addresses the following issue:

- Should an entity reverse impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost if a loss would not have been recognised, or a smaller loss would have been recognised, had an impairment assessment been made only the end of a subsequent reporting period?

## SCOPE

IFRIC 10 addresses the interaction between the requirements of IAS 34 *Interim Financial Reporting* and the recognition of impairment losses on goodwill in IAS 36 *Impairment of Assets* and certain financial assets in IAS 39 *Financial Instruments: Recognition and Measurement*, and the effect of that interaction on subsequent interim and annual financial statements.

## CONSENSUS

- An entity does not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost
- An entity does not extend this consensus by analogy to other areas of potential conflict between IAS 34 and other IFRSs.

# IFRIC 12 *Service Concession Arrangements*

Also refer:
SIC-29 *Service Concession Arrangements: Disclosure*

Effective Date
Periods beginning on or after 1 January 2008

## BACKGROUND AND ISSUE

IFRIC 12 sets out general principles on recognising and measuring the obligations and related rights in service concession arrangements. Requirements for disclosing information about service concession arrangements are in SIC-29 *Disclosure - Service Concession Arrangements*. The issues addressed in IFRIC 12 are:

- Treatment of the operator's rights over the infrastructure
- Recognition and measurement of arrangement consideration
- Construction or upgrade services
- Operation services
- Borrowing costs
- Subsequent accounting treatment of a financial asset and an intangible asset
- Items provided to the operator by the grantor.

## SCOPE

- IFRIC 12 gives guidance on the accounting by operators for public-to-private service concession arrangements
- IFRIC 12 applies to public-to-private service concession arrangements if both:
  - The grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price
  - The grantor controls (through ownership, beneficial entitlement or otherwise) any significant residual interest in the infrastructure at the end of the term of the arrangement.
- IFRIC 12 applies to both:
  - Infrastructure that the operator constructs or acquires from a third party for the purpose of the service arrangement
  - Existing infrastructure to which the grantor gives the operator access for the purpose of the service arrangement.
- IFRIC 12 does not specify the accounting for infrastructure recognised as PPE by the operator before it entered the service concession agreement
- IFRIC 12 does not specify the accounting by grantors.

## CONSENSUS

**Treatment of the operator's rights over the infrastructure**
Infrastructure within the scope of IFRIC 12 is not recognised as property, plant and equipment of the operator because the contractual service arrangement does not convey the right to control the use of the public service infrastructure to the operator. The operator has access to operate the infrastructure to provide the public service on behalf of the grantor in accordance with the terms specified in the contract.

**Recognition and measurement of arrangement consideration**
Under the terms of contractual arrangements within the scope of IFRIC 12, the operator acts as a service provider. The operator recognises and measures revenue in accordance with IAS 11 *Construction Contracts* and IAS 18 *Revenue* for the services it performs.

**Construction or upgrade services**
The operator accounts for revenue and costs relating to construction or upgrade services in accordance with IAS 11. If the operator provides construction or upgrade services the consideration received or receivable by the operator is recognised at its fair value. The consideration may be rights to:

- A financial asset (as described below) if it has an unconditional right to receive cash or another financial asset. This when the grantor contractually guarantees to pay the operator a specified amounts or the shortfall between amounts received from users and a specified amount
- An intangible asset (IAS 38.45-47 provide guidance) if it receives a right (a licence) to charge user for a public service.

**Financial asset**
The amount due from or at the direction of the grantor is accounted for in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, as:

- A loan or receivable
- An available-for-sale financial asset
- A financial asset at fair value through profit or loss, if so designated upon initial recognition and the conditions for that classification are met.

**Operation services**
The operator accounts for revenue and costs relating to operation services in accordance with IAS 18.

**Borrowing costs incurred by the operator**
In accordance with IAS 23 *Borrowing Costs*, borrowing costs attributable to the arrangement are recognised as an expense in the period in which they are incurred unless the operator has a contractual right to receive an intangible asset. In this case borrowing costs attributable to the arrangement are capitalised during the construction phase of the arrangement in accordance with IAS 23.

**Intangible asset**
IAS 38 *Intangible Assets* applies to any intangible assets recognised.

**Items provided to the operator by the grantor**
Infrastructure items to which the operator is given access by the grantor for the purposes of the service arrangement are not recognised as property, plant and equipment of the operator.

# IFRIC 13 *Customer Loyalty Programmes*

**Effective Date**
**Periods beginning on or after 1 July 2008**

## ISSUE

The issues addressed in IFRIC 13 are:

- Whether the entity's obligation to provide free or discounted goods or services ('awards') in the future should be recognised and measured by either:
  - Allocating some of the consideration received or receivable from the sales transaction to the award credits and deferring the recognition of revenue (applying IAS 18 *Revenue* para 13)
  - Providing for the estimated future costs of supplying the awards (applying IAS 18 paragraph 19)
- If consideration is allocated to the award credits:
  - How much should be allocated to them?
  - When should revenue be recognised?
  - If a third party supplies the awards, how revenue should be measured?

## SCOPE

IFRIC 13 applies to customer loyalty award credits that:

- An entity grants to its customers as part of a sales transaction, i.e. a sale of goods, rendering of services or use by a customer of entity assets; and
- Subject to meeting any further qualifying conditions, the customers can redeem in the future for free or discounted goods or services.

IFRIC 13 addresses accounting by the entity that grants award credits to its customers.

## CONSENSUS

- An entity applies IAS 18 and accounts for award credits as a separately identifiable component of the sales transaction(s) in which they are granted. The fair value of the consideration received or receivable in respect of the initial sale is allocated between the award credits and the other components of the sale
- The consideration allocated to the award credits is measured by reference to their fair value, i.e. the amount for which the award credits could be sold separately – refer to paragraphs AG1 – AG3 for further guidance
- If the entity supplies the awards itself, it recognises the consideration allocated to award credits as revenue when award credits are redeemed and it fulfils its obligations to supply awards. The amount of revenue recognised is based on the number of award credits that have been redeemed in exchange for awards, relative to the total number expected to be redeemed
- If a third party supplies the awards, the entity assesses whether it is collecting the consideration allocated to the award credits on its own account (i.e. as the principal in the transaction) or on behalf of the third party (i.e. as an agent for the third party)
- If the entity is collecting the consideration on behalf of the third party, it:
  - Measures its revenue as the net amount retained on its own account, i.e. the difference between the consideration allocated to the award credits and the amount payable to the third party for supplying the awards
  - Recognises this net amount as revenue when the third party becomes obliged to supply the awards and entitled to receive consideration for doing so. These events may occur as soon as the award credits are granted. Alternatively, if the customer can choose to claim awards from either the entity or a third party, these events may occur only when the customer chooses to claim awards from the third party.
- If the entity is collecting the consideration on its own account, it measures its revenue as the gross consideration allocated to the award credits and recognises the revenue which has been allocated to the award credits when it fulfils its obligations in respect of the awards
- If at any time the unavoidable costs of meeting the obligations to supply the awards are expected to exceed the consideration received and receivable for them, the entity has an onerous contract. A liability is recognised for the excess in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Asset*s. The need to recognise such a liability could arise if the expected costs of supplying awards increase, for example if the entity revises its expectations about the number of award credits that will be redeemed.

# IFRIC 14 *IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

Effective Date
Periods beginning on or after 1 January 2008

## ISSUES

The issues addressed in IFRIC 14 are:

- When refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19 *Employee Benefits*
- How a minimum funding requirement might affect the availability of reductions in future contributions
- When a minimum funding requirement might give rise to a liability.

## SCOPE

IFRIC 14 applies to all post-employment defined benefits and other long-term employee defined benefits.

## CONSENSUS

**Availability of a refund or reduction in future contributions**

- An entity determines the availability of a refund or a reduction in future contributions in accordance with the terms and conditions of the plan and any statutory requirements in the jurisdiction of the plan
- An economic benefit, in the form of a refund or a reduction in future contributions, is available if the entity can realise it at some point during the life of the plan or when the plan liabilities are settled.

**The economic benefit available as a refund - The right to a refund**

- A refund is available to an entity only if the entity has an unconditional right to a refund, either:
  - During the life of the plan, without assuming that the plan liabilities must be settled in order to obtain the refund
  - Assuming the gradual settlement of the plan liabilities over time until all members have left the plan
  - Assuming the full settlement of the plan liabilities in a single event (i.e. as a plan wind-up).
- An unconditional right to a refund can exist whatever the funding level of a plan at the reporting date.

**The economic benefit available as a contribution reduction**

- If there is no minimum funding requirement for contributions relating to future service, the economic benefit available as a reduction in future contributions is the future service cost to the entity for each period over the shorter of the expected life of the plan and the expected life of the entity. The future service cost to the entity excludes amounts that will be borne by employees.

**The effect of a minimum funding requirement on the economic benefit available as a reduction in future contributions**

- An entity analyses any minimum funding requirement at a given date into contributions that are required to cover any existing shortfall for past service on the minimum funding basis and future service
- Contributions to cover any existing shortfall on the minimum funding basis in respect of services already received do not affect future contributions for future service
- If there is a minimum funding requirement for contributions relating to future service, the economic benefit available as a reduction in future contributions is the sum of:
  - Any amount that reduces future minimum funding requirement contributions for future service because the entity made a prepayment (i.e. paid the amount before being required to do so)
  - The estimated future service cost in each period, less the estimated minimum funding requirement contributions that would be required for future service in those periods if there were no prepayment as described above.
- An entity estimates the future minimum funding requirement contributions for service taking into account the effect of any existing surplus determined using the minimum funding basis but excluding the prepayment described in paragraph 20(a). An entity uses assumptions consistent with the minimum funding basis and, for any factors not specified by that basis, assumptions consistent with those used to determine the defined benefit obligation and with the situation that exists at the reporting date as determined by IAS 19
- If the future minimum funding requirement contributions for future service exceeds the future IAS 19 service cost in any given period that excess reduces the amount of the economic benefit available as a reduction in future contributions. However, the amount described per paragraph 20(b) can never be less than zero.

**When a minimum funding requirement may give rise to a liability**

- If an entity has an obligation under a minimum funding requirement to pay contributions to cover an existing shortfall on the minimum funding basis in respect of services already received, the entity determines whether the contributions payable will be available as a refund or reduction in future contributions after they are paid into the plan
- To the extent that the contributions payable will not be available after they are paid into the plan, the entity recognises a liability when the obligation arises
- An entity applies IAS 19 before determining the liability
- The liability in respect of the minimum funding requirement and any subsequent remeasurement of that liability is recognised immediately in accordance with the entity's adopted policy for recognising the effect of the limit in IAS 19 on the measurement of the defined benefit asset. In particular:
  - An entity that recognises the effect of the limit in profit or loss, in accordance with IAS 19, recognises the adjustment immediately in profit or loss
  - An entity that recognises the effect of the limit in other comprehensive income, in accordance with IAS 19, recognises the adjustment immediately in other comprehensive income.

# IFRIC 15 *Agreements for the Construction of Real Estate*

**Effective Date**
**Periods beginning on or after 1 January 2009**

## ISSUES

IFRIC 15 addresses two issues:

- Is the construction agreement within the scope of IAS 11 *Construction Contracts* or IAS 18 *Revenue*?
- When should revenue from the construction of real estate be recognised?

## SCOPE

IFRIC 15 applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors.

## CONSENSUS

### DETERMING WHETHER THE AGREEMENT IS WITHIN THE SCOPE OF IAS 11 OR IAS 18

- IAS 11 applies when the agreement meets the definition of a construction contract set out in IAS 11. This occurs when the buyer is able to specify the major structural elements of the design of the real estate before construction begins and/or specify major structural changes once construction is in progress (whether or not it exercises that ability)
- In contrast, an agreement for the construction of real estate in which buyers have only limited ability to influence the design of the real estate, or to specify only minor variations to the Basic design, is an agreement for the sale of goods within the scope of IAS 18.

### ACCOUNTING FOR REVENUE FROM THE CONSTRUCTION OF REAL ESTATE

**The agreement is a construction contract**

- When the agreement is within the scope of IAS 11 and its outcome can be estimated reliably, the entity recognises revenue by reference to the stage of completion of the contract activity in accordance with IAS 11.

**The agreement is an agreement for the rendering of services**

- If the entity is not required to acquire and supply construction materials, the agreement may be only an agreement for the rendering of services in accordance with IAS 18. In this case, revenue is recognised by reference to the stage of completion of the transaction using the percentage of completion method.

**The agreement is an agreement for the sale of goods**

- If the entity is required to provide services together with construction materials in order to perform its contractual obligation to deliver the real estate to the buyer, the agreement is an agreement for the sale of goods and the criteria for recognition of revenue set out in IAS 18.14 apply
- If risks and rewards are transferred at a single time (usually after completion) and all other criteria in IAS 18.14 are met revenue is recognised at that point
- If the entity transfers risks and rewards in the work in progress as construction progresses the entity recognises revenue by reference to the state of completion.

### DISCLOSURE

- When an entity recognises revenue using the percentage of completion method it discloses:
  - How it determines which agreements meet all the criteria of IAS 18 continuously as construction progresses
  - The amount of revenue arising from such agreements in the period
  - The methods used to determine the stage of completion of agreements in progress.
- For the agreements that are in progress at the reporting date, the entity is also required to disclose:
  - The aggregate amount of costs incurred and recognised profits (less recognised losses) to date
  - The amount of advances received.

# IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*

Effective Date
Periods beginning on or after 1 October 2008

## ISSUES

The issues addressed in IFRIC 16 are:

- The nature of the hedged risk and the amount of the hedged item for which a hedging relationship may be designated:
  - Whether the parent entity may designate as a hedged risk only the foreign exchange differences arising from a difference between the functional currencies of the parent entity and its foreign operation, or whether it may also designate as the hedged risk the foreign exchange differences arising from the difference between the presentation currency of the parent entity's consolidated financial statements and the functional currency of the foreign operation
  - If the parent entity holds the foreign operation indirectly, whether the hedged risk may include only the foreign exchange differences arising from differences in functional currencies between the foreign operation and its immediate parent entity, or whether the hedged risk may also include any foreign exchange differences between the functional currency of the foreign operation and any intermediate or ultimate parent entity.
- Where in a group the hedging instrument can be held:
  - Whether a qualifying hedge accounting relationship can be established only if the entity hedging its net investment is a party to the hedging instrument or whether any entity in the group, regardless of its functional currency, can hold the hedging instrument
  - Whether the nature of the hedging instrument (derivative or non-derivative) or the method of consolidation affects the assessment of hedge effectiveness.
- What amounts should be reclassified from equity to profit or loss as reclassification adjustments on disposal of the foreign operation:
  - When a foreign operation that was hedged is disposed of, what amounts from the parent entity's foreign currency translation reserve in respect of the hedging instrument and in respect of that foreign operation should be reclassified from equity to profit or loss in the parent entity's consolidated financial statements
  - Whether the method of consolidation affects the determination of the amounts to be reclassified from equity to profit or loss.

## SCOPE

- IFRIC 16 applies to an entity that hedges the foreign currency risk arising from its net investments in foreign operations and wishes to apply for hedge accounting in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*
- IFRIC 16 applies only to hedges of net investments in foreign operations; it should not be applied by analogy to other types of hedge accounting.

## CONSENSUS

### NATURE OF THE HEDGED RISK AND AMOUNT OF THE HEDGED ITEM FOR WHICH A HEDGING RELATIONSHIP MAY BE DEMONSTRATED

- Hedge accounting may be applied only to the foreign exchange differences arising between the functional currency of the foreign operation and the parent entity's functional currency
- In a hedge of the foreign currency risks arising from a net investment in a foreign operation, the hedged item can be an amount of net assets equal to or less than the carrying amount of the net assets of the foreign operation in the consolidated financial statements of the parent entity
- The hedged risk may be designated as the foreign currency exposure arising between the functional currency of the foreign operation and the functional currency of any parent entity (the immediate, intermediate or ultimate parent entity) of that foreign operation
- An exposure to foreign currency risk arising from a net investment in a foreign operation may qualify for hedge accounting only once in the consolidated financial statements. Therefore, if the same net assets of a foreign operation are hedged by more than one parent entity within the group for the same risk, only one hedging relationship will qualify for hedge accounting in the consolidated financial statements of the ultimate parent.

### WHERE THE HEDGING INSTRUMENT CAN BE HELD

- A derivative or a non-derivative instrument may be designated as a hedging instrument in a hedge of a net investment in a foreign operation
- The hedging instrument(s) may be held by any entity or entities within the group as long as the designation, documentation and effectiveness requirements of IAS 39 paragraph 88 that relate to a net investment hedge are satisfied. In particular, the hedging strategy of the group should be clearly documented because of the possibility of different designations at different levels of the group.

### DISPOSAL OF A HEDGED FOREIGN OPERATION

- When a foreign operation that was hedged is disposed of, the amount reclassified to profit or loss as a reclassification adjustment from the foreign currency translation reserve in the consolidated financial statements of the parent in respect of the hedging instrument is the amount that IAS 39 requires to be identified
- The amount reclassified to profit or loss from the foreign currency translation reserve in the consolidated financial statements of a parent in respect of the net investment in that foreign operation in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates* is the amount included in that parent's foreign currency translation reserve in respect of that foreign operation.

# IFRC 17 *Distribution of Non-Cash Assets to Owners*

Effective Date
Periods beginning on or after 1 July 2009

## ISSUES

When an entity declares a distribution and has an obligation to distribute the assets concerned to its owners, it must recognise a liability for the dividend payable. Consequently, IFRIC 17 addresses the following issues:

- When should the entity recognise the dividend payable?
- How should an entity measure the dividend payable?
- When an entity settles the dividend payable, how should it account for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable?

## SCOPE

- IFRIC 17 applies to the following types of non-reciprocal distributions of assets by an entity to its owners acting in their capacity as owners:
  - Distribution of non-cash assets
  - Distributions that give owners a choice of receiving either non-cash assets or a cash alternative
- IFRIC 17 only applies if all owners of a class of equity instruments are treated equally
- IFRIC 17 does not apply to distributions of non-cash assets that are ultimately controlled by the same party or parties before and after the distribution.

## CONSENSUS

### WHEN TO RECOGNISE A DIVIDEND PAYABLE

The liability to pay a dividend is recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity, which is the date either:

- When declaration of the dividend is approved by the relevant authority, if the jurisdiction requires such approval
- When the dividend is declared, if the jurisdiction does not require further approval.

### MEASUREMENT OF A DIVIDEND PAYABLE

- An entity measures a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed
- If an entity gives its owners a choice of receiving either a non-cash asset or a cash alternative, the entity estimates the dividend payable by considering both the fair value of each alternative and the associated probability of owners selecting each alternative
- At the end of each reporting period and at the date of settlement, the entity reviews and adjusts the carrying amount of the dividend payable, with any changes in the carrying amount of the dividend payable recognised in equity as adjustments to the amount of the distribution.

### ACCOUNTING FOR DIFFERENCES IN CARRYING AMOUNTS

When an entity settles the dividend payable, it recognises the difference, if any, between the carrying amounts of the assets distributed and the carrying amount of the dividend payable in profit or loss.

## PRESENTATION & DISCLOSURE

- An entity presents any gains or losses arising from differences in the carrying amounts of dividend liabilities and related assets that are derecognised on settlement as a separate line item in profit or loss
- An entity discloses the following information, if applicable:
  - The carrying amount of the dividend payable at the beginning and end of the period
  - The increase or decrease in the carrying amount recognised in the period as result of a change in the fair value of the assets to be distributed.
- If, after the end of a reporting period but before the financial statements are authorised for issue, an entity declares a dividend to distribute a non-cash asset, it discloses:
  - The nature of the asset to be distributed
  - The carrying amount of the asset to be distributed as of the end of the reporting period
  - The estimated fair value of the asset to be distributed as of the end of the reporting period, if it is different from its carrying amount and the information about the method used to determine that fair value required by IFRS 7 *Financial Instrument: Disclosures*.

# IFRIC 18 *Transfer of Assets from Customers*

**Effective Date**
**Periods beginning on or after 1 July 2009**

## ISSUES

IFRIC 18 addresses the following issues for assets transferred from customers:

- Is the definition of an asset met?
- If the definition of an asset is met, how should the transferred item of property, plant and equipment (PPE) be measured on initial recognition?
- If the item of PPE is measured at fair value on initial recognition, how should the resulting credit be accounted for?
- How should the entity account for a transfer of cash from its customer?

## SCOPE

- IFRIC 18 applies to the accounting for transfers of items of PPE by entities that receive such transfers from their customers
- Agreements within the scope of IFRIC 18 are agreements in which an entity receives from a customer an item of PPE that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both
- IFRIC 18 also applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of PPE and the entity must then use the item of PPE either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both.

## CONSENSUS

### IS THE DEFINITION OF AN ASSET MET?

- When an entity receives a transfer of an item of PPE from a customer, it assesses whether the transferred item meets the definition of an asset in accordance with the Framework. In most circumstances, the entity obtains the right of ownership of the transferred item of PPE. However, in determining whether an asset exists, the right of ownership is not essential. If the customer continues to control the transferred item, the asset definition would not be met despite a transfer of ownership
- An entity that controls an asset can generally deal with that asset as it pleases. The entity that receives a transfer of an item of PPE from a customer is required to consider all relevant facts and circumstances when assessing control of the transferred item.

### MEASUREMENT ON RECOGNITION

If the entity concludes that the definition of an asset is met, it recognises the transferred asset as an item of PPE in accordance with IAS 16 *Property, Plant and Equipment*, and measures its cost on initial recognition at its fair value.

### HOW SHOULD THE CREDIT BE ACCOUNTED FOR?

A transfer of an item of PPE is an exchange for dissimilar goods or services. Consequently, the entity recognizes revenue in accordance with IAS 18 *Revenue*.

### ACCOUNTING FOR A TRANSFER OF CASH

- When an entity receives a transfer of cash from a customer, it assesses whether the agreement is within the scope of IFRIC 18. If it is, the entity assesses whether the constructed or acquired item of PPE meets the definition of an asset. If the definition of an asset is met, the entity recognises the item of PPE at its cost in accordance with IAS 16 and recognises revenue at the amount of cash received from the customer.

### REVENUE RECOGNITION

- If only one service is identified, the entity recognises revenue when the service is performed in accordance with IAS 18
- If more than one separately identifiable service is identified, the fair value of the total consideration received or receivable for the agreement is allocated to each service and the recognition criteria of IAS 18 are applied to each service
- If an ongoing service is identified as part of the agreement, the period over which revenue is recognised for that service is generally determined by the terms of the agreement with the customer. If the agreement does not specify a period, the revenue is recognised over a period no longer than the useful life of the transferred asset used to provide the ongoing service.

### SEPARATELY IDENTIFIABLE SERVICES

- Features that indicate that connecting the customer to a network is a separately identifiable service include:
  - A service connection is delivered to the customer and represents stand-alone value for that customer
  - The fair value of the service connection can be measured reliably.
- A feature that indicates that providing the customer with ongoing access to a supply of goods or services is a separately identifiable service is that, in the future, the customer making the transfer receives the ongoing access, the goods or services, or both at a price lower than would be charged without the transfer of the item of PPE
- Conversely, a feature that indicates that the obligation to provide the customer with ongoing access to a supply of goods or services arises from the terms of the entity's operating license or other regulation rather than from the agreement relating to the transfer of an item of PPE is that customers that make a transfer pay the same price as those that do not for the ongoing access, or for the goods or services, or for both.

# IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

Effective Date
Periods beginning on or after 1 July 2010

## ISSUES

IFRIC 19 addresses the following issues:

- Are equity instruments issued to extinguish debt considered 'consideration paid' per IAS 39.41?
- How should the issuing entity initially measure these equity instruments?
- How should the issuing entity account for any difference between the carrying amount of the financial liability and the equity instruments issued?

## SCOPE

This Interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all (or part) of the financial liability – commonly referred to as 'debt for equity swaps'.

The Interpretation does not cover:

- If the creditor is a direct/indirect shareholder and is acting in its capacity as a direct/indirect existing shareholder
- The creditor and the issuing entity are controlled by the same party or parties before and after the transaction, and the substance of the transaction includes an equity distribution by or consideration to the entity
- The issuing of equity shares to extinguish debt is in accordance with the original terms upon entering into the financial liability (such as convertible debt).

## CONSENSUS

### ARE EQUITY INSTRUMENTS ISSUED TO EXTINGUISH FINANCIAL LIABILITIES, CONSIDERATION PAID?

The issue of instruments is to be treated as consideration to extinguish financial liabilities.
The financial liability is removed from the statement of financial position only when IAS 39.39 is satisfied:

- i.e. when the obligation (in part or in full) specified in the contract is discharged or cancelled or expires.

### INITIAL MEASUREMENT OF CONSIDERATION PAID

The equity instruments issued are measured and recognised at fair value of the issued equity instruments (if fair value can be measured reliably).

### FAIR VALUE IS NOT RELIABLY MEASURABLE

The equity instruments are required to be measured to reflect the fair value of the financial liability extinguished.

- Demand features of the financial liability are not taken into account (IAS 39.49 does not apply).

### DATE OF RECOGNITION

The equity instruments issued are initially recognised and measured at the date the financial liability (or part) is extinguished.

### DIFFERENCE BETWEEN CARRYING AMOUNT OF FINANCIAL LIABILITY EXTINGUISHED AND CONSIDERATION PAID

The difference between the carrying amount of the financial liability (or part of a financial liability) extinguished, and the consideration paid, is recognised in profit or loss in accordance with IAS 39.41.

### PART EXTINGUISHMENT – ADDITIONAL CONCERNS

If only part of the financial liability is extinguished, the entity is required to assess whether some of the consideration paid relates to a modification of the terms of the liability that remains outstanding.

If part of the consideration paid does relate to a modification of the terms of the remaining part of the liability, the entity allocates the consideration paid between the part of the liability extinguished and the part of the liability that remains outstanding.

The entity considers all relevant facts and circumstances relating to the transaction in making this allocation.

If the remaining liability has been substantially modified, the entity is required to:

- Extinguish the original liability
- Recognise a new liability, as required by IAS 39.40.

Changes are recognised and disclosed as a separate line item in profit or loss.

# IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*

Effective Date
Periods beginning on or after 1 January 2013

## ISSUES

IFRIC 20 addresses the following issues:
- Is the definition of an asset met (for stripping activity costs incurred)?
- When should a stripping-activity-asset be recognised?
- How should the stripping-activity-asset be measured initially?
- How should the stripping-activity-asset be measured subsequently?

## SCOPE

The interpretation applies to waste removal (stripping) costs that are incurred in surface mining activity, during the production phase of the mine.

## DEFINITIONS

**Production phase -** is not defined in IFRIC 20. Judgement is required.

**Stripping activities** - activities undertaken to gain access to a specific section of the ore body - more aggressive activities than routine waste clearing activities. It is planned in advance with a defined start-date, and forms part of the overall mine plan.

## CONSENSUS

### RECOGNITION OF PRODUCTION STRIPPING COSTS AS AN ASSET

**Costs that improve access to ore**

The benefit of improved access to ore qualifies for recognition as part of (a component of) an existing asset when:
- It is probable that the future economic benefit (i.e. improved access to the ore body) associated with the stripping activity will flow to the entity
- The component of the ore body for which access has been improved can be identified
- The stripping activity costs can be reliably measured.

Such costs will be classified as a tangible or an intangible non-current asset according to the nature of the existing asset to which they relate.

The stripping-activity-asset is specifically associated with the section of ore that becomes directly accessible as a result of the stripping activity.

**Costs that produce ore**
The benefits from stripping activities that are released in the form of inventory (ore) are recognised in accordance with IAS 2 *Inventories*.

**Routine stripping costs**
Routine stripping costs that are not incurred as part of the stripping activities are accounted for as current costs of production in accordance with IAS 2.

### TRANSITION

- IFRIC 20 is applied retrospectively
- Pre-existing stripping-activity-assets are reclassified as a component of the asset to which the stripping activity relates, and depreciated (or amortised) - as detailed above
- If there is no identifiable section of the ore body to which that component can be directly associated, it is recognised in retained earnings at the beginning of the earliest period presented.

### INITIAL MEASUREMENT

The stripping-activity-asset is initially measured at cost:
- Cost that are directly incurred to perform the stripping activity
- An allocation of directly attributable costs.

Costs associated with incidental operations occurring concurrently with stripping activity are not included in the cost of the stripping-activity-asset.

When costs of the stripping-activity-asset and inventory produced are not separately identifiable, allocate costs based on a relevant production measure:
- Calculated for the identified component of the ore body
- Used as a benchmark to identify the extent to which additional activity of creating future benefit has taken place.

### SUBSEQUENT MEASUREMENT

Carried at cost or revalued amount, less depreciation (or amortisation), less accumulated impairment losses.

**Method of depreciation (or amortisation)**
Rational and systematic basis, over the expected useful life of the specific section of the ore body that becomes directly accessible as a result of the stripping activities.

The units-of-production method is applied unless another method is more appropriate.

**Expected useful life of the specific section of the ore body**
Is likely to differ from the expected life of:
- The mine; and/or
- The related life-of-mine assets.

This is because stripping activities will give access only to a portion of the total ore body.

**Impairment**
Is accounted for in accordance with IAS 36 *Impairment of Assets.*

# IFRIC 21 *Levies*

Effective Date
Periods beginning on or after 1 January 2014

## ISSUES

IFRIC 21 addresses the following issues:

- What is the *obligating event* that gives rise to the recognition of a liability to pay a levy?
- Does economic compulsion to continue to operate in a future period create a constructive obligation to pay a levy that will be triggered by operating in that future period?
- Does the going concern assumption imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period?
- Does the recognition of a liability to pay a levy arise at a point in time or does it, in some circumstances, arise progressively over time?
- What is the *obligating event* that gives rise to the recognition of a liability to pay a levy that is triggered if a minimum threshold is reached?
- Are the principles for recognising in the annual financial statements and in the interim financial report a liability to pay a levy the same?

## SCOPE

The interpretation applies to liability to pay a levy:

- If that liability is within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* , or
- Whose timing and amount is certain.

## DEFINITIONS

***Levy***: a levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation (i.e laws and/or regulations), other than:

a) Those outflows of resources that are within the scope of other Standards (e.g. income taxes within the scope of IAS 12 *Income Taxes*); and
b) Fines or other penalties that are imposed for breaches of the legislation.

***Government***: refers to government, government agencies and similar bodies whether local, national or international.

## CONSENSUS

### OBLIGATING EVENT

The *obligating event* that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation.

E.g. if the activity that triggers the payment of the levy is the generation of revenue in the current period and the calculation of that levy is based on the revenue that was generated in a previous period:

- The obligating event for that levy is the generation of revenue in the **current period** (even though the generation of revenue in the previous period is necessary to calculate the levy, it does not create the present obligation in the current period).

The following factors do not create (or imply) an *obligating event*:

- Preparation of the financial statements under the going concern principle
- Economic compulsion of the entity.

### RECOGNITION

The recognition of a levy liability occurs progressively so long as the obligating event itself occurs over a period of time.

### LEVY WITH A MINIMUM THRESHOLD

If the levy is subject to a minimum threshold, recognition of a levy liability occurs only at the point the minimum threshold is breached, and not before.

### INTERIM FINANCIAL STAEMENTS

The interpretation applies equally to interim financial statements.

### ILLUSTRATIVE EXAMPLES

| | |
|---|---|
| ***i. Where a levy is triggered progressively as the entity generates revenue***<br><br>The levy is recognised progressively from the point at which the entity first begins to generate revenue (i.e. as the generation of revenue is the obligating event). | ***ii. A levy is triggered in full as soon as the entity generates revenue***<br><br>The levy is recognised in full as soon as the entity generates revenue (i.e. as the generation of revenue is the obligating event). |
| ***iii. A levy is triggered in full if the entity operates as a bank [or other specified activity] at a specified date***<br><br>The levy is only ever recognised on the specified date, and is only ever recognised in full, subject to the entity operating in the specified activity (the obligating event is operating in a specified activity at a specified date). | ***iv. A levy is triggered if the entity generates revenue above a minimum amount of revenue***<br><br>The levy is only recognised once the minimum threshold has been reached (the obligating event is breaching the minimum threshold). |

# IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

**Effective Date**
**Periods beginning on or after 1 January 2018**

## ISSUE

When an entity receives consideration in advance of recognising the associated revenue in the income statement, it recognises both the consideration received and a non-monetary liability (deferred income or contract liability) in the statement of financial position at the spot rate of exchange in accordance with IAS 21 The effects of Changes in Foreign Exchange. When the deferred income is subsequently recognised in the income statement as revenue the question arises as to whether its measurement should reflect:

- the amount at which the deferred income was originally recognised, i.e. when the consideration was originally received; or
- the amount of consideration received translated at the exchange rate applicable on the date the non-monetary item is released to the income statement as revenue, with a foreign exchange gain or loss reflecting the difference between the amount of consideration received translated at (i) the prevailing spot rate when received and (ii) the prevailing spot rate when recognised in the income statement as revenue or a cost.

## SCOPE

IFRIC 22 applies to foreign currency transactions that result in the recognition of a non-monetary asset (or liability) arising from the payment (or receipt) of consideration before the entity recognises the related asset or expense (or income), except for payments and receipts relating to:

- income taxes; and
- insurance contracts (including reinsurance contracts) that it issues or reinsurance contracts that it holds.

## CONSENSUS

IFRIC 22 specifies that the date of a transaction for the purpose of determining the exchange rate to use on initial recognition of  related asset, expense or income (or part of it) on the derecognition of non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration, is the date on which that non-monetary asset or liability was initially recognised. Therefore, the related income, expense or asset is not remeasured for changes in exchange rates occurring between the date of initial recognition of the advance consideration and the date of recognition of the transaction to which that consideration relates.

## SCOPE

On initial application, an entity may apply IFRIC 22:

- retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors; or
- prospectively to transactions recognised on or after:
  (i) the beginning of the reporting period in which the entity first  applies the Interpretation; or
  (ii) the beginning of a prior period presented as comparative information in the financial statements of the reporting period in which the entity first applies the Interpretation.

# IFRIC 23 *Uncertainty over Income Tax Treatments*

Effective Date
Periods beginning on or after 1 January 2019 (earlier application permitted)

## ISSUES

IFRIC 23 addresses the following issues:

- Whether an entity should consider uncertain tax treatments separately;
- The assumptions an entity should make about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit or loss, tax bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers changes in facts and circumstances

## SCOPE

IFRIC 23 clarifies how to apply the recognition and measurement requirements in IAS 12 *Income Taxes* when there is uncertainty over income tax treatments.

## DEFINITIONS

- 'Tax treatments' refers to the treatments used by an entity that it plans to use in its income tax filings
- 'Taxation authority' refers to the body or bodies that decide whether tax treatments rae acceptable under tax law
- An 'uncertain tax treatment is a tax treatment for which there is uncertainty over whether the relevant taxation authority will accept the tax treatment under tax law

## CONSENSUS

### 1. UNIT OF ACCOUNT

IFRIC 23 requires an entity to treat uncertain tax treatments separately or together depending on which method better predicts the resolution of the uncertainty.

### 2. EXAMINATION BY TAX AUTHORITIES

When measuring current and deferred income tax assets and liabilities IFRIC 23 requires an entity to assume that a taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations.

### 3. DETERMINATION OF TAX ITEMS

IFRIC 23 requires an entity to make an assessment of whether it is probable a taxation authority will accept an uncertain tax treatment. If it is probable the treatment will be accepted then taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rate should be consistent with the treatment used or planned to be used in its income tax filings. If it is not probable the position will be accepted, then an entity reflects that uncertainty in one of two ways depending on which method better predicts the resolution of the uncertainty:

- An expected value approach; or
- The most likely approach

### 4. CHANGES IN FACTS AND CIRCUMTSANCES

The accounting for uncertain tax treatments set out in IFRIC 23 requires an entity to make estimates and judgements about whether the relevant taxation authority will accept the position taken by the entity in its tax filings. IFRIC 23 requires those estimates and judgements to be reassessed if the facts and circumstances on which those estimates and judgements are based change, or as a result of new information that affects the estimates and judgements. The effects of such changes should be reflected by applying IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. In addition IAS 10 *Events after the Reporting Date* should be applied to determine whether such a change that occurs after the reporting period is an adjusting or non-adjusting event.

## EXAMPLES

In applying consensus 3:

- Assume an entity has claimed deductions in its taxation filing related to transfer pricing and concluded it is not probable the taxation authority will accept the deductions claimed. If the entity expects the taxations authority's decision on one transfer pricing matter would affect, or be affected by, the other transfer pricing matters, then it would calculate a probability-weighted average of the possible outcomes arising from an investigation by the tax authorities in measuring income tax assets and liabilities (i.e. an expected value approach).
- Assume an entity may has claimed a current tax deduction of 100% of the cost of an intangible asset, but expects the taxation authority to accept only a 10% deduction in each of the next 10 years, the entity would measures its current tax position in the year of purchase based on a current tax deduction equal to only 10% of cost and its deferred tax position would assume a tax base of the asset equal to 90% of cost and not 0% (i.e. the most likely approach).

## DISCLOSURE

- Judgements made in determining taxable profit or loss (paragraph 122 of IAS 1 *Presentation of Financial* Statements;
- Information about the assumptions and estimates made (paragraphs 125-129 of IAS 1)
- Potential effect of an uncertainty tax treatment as a tax-related contingency (paragraph 88 of IAS 12)

## TRANSITION

An entity may use either

- retrospectively by restating comparatives; or
- retrospectively with the cumulative effect recognised by adjusting the opening balance of retained earnings on the date of initial application (i.e. the start of the accounting period in which IFRIC 23 is fist applied). In this case comparatives would not be restated.

# SIC-7 *Introduction of the Euro*

**Effective Date**
**Periods beginning on or after 1 June 1998**

## ISSUE

- The Euro became a currency in its own right from 1 January 1999 (the effective start date of Economic and Monetary Union (EMU))
- The Euro and participating national currencies are irrevocably fixed from this date
- The issue is the application of IAS 21 *The Effects of Changes in Foreign Exchange Rates* to the changeover from the national currencies of participating member states of the European Union to the Euro ('the changeover').

EMU is a single market with a common currency.

## CONSENSUS

- The requirements of IAS 21 regarding the translation of foreign currency transactions and financial statements of foreign operations should be strictly applied to the changeover
- The same rationale applies to the fixing of exchange rates when countries join EMU at later stages.

This means that, in particular:

- **Foreign currency transactions**
  - Continue to be translated into the functional currency at the closing rate
  - Any exchange differences are recognised in profit or loss immediately, except that an entity continues to apply its existing accounting policy for exchange gains and losses related to hedges of the currency risk of a forecast transaction.
- **Translation of financial statements of foreign operations**
  - Cumulative exchange differences relating to the translation of financial statements of foreign operations are recognised in other comprehensive income, and are accumulated in equity
  - They are only reclassified from equity to profit or loss on the disposal of the net investment in the foreign operation.
- **Translation of liabilities denominated in participating currencies**
  - Exchange differences resulting from the translation of liabilities denominated in participating currencies are not included in the carrying amount of related assets.

# SIC-10 *Government Assistance: No Specific Relation to Operating Activities*

**Effective Date**
**Periods beginning on or after 1 January 1998**

## ISSUE

- In some countries government assistance to entities may be aimed at encouragement or long-term support of business activities either in certain regions or industry sectors
- Conditions to receive such assistance may not be specifically related to the operating activities of the entity
- Examples of such assistance are transfers of resources by governments to entities which:
  - Operate in a particular industry
  - Continue operating in recently privatised industries
  - Start or continue to run their business in underdeveloped areas.
- The issue is whether such government assistance is a 'government grant' within the scope of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* and, therefore, should be accounted for in accordance therewith.

## CONSENSUS

- Government assistance to entities meets the definition of government grants in IAS 20, even if there are no conditions specifically relating to the operating activities of the entity other than the requirement to operate in certain regions or industry sectors
- Such grants are therefore not credited directly to shareholders' interests and are thus required to be recognised in profit or loss.

# SIC-15 *Operating Leases: Incentives*

**Effective Date**
**Periods beginning on or after 1 January 1999**

## ISSUE

- In negotiating a new or renewed operating lease, the lessor may provide incentives for the lessee to enter into the agreement. Examples of such incentives are an up-front cash payment to the lessee or the reimbursement or assumption by the lessor of costs of the lessee (such as relocation costs, leasehold improvements and costs associated with a pre-existing lease commitment of the lessee). Alternatively, initial periods of the lease term may be agreed to be rent-free or at a reduced rent
- The issue is how incentives in an operating lease should be recognised in the financial statements of both the lessee and the lessor.

## CONSENSUS

- All incentives for the agreement of a new or renewed operating lease are recognised as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the incentive's nature or form or the timing of payments
- The **lessor** recognises the aggregate cost of incentives as a reduction of rental income over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern over which the benefit of the leased asset is diminished
- The **lessee** recognises the aggregate benefit of incentives as a reduction of rental expense over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset
- Costs incurred by the lessee, including costs in connection with a pre-existing lease (for example costs for termination, relocation or leasehold improvements), are accounted for by the lessee in accordance with the IFRSs applicable to those costs, including costs which are effectively reimbursed through an incentive arrangement.

# SIC-25 *Income Taxes: Changes in the Tax Status of an Entity or its Shareholders*

**Effective Date**
**Periods beginning on or after 1 July 2000**

## ISSUE

- The issue is how an entity accounts for the tax consequences of a change in its tax status or that of its shareholders
- A change in the tax status of an entity or of its shareholders may have consequences for an entity by increasing or decreasing its tax liabilities or assets. This may, for example, occur upon the public listing of an entity's equity instruments or upon the restructuring of an entity's equity. It may also occur upon a controlling shareholder's move to a foreign country. As a result of such an event, an entity may be taxed differently; it may for example gain or lose tax incentives or become subject to a different rate of tax in the future
- A change in the tax status of an entity or its shareholders may have an immediate effect on the entity's current tax liabilities or assets. The change may also increase or decrease the deferred tax liabilities and assets recognised by the entity, depending on the effect the change in tax status has on the tax consequences that will arise from recovering or settling the carrying amount of the entity's assets and liabilities.

## CONSENSUS

- A change in the tax status of an entity or its shareholders does not give rise to increases or decreases in amounts recognised outside profit or loss
- The current and deferred tax consequences of a change in tax status are included in net profit or loss for the period, unless those consequences relate to transactions and events that result, in the same or a different period, in a direct credit or charge to the recognised amount of equity or in amounts recognised in other comprehensive income
- Those tax consequences that relate to changes in the recognised amount of equity, in the same or a different period (not included in net profit or loss), are charged or credited directly to equity
- Those tax consequences that relate to amounts recognised in other comprehensive income are recognised in other comprehensive income.

# SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*

**Effective Date**
**Periods beginning on or after 31 December 2001**

## BACKGROUND

SIC-27 applies to situations where an entity A leases or sales an asset to an investor B and leases the same asset back. The lease may cover the whole economic life or the entity may have the right to buy the asset back at the end of the lease period.

The purpose of the arrangement is often to achieve a tax advantage.

## ISSUE

When an arrangement with an investor involves the legal form of a lease, the issues are:
- How to determine whether a series of transactions is linked and should be accounted for as one transaction?
- Whether the arrangement meets the definition of a lease under IAS 17 *Leases*; and, if not:
  - Whether a separate investment account and lease payment obligations that might exist represent assets and liabilities of the entity?
  - How the entity should account for other obligations resulting from the arrangement?
  - How the entity should account for a fee it might receive from an investor?

## CONSENSUS

- A series of transactions that involve the legal form of a lease are linked and are accounted for as one transaction when the overall economic effect cannot be understood without reference to the series of transactions as a whole
- IAS 17 applies when the substance of an arrangement includes the conveyance of the right to use an asset for an agreed period of time. Indicators that individually demonstrate that an arrangement may not, in substance, involve a lease under IAS 17 include:
  - An entity retains all the risks and rewards incident to ownership of an underlying asset and enjoys substantially the same rights to its use as before the arrangement
  - The primary reason for the arrangement is to achieve a particular tax result, and not to convey the right to use an asset
  - An option is included on terms that make its exercise almost certain (e.g., a put option that is exercisable at a price sufficiently higher than the expected fair value when it becomes exercisable).
- The definitions and guidance in the Framework should be applied in determining whether, in substance, a separate investment account and lease payment obligations represent assets and liabilities of the entity. Indicators that collectively demonstrate that, in substance, a separate investment account and lease payment obligations do not meet the definitions of an asset and a liability and should not be recognised by the entity include:
  - The entity is not able to control the investment account in pursuit of its own objectives and is not obligated to pay the lease payments:
  - The entity has only a remote risk of reimbursing the entire amount of any fee received from an investor and possibly paying some additional amount, or, when a fee has not been received, only a remote risk of paying an amount under other obligations
  - Other than the initial cash flows at inception of the arrangement, the only cash flows expected under the arrangement are the lease payments that are satisfied solely from funds withdrawn from the separate investment account established with the initial cash flows.
- Other obligations of an arrangement, including any guarantees provided and obligations incurred upon early termination, should be accounted for under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, IAS 39 *Financial Instruments: Recognition & Measurement* or IFRS 4 *Insurance Contracts*, depending on the terms
- The criteria in IAS 18 *Revenue* are applied to the facts and circumstances of each arrangement to determine when to recognise a fee as income that the entity might receive
- The fee should be presented in the statement of comprehensive income based on its economic substance and nature.

## DISCLOSURE

An entity discloses the following in each period that an arrangement exists:
- A description of the arrangement including:
  - The underlying asset and any restrictions on its use
  - The life and other significant terms of the arrangement
  - The transactions that are linked together, including any options
  - The accounting treatment applied to any fee received, the amount recognised as income in the period, and the line item of the statement of comprehensive income in which it is included.

- Disclosure is required to be provided individually for each arrangement or in aggregate for each class of arrangement.

# SIC-29 *Service Concession Arrangements: Disclosure*

Also refer:
IFRIC 12 *Service concession Arrangements*

Effective Date
Periods beginning on or after 31 December 2001

## ISSUE

- A service concession arrangement generally involves the grantor conveying for the period of the concession to the operator:
  - The right to provide services that give the public access to major economic and social facilities
  - In some cases, the right to use specified tangible assets, intangible assets or financial assets.
- In exchange, the operator:
  - Commits to provide the services according to certain terms and conditions during the concession period
  - When applicable, commits to return at the end of the concession period the rights received at the beginning of the concession period and/or acquired during the concession period.
- The common characteristic of all service concession arrangements is that the operator both receives a right and incurs an obligation to provide public services
- The issue is what information should be disclosed in the notes of an operator and a grantor.

## CONSENSUS

An operator and a grantor disclose the following in each period:

- A description of the arrangement
- Significant terms of the arrangement that may affect the amount, timing and certainty of future cash flows
- The nature and extent (e.g., quantity, time period or amount as appropriate) of:
  - Rights to use specified assets
  - Obligations to provide or rights to expect provision of services
  - Obligations to acquire or build items of property, plant and equipment
  - Obligations to deliver or rights to receive specified assets at the end of the concession period
  - Renewal and termination options
  - Other rights and obligations.
- Changes in the arrangement occurring during the period
- How the service arrangement has been classified.

The above disclosures are required separately for each individual service concession arrangement

An operator discloses the amount of revenue and profits or losses recognised in a reporting period on exchanging construction services for a financial asset or an intangible asset.

# SIC-31 *Revenue: Barter Transactions Involving Advertising Services*

**Effective Date**
**Periods beginning on or after 31 December 2001**

## ISSUE

- An entity (seller) may enter into a barter transaction to provide advertising services in exchange for receiving advertising services from its customer (customer). Advertisements may be displayed on the Internet or poster sites, broadcast on the television or radio, published in magazines or journals, or presented in another medium
- In some cases, no cash or other consideration is exchanged between the entities. In some other cases, equal or approximately equal amounts of cash or other consideration are also exchanged
- A seller that provides advertising services in the course of its ordinary activities recognises revenue under IAS 18 *Revenue* from a barter transaction involving advertising when, amongst other criteria, the services exchanged are dissimilar and the amount of revenue can be measured reliably. SIC-31 only applies to an exchange of dissimilar advertising services. An exchange of similar advertising services is not a transaction that generates revenue under IAS 18
- The issue is under what circumstances can a seller reliably measure revenue at the fair value of advertising services received or provided in a barter transaction.

## CONSENSUS

- Revenue from a barter transaction involving advertising cannot be measured reliably at the fair value of advertising services received. However, a seller can reliably measure revenue at the fair value of the advertising services it provides in a barter transaction, by reference only to non-barter transactions that:
  - Involve advertising similar to the advertising in the barter transaction
  - Occur frequently
  - Represent a predominant number of transactions and amount when compared to all transactions to provide advertising that is similar to the advertising in the barter transaction
  - Involve cash and/or another form of consideration that has a reliably measurable fair value
  - Do not involve the same counterparty as in the barter transaction.

# SIC-32 *Intangible Assets: Website Costs*

**Effective Date**
**Periods beginning on or after 25 March 2002**

## ISSUE

- When accounting for internal expenditure on the development and operation of an entity's own web site for internal or external access, the issues are:
  - Whether the web site is an internally generated intangible asset that is subject to the requirements of IAS 38 *Intangible Assets*
  - The appropriate accounting treatment of such expenditure.
- SIC-32 does not apply to expenditure on purchasing, developing and operating hardware of a website.

## CONSENSUS

- An entity's own web site that arises from development and is for internal or external access is an internally generated intangible asset that is subject to the requirements of IAS 38
- Any internal expenditure on the development and operation of an entity's own web site is accounted for in accordance with IAS 38. The nature of each activity for which expenditure is incurred (e.g. training employees and maintaining the web site) and the web site's stage of development or post-development is evaluated to determine the appropriate accounting treatment (additional guidance is provided in the Appendix to SIC-32)
- Cost incurred are only capitalised if the criteria in IAS 38.57 are all met
- The best estimate of a website's useful life should be short.

# CONTACT

For further information about how BDO can assist you and your organisation, please get in touch with one of our key contacts listed below.

Alternatively, please visit **www.bdo.global** where you can find full lists of regional and country contacts.


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