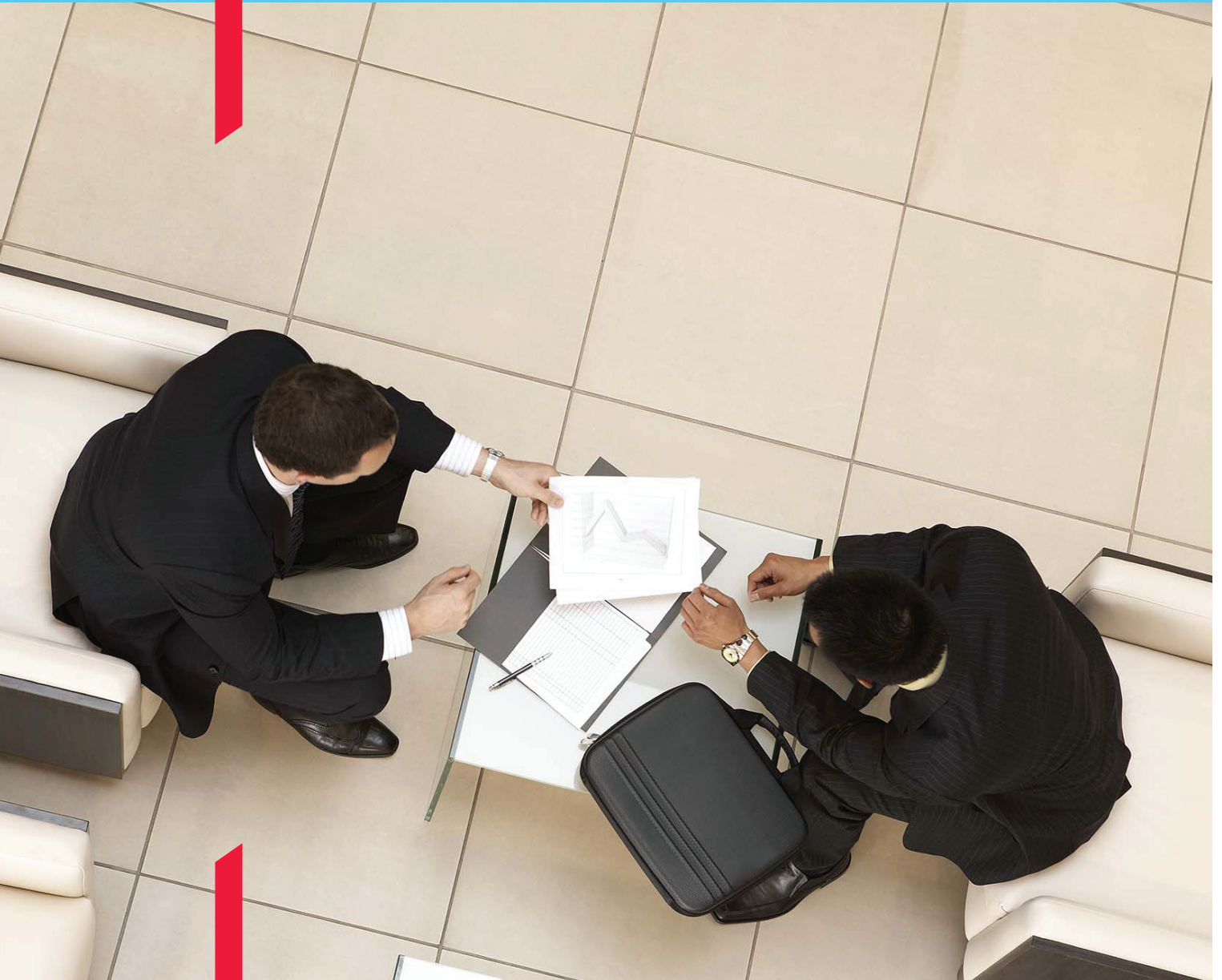


# IFRS FOR SMES AT A GLANCE

## As at 1 January 2016



## IFRS for SMEs AT A GLANCE

IFRS at a Glance for SMEs (IAAG SME) has been compiled to assist in gaining a high level overview of International Financial Reporting Standards for Small and Medium Entities (*IFRS for SMEs*).

IAAG SME includes all sections of the *IFRS for SMEs* in issue as at 1 January 2016.

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# Section 1 - *Small and Medium-sized Entities*

Effective Date  
Periods beginning on or after 1 July 2009

## SCOPE

*IFRS for SMEs* is intended for use by small and medium-sized entities (SMEs). This section describes the characteristics of SMEs.

## DESCRIPTION OF SMALL AND MEDIUM-SIZED ENTITIES

Small and medium-sized entities are entities that both:

- (a) Do not have 'public accountability'
- (b) Publish general purpose financial statements for external users (e.g. owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies).

## DEFINITION OF 'PUBLIC ACCOUNTABILITY'

An entity has 'public accountability' if either:

- (a) Its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market domestic or foreign stock exchange or an over-the-counter market, including local and regional markets).
- (b) It holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks.

However, the fact that entities may hold assets in a fiduciary capacity for reasons incidental to a primary business (as, for example, may be the case for travel or real estate agents, schools, charitable organisations, co-operative enterprises requiring a nominal membership deposit, and sellers that receive payment in advance of delivery of the goods or services such as utility companies), does not make them publicly accountable.

## USE OF *IFRS FOR SMEs* - PUBLICALLY ACCOUNTABLE ENTITIES

If a publicly accountable entity uses the *IFRS for SMEs*, its financial statements shall not be described as conforming with the *IFRS for SMEs*.

This is even the case if law or regulation in the entity's jurisdiction permits or requires *IFRS for SMEs* to be used by publicly accountable entities.

## USE OF *IFRS FOR SMEs* - PARENT IS A FULL IFRS REPORTER

A subsidiary whose parent uses full IFRSs, or that is part of a consolidated group that prepares financial statements in accordance with full IFRSs, is not prohibited from using this IFRS in its own financial statements if that subsidiary by itself does not have public accountability.

If financial statements are described as conforming with the *IFRS for SMEs*, they must comply with all of the provisions of the *IFRS for SMEs*.

## Section 2 - Concepts and Pervasive Principles

Effective Date  
Periods beginning on or after 1 July 2009

### SCOPE

This section describes the objective of financial statements of small and medium-sized entities (SMEs) and the qualities that make the information in the financial statements of SMEs useful. It also sets out the concepts and basic principles underlying the financial statements of SMEs.

### QUALITATIVE CHARACTERISTICS

This section specifies certain qualitative characteristics expected of financial statements as follows:

- *Understandability* - Information should be presented in a way that makes it comprehensible by users. This does not permit the omission of complex information on the grounds it is too difficult to understand
- *Relevance* - Information provided should be relevant to the decision making needs of users. Relevant information is considered to be something that is capable of influencing a user's decision
- *Materiality* - Information is material if its omission or misstatement could influence a user's decision
- *Reliability* - Information is reliable when it is free from material error and bias and represents faithfully that which it purports to represent
- *Substance over form* - Transactions should be presented in accordance with their substance, not just their legal form
- *Prudence* - This is the inclusion of a degree of caution when making the judgements needed in making estimates of assets, liabilities, income or expense
- *Completeness* - For reliability, information within the financial statements must be complete within the bounds of materiality and cost
- *Comparability* - Users need to be able to compare the financial statements from period to period
- *Timeliness* - Information needs to be provided on a timely basis to allow decision making by users of financial statements
- *Balance between benefit and cost* - Benefits derived from information should exceed the costs of providing it.

### DEFINITIONS AND PRINCIPLES

Definitions, and the underlying principles of financial statements are set out within this section:

#### Financial Position

- *Asset* - A resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity
- *Liability* - A present legal or constructive obligation which, upon settlement, is likely to result in an outflow of resources (cash, other assets, provision of services, replacement with another obligation, conversion into equity, waiving of creditor rights, outflow of other economic benefits)
- *Economic benefit* - the potential to contribute, directly or indirectly, to the flow of cash and cash equivalents either from use or disposal of a resource
- *Equity* - the residual interest in assets after deduction of liabilities. Equity may be sub-classified into separate components.

#### Performance

- *Income* - Increases in economic benefits, including revenue arising from ordinary activities and other gains
- *Expenses* - Decreases in economic benefits, including those arising from ordinary activities and other losses
- *Profit or loss* - Represents the difference between Income and Expense other than those items classified in other comprehensive income
- *Total comprehensive income* - Represents the difference between income and expenses.

#### Recognition of assets, liabilities, income and expenses

- *Recognition* - For recognition of an asset, liability, income or expense it needs to be both:
  - Probable that future economic benefit will flow to or from the entity
  - The value can be measured reliably.

#### Measurement

- *Measurement* - Process of determining the value that is recognised. *IFRS for SMEs* specifies elsewhere the measurement basis for each type of asset, liability, income and expense both at initial measurement and for the purposes of subsequent measurement
- *Accrual basis* - With the exception of cash flow information, financial information is prepared using the accrual basis of accounting
- *Initial measurement* - Historical cost, unless an alternative approach is required elsewhere in *IFRS for SMEs*
- *Subsequent measurement* - refer to applicable section of *IFRS for SMEs*
- *Offsetting* - Offsetting is not permitted unless explicitly permitted by *IFRS for SMEs*.

## Section 3 - Financial Statement Presentation

Effective Date  
Periods beginning on or after 1 July 2009

SCOPE	
<p>This section explains fair presentation of financial statements, compliance with <i>IFRS for SMEs</i> and what constitutes a complete set of financial statements. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions as set out in the definitions and recognition requirements for assets, liabilities, income and expense in Section 2.</p>	
REQUIREMENTS	COMPLETE SET OF FINANCIAL STATEMENTS
<p>The following summarises the requirements of this section:</p> <ul style="list-style-type: none"> <li>• <b>Statement of compliance</b> - A statement of explicit and unreserved compliance with <i>IFRS for SMEs</i> is required within the financial statements.</li> </ul> <p>If an entity departs from <i>IFRS for SMEs</i> in the current or comparative period(s), disclose:</p> <ul style="list-style-type: none"> <li>- That management have concluded the financial statements are presented fairly</li> <li>- That the entity has complied with <i>IFRS for SMEs</i> except for the noted departure</li> <li>- Nature and reasoning for the departure, and the treatment required by <i>IFRS for SMEs</i>.</li> </ul> <p>In rare situations where an entity has concluded that a departure from <i>IFRS for SMEs</i> is required but a legal requirement prevents this departure, disclosure is required of this fact, the nature of the requirements in <i>IFRS for SMEs</i>, why this would be misleading, and the adjustment required to achieve fair presentation.</p> <ul style="list-style-type: none"> <li>• <b>Going concern</b> - Management are required to make an assessment of the ability of the entity to continue as a going concern. This assessment covers at least, but is not limited to, 12 months from the end of the period covered by the financial statements. If management concludes the entity is not a going concern, the reason for and the basis of preparation that has been adopted must be disclosed.</li> <li>• <b>Frequency of reporting</b> - An entity is required to produce a set of financial statements at least annually. If the period is longer or shorter than a year, disclosure is required as to the length of the period, the reason for using that period, and the fact that comparative figures for the previous period may not be comparable.</li> <li>• <b>Consistency of presentation</b> - Entities are required to retain the presentation and classification from one period to the next - except where an entity's operations change or another presentation and disclosure would be more appropriate, in addition to any changes required by <i>IFRS for SMEs</i>. Changes made to presentation or classification will require the comparatives to be reclassified unless it is impracticable to do so.</li> <li>• <b>Comparative information</b> - Unless permitted or required by <i>IFRS for SMEs</i>, entities are required to disclose comparative information in respect of the previous period. Narrative and descriptive information is required when it is relevant to the understanding of the current period's financial statements.</li> <li>• <b>Materiality and aggregation</b> - Separate presentation is required for each material classes of similar items, and items of dissimilar nature and function (unless immaterial).</li> </ul> <p>Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users made on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.</p>	<p>A complete set of financial statements includes the following:</p> <ul style="list-style-type: none"> <li>• A statement of financial position at the reporting date</li> <li>• For the reporting period, either a single statement of comprehensive income or a separate income statement and statement of comprehensive income, encompassing other comprehensive income*</li> <li>• Statement of changes in equity*</li> <li>• Statement of cash flows</li> <li>• Notes to the financial statements</li> <li>• Name of entity and any changes in its name since the end of the prior period financial statements</li> <li>• Clarification as to whether the financial statements cover the individual entity or group or entities</li> <li>• The date of reporting period and period covered</li> <li>• Presentation currency</li> <li>• Level of rounding</li> <li>• Domicile and legal form of the entity, its country of incorporation and its registered office</li> <li>• Description of the nature of operations and principal activity.</li> </ul> <p>* If the only change to equity results from profit or loss, payment of dividends, correction of errors or changes in accounting policies it is acceptable to present a single statement of income and retained earnings in place of the comprehensive income statement and statement of changes in equity.</p> <p>Note that <i>IFRS for SMEs</i> does not address presentation of segment information, earnings per share, or interim financial reports - an entity making such disclosures shall describe the basis for preparing and presenting the information.</p>



## Section 4 - Statement of Financial Position

Effective Date  
Periods beginning on or after 1 July 2009

### SCOPE

This section sets out the information that is to be presented in a statement of financial position (SOFP) and how to present it. The statement of financial position (sometimes called the balance sheet) presents an entity's assets, liabilities and equity as of a specific date—the end of the reporting period.

#### CURRENT VS NON-CURRENT

Assets/liabilities are either presented:

- Current and non-current
- In ascending or descending order of liquidity.

Presentation based on ascending or descending order of liquidity is only permitted if this provides information that is reliable and more relevant than current/non-current.

#### CURRENT ASSETS

Current assets are:

- Assets expected to be realised or consumed it, in the entity's normal operating cycle
- Assets held primarily for trading purposes
- Assets expected to be realised within 12 months from the reporting date
- Cash and cash equivalents (unless restricted from use or exchange for at least 12 months).

All other assets are classified as non-current.  
Deferred tax assets are classified as non-current.

#### CURRENT LIABILITIES

Current liabilities are those:

- Expected to be settled or consumed it, in the entity's normal operating cycle
- Held primarily for trading purposes
- Due to be settled within 12 months
- For which the entity does not have an unconditional right to defer settlement for at least 12 months from the reporting date.

All other liabilities are classified as non-current.  
Deferred tax liabilities are classified as non-current.

#### SEQUENCING

*IFRS for SMEs* does not prescribe the sequence or format of line items, except when an entity does not present assets and liabilities on a current and non-current basis, in which case sequencing must be based on ascending or descending liquidity.

### INFORMATION TO BE PRESENTED IN THE STATEMENT OF FINANCIAL POSITION (SOFP) AND IN THE NOTES

Information and line items required to be presented in the SOFP

- Cash and cash equivalents; trade and other receivables; inventories, property; plant and equipment; investment property (at fair value); intangible assets; biological assets (at cost less accumulated depreciation); biological assets (at fair value); investments in associates; investments in jointly controlled entities; trade and other payables; provisions; non-controlling interest; equity; deferred tax assets and/or liabilities; other financial assets and/or liabilities.

Additional lines, headings and subtotals are presented when relevant to an understanding of the entity's financial position.

Information that can be presented in the SOFP or in the notes

- Classes of property, plant and equipment
- Disaggregation of inventory (i.e. finished goods, work in progress, and raw materials)
- Provisions for employee benefits and other provisions
- Trade and other receivables/payables, showing separately any amounts due from/to trade suppliers, related parties, accrued income/expense, and deferred income
- Classes of equity (e.g. paid in capital, retained earnings, share premium, items required to be recognised in other comprehensive income); a description of each reserve in equity.
- Share capital: no. of authorised shares; no. of issued shares fully and not fully paid; par value; reconciliation of outstanding shares; rights preferences and restrictions relating to distribution of dividends and repayment of capital; shares held in the entity by the entity subsidiaries or associates; the amount and terms of shares reserved for issue.
- Information relating to any binding sale agreement for a major disposal of assets, or a group of assets and liabilities, that is in place as at reporting date (description, facts and circumstances, and the carrying amounts).



## Section 5 - *Statement of Comprehensive Income and Income Statement*

Effective Date  
Periods beginning on or after 1 July 2009

### SCOPE

This section requires an entity to present its total comprehensive income for a period (i.e. its financial performance for the period) in one or two financial statements. It sets out the information that is to be presented in those statements and how to present it.

### PRESENTATION OF TOTAL COMPREHENSIVE INCOME

An entity presents its total comprehensive income for a period either:

- (a) In a single statement of comprehensive income, in which case the statement of comprehensive income (SOC) presents all items of income and expense recognised
- (b) In two statements (an income statement and a statement of comprehensive income).

A change from the single-statement approach to the two-statement approach, or vice versa, is a change in accounting policy to which Section 10 applies.

### SINGLE STATEMENT APPROACH

Minimum line items to be presented under the single statement approach

- (a) Revenue; finance cost; share of the profit or loss from equity accounted investments; tax expense; single line of post-tax profit or loss of a discontinued operation and post-tax gain or loss recognised on the measurement to fair value less costs to sell; profit or loss
- (b) Each item of other comprehensive income (e.g. gains and losses on retranslation of a foreign operation; actuarial gains and losses; changes in fair value of hedging instruments; fair value movements in investments in subsidiaries, associates or joint ventures; gains and losses arising on revaluation of property plant and equipment
- (c) Share of other comprehensive income from equity accounted investments; total comprehensive income
- (d) The split of profit or loss attributable to non-controlling interests and owners of the parent
- (e) The split of total comprehensive income attributable to non-controlling interests and owners of the parent.

### REQUIREMENTS OF BOTH APPROACHES

- Effects of restating prior period due to material errors and changes in accounting policies are presented as retrospective adjustments of prior periods (refer Section 10)
- Additional line items, heading and subtotals are required when the presentation is relevant to understanding of the financial statements
- Presentation or description of line items as 'extraordinary items' (or similar) is prohibited
- Expenses are required to be analysed and presented by either:
  - *Nature*: expenses are aggregated by their nature (i.e. depreciation, purchases of materials, transport costs, employee benefits, advertising costs etc.)
  - *Function*: expenses are aggregated according to their function as part of cost of sales or, for example, the costs of distribution or administrative activities. At a minimum, an entity discloses its cost of sales under this method separately from other expenses.

### TWO STATEMENT APPROACH

Minimum line items to be presented under the two statement approach

#### *Income statement*

- The income statement presents, as a minimum, line items that present the amounts in paragraph (a) under the single statement approach, with profit or loss as the last line.

#### *Statement of comprehensive income*

- Begins with profit or loss and then presents, as a minimum, line items that present the amounts in paragraphs (b) - (e) under the single statement approach.

## Section 6 - *Statement of Changes in Equity and Statement of Income and Retained Earnings*

Effective Date  
Periods beginning on or after 1 July 2009

### SCOPE

This section sets out requirements for presenting the changes in an entity's equity for a period, either in a statement of changes in equity or, if specified conditions are met and an entity chooses, in a statement of income and retained earnings.

### STATEMENT OF CHANGES IN EQUITY

**Purpose:**

Presents an entity's profit or loss for a reporting period, items of income and expense recognised in other comprehensive income for the period, the effects of changes in accounting policies and corrections of errors recognised in the period, and the amounts of investments by, and dividends and other distributions to, equity investors during the period.

**Requirements:**

The section requires the following to be presented in the statement of changes in equity:

- Total comprehensive income for the period showing separately amounts attributable to the owners of the parent and to non-controlling interests
- The effects of restatements of prior periods resulting from changes in accounting policies or material errors
- A reconciliation for each component of equity between the carrying amounts at the beginning and end of the period with separate disclosure of changes from:
  - Profit or loss
  - Other comprehensive income split by item
  - Amount of dividends and other distributions
  - Issue/repurchase of shares
  - Changes in ownership interests of subsidiaries not representing a loss of control.

### STATEMENT OF INCOME AND RETAINED EARNINGS

**Purpose:**

Presents an entity's profit or loss and changes in retained earnings for a reporting period.

**Criteria for presentation:**

If the only change to equity results from profit or loss, payment of dividends, correction of errors, changes in accounting policies an entity is permitted to present a single statement of income and retained earnings in place of the comprehensive income statement and statement of changes in equity.

**Requirements**

In addition to the information required by Section 5 *Statement of Comprehensive Income and Income Statement*, this section requires the following to be presented with the statement of income and retained earnings:

- Retained earnings at the beginning and end of the period
- Dividends declared and paid/payable
- Restatement for prior period adjustments (errors and changes in accounting policy).

## Section 7 - Statement of Cash Flows

Effective Date  
Periods beginning on or after 1 July 2009

### SCOPE

This section sets out the information that is to be presented in a statement of cash flows (SOCF) and how to present it. The SOCF provides information about the changes in cash and cash equivalents (C&CEs) of an entity for a reporting period, showing separately changes from operating activities, investing activities and financing activities.

Cash equivalents are short-term, highly liquid investments held to meet short cash commitments rather than being held for investment purposes and normally have a maturity of no more than three months. Bank overdrafts, if payable on demand and form an integral part of the entity's cash management, are cash equivalents.

CLASS	EXPLANATION	EXAMPLES	PRESENTATION REQUIREMENTS
Operating activities	Cash flows from operating activities result from the principal revenue producing activities of the entity.	<ul style="list-style-type: none"> <li>Receipts from sale of goods or rendering of services</li> <li>Payments for the supply of goods or services</li> <li>Payroll costs</li> <li>Cash receipts from royalties, fees, commissions and other revenues.</li> </ul>	Presentation is by one of two methods: <ul style="list-style-type: none"> <li><i>Indirect method</i> - Profit or loss is adjusted for non cash transactions, deferral or accrual of past or future receipts or payments</li> <li><i>Direct method</i> - Major classes of gross receipts/payments are disclosed.</li> </ul>
Investing activities	Cash flows from the acquisition/disposal of long-term assets and other investments not meeting the definition of cash equivalents.	<ul style="list-style-type: none"> <li>Cash flows from the purchase or sale of non-current assets</li> <li>Cash flows from the purchase or sale of other entities' debt or equity instruments</li> <li>Loans made to and cash receipts from loans made to other parties</li> <li>Cash payments for and cash receipts from futures contracts, forward contracts, options contracts and swap contracts except when held for trading purposes.</li> </ul>	Major classes of gross cash receipts and payments are presented separately. Aggregate cash flows from acquisitions and disposals are classified as investing activities.
Financing activities	Cash flows from changes in size and composition of the contributed equity and borrowings.	<ul style="list-style-type: none"> <li>Cash received from issue of the entity's own shares/equity instruments</li> <li>Cash received/repaid on bank loans</li> <li>Repayment of finance lease liabilities</li> <li>Cash payments to acquire or redeem an entity's shares.</li> </ul>	Major classes of gross cash receipts and payments are presented separately.

### FOREIGN CURRENCY CASH FLOWS

- Recorded in the entity's functional currency at the rate applicable at the date of the cash flow - including cash flows of a foreign subsidiary
- Unrealised exchange gains and losses are not cash flows.

To reconcile C&CEs at the beginning and end of the period, the effect of changes in exchange rates must be presented in the SOCF. CC&Es held are remeasured at the period end exchange rate, with the resulting gain or loss presented separately.

### NOTE ON SPECIFIC CASH FLOWS

- Interest paid and received is presented separately and classified consistently each period - either as operating, investing, or financing activities
- Dividends paid/received may be classified as operating, investing, or financing activities
- Income tax cash flows are classified as operating unless specific to financing or investing activities.

### OTHER DISCLOSURES

- Non-cash transactions are disclosed elsewhere within the financial statements and not included in the SOCF
- A reconciliation of the components of C&CEs (i.e. cash amount presented in the SOCF, and the cash position presented in the statement of financial position - if the amounts are not identical)
- Any cash or cash equivalents, together with management commentary, that are not available for use.

## Section 8 - Notes to the Financial Statements

Effective Date  
Periods beginning on or after 1 July 2009

### SCOPE

This section sets out the underlying principles concerning the information to be presented in the notes to the financial statements.

Notes contain information in addition to that contained in the primary statements and provide narrative descriptions and breakdowns of items presented in those statements.

In addition to requirements of this section, nearly all of the other sections of *IFRS for SMEs* require certain disclosures in the notes.

### REQUIREMENTS OF THE NOTES TO THE FINANCIAL STATEMENTS

The notes are required to:

- Present information about the basis of preparation
- Provide information that is not presented elsewhere in the financial statements and is relevant to the understanding of the financial statements
- Be prepared in a systematic manner, which normally follows the below order:
  - A statement of compliance (i.e. that the financial statements have been prepared in accordance with *IFRS for SMEs*)
  - A summary of significant accounting policies
  - Supporting information (i.e. notes) to items presented in the financial statements, in the sequence in which they are presented in those statements
  - Any other disclosures.
- Cross reference to items in the financial statements
- Present accounting policies including the measurement basis (or bases) and other policies used that are relevant to the understanding of the financial statements
- Disclose the judgements that management have made in applying the accounting policies
- Present the key assumptions concerning the future and other sources of estimation uncertainty at the reporting date that have a risk of causing a material misstatement to the carrying amount of assets and liabilities within the next financial year. The disclosure must include details of:
  - The nature of the estimation uncertainty
  - The carrying amount of the related assets and liabilities.

## Section 9 – Consolidated and Separate Financial Statements

### SCOPE

This section defines the circumstances in which an entity presents consolidated financial statements and the procedures for preparing those statements. It also includes guidance on separate financial statements and combined financial statements.

### REQUIREMENT TO CONSOLIDATE

Unless exempt, a parent entity is required to consolidate all entities it controls (subsidiaries). Control is the power to govern the financial and operating activities of an entity and is presumed to exist when the parent entity has:

- Directly (or indirectly through subsidiaries) more than half of the voting power of an entity
- Power over half of the voting rights (by agreement with other shareholders)
- Power to control financial and operating activities
- Ability to remove/appoint the majority of members of the controlling governing body
- Is able to cast the majority of votes at meetings of the controlling governing body
- Has options or convertible instruments that are currently exercisable and once exercised will result in control being achieved
- Has an agent with the ability to direct the financial and operating activities of the entity for the benefit of the parent.

### CONSOLIDATION PROCESS AND REQUIREMENTS

The preparation of consolidated financial statements requires the following:

- Combine the financial statements of the parent and its subsidiaries on a line by line basis
- Eliminate the carrying amount of the investment and the portion of equity in each subsidiary
- Measure and present non-controlling interest (NCI) in subsidiaries' profit and loss separately
- Measure and present NCI in the net assets of the subsidiaries separately from the interest of the parent, this includes amount of NCI at acquisition and the share of changes in equity post this date
- Elimination of intra group balances and transactions
- Preparation of financial statements at a uniform reporting date for the parent and all subsidiaries, unless it is impracticable to do so
- Preparation using uniform accounting policies
- Inclusion of income and expenses of acquired subsidiaries from the acquisition date
- Inclusion of income and expense of disposed subsidiaries until the disposal date
- Gain or losses on disposal of subsidiaries are recorded as the difference between the proceeds received plus the carrying amount of any retained interest at the date of disposal.

### EXEMPTIONS

A parent need not present consolidated financial statements if either:

- (a) Both of the following conditions are met:
  - (i) The parent is itself a subsidiary
  - (ii) Its ultimate parent (or any intermediate parent) produces consolidated general purpose financial statements that comply with full IFRSs or with this IFRS.
- (b) It has no subsidiaries other than one that was acquired with the intention of selling or disposing of it within one year.
 

A parent shall account for such a subsidiary either:

  - (i) At fair value with changes in fair value recognised in profit or loss, if the fair value of the shares can be measured reliably
  - (ii) Otherwise at cost less impairment.

Note: Consolidated financial statements are still required in instances where a subsidiary operates in a jurisdiction that imposes restrictions on the transfer of cash or other assets (there is no exemption).

### DISCLOSURES

The following disclosures are required in consolidated financial statements:

- The fact that the financial statements are consolidated
- Basis for concluding that control exists when the parent does not own directly or indirectly more than half of the voting rights
- Any differences in reporting date between parent and subsidiaries
- Nature and extent of restrictions on ability to transfer funds to the parent through either dividends or to repay loans
- Subsidiaries excluded from consolidation including basis of exclusion
- Profit or loss attributable to owners and NCIs
- Total comprehensive income attributable to owners and NCIs
- NCI is presented as a separate component of equity.

## Section 9 – Consolidated and separate financial statements

COMBINED FINANCIAL STATEMENTS	SEPARATE FINANCIAL STATEMENTS	ACQUISITION AND DISPOSAL OF SUBSIDIARIES
<p>Combined financial statements are a single set of statements of two or more entities controlled by a single investor. <i>IFRS for SMEs</i> does not require these to be prepared. If combined financial statements are prepared and they are described as conforming with <i>IFRS for SMEs</i> they are required to comply with all its requirements.</p> <p>Required disclosures include:</p> <ul style="list-style-type: none"> <li>• The fact that they are combined financial statements</li> <li>• Reason why they are prepared</li> <li>• Basis for determining which entities are included</li> <li>• Basis of preparation</li> <li>• Related party disclosures in line with Section 33.</li> </ul>	<ul style="list-style-type: none"> <li>• <i>IFRS for SMEs</i> does not require separate financial statements be prepared</li> <li>• If prepared, a parent is required to adopt a policy for accounting for each class of investments in subsidiaries, associates and jointly controlled entities either at: <ul style="list-style-type: none"> <li>- Cost less impairment</li> <li>- Fair value with changes recognised in profit and loss.</li> </ul> </li> <li>• Required disclosures: <ul style="list-style-type: none"> <li>- The fact that the statements are separate financial statements</li> <li>- A description of the methods used to account for the investments</li> <li>- Identification of the consolidated financial statements or other primary financial statements to which they relate.</li> </ul> </li> </ul>	<p>The income and expenses of a subsidiary are included in the consolidated financial statements from its acquisition date until the date on which the parent ceases to control the subsidiary.</p> <p>The difference between the proceeds and the carrying amount of the subsidiary as of the date of disposal, excluding the cumulative amount of any exchange differences that relate to a foreign subsidiary recognised in equity in accordance with Section 30, is recognised in the consolidated SOCI (or the income statement, if presented) as the gain or loss on the disposal of the subsidiary.</p> <p>Investments that cease to be a subsidiary, but where an investment is retained</p> <p>Depending on the nature of the interest retained, the interest will be recognised as:</p> <ul style="list-style-type: none"> <li>- An associate in accordance with Section 14 (i.e. significant influence)</li> <li>- A jointly controlled entity in accordance with Section 15 (i.e. joint control)</li> <li>- A financial asset in accordance with Section 11/12 (i.e. if there is neither significant influence nor joint control).</li> </ul> <p>The carrying amount of the investment at the date that the entity ceases to be a subsidiary is treated as being the cost on initial measurement of the financial asset.</p>
<p>If an entity is not a parent (i.e. has no subsidiaries) but has investments in associates and/or jointly controlled entities, the financial statements are <u>not</u> separate financial statements, and must be prepared in accordance with Section(s) 14/15. The entity may elect to present Separate Financial Statements in addition to these financial statements.</p>		
SPECIAL PURPOSE ENTITIES (SPEs)		
<p>SPEs are entity's created to accomplish a narrow objective (e.g. to effect a lease, undertake research and development activities or securitise financial assets).</p> <p>SPEs may take the form of a corporation, trust, partnership or unincorporated entity. Often, SPEs are created with legal arrangements that impose strict requirements over its operations. SPE's that are controlled by an entity are consolidated in accordance with this section of <i>IFRS for SMEs</i>.</p> <p>In addition to the scenarios set out above in the 'Requirement to consolidate' section, the following circumstances may indicate that an entity controls an SPE (not an exhaustive list):</p> <ul style="list-style-type: none"> <li>• The activities of the SPE are being conducted on behalf of the entity according to its specific business needs</li> <li>• The entity has the ultimate decision-making powers over the activities of the SPE even if the day-to-day decisions have been delegated</li> <li>• The entity has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incidental to the activities of the SPE</li> <li>• The entity retains the majority of the residual or ownership risks related to the SPE or its assets.</li> </ul> <p>Note: this does not apply to post-employment benefit plans or other long-term employee benefit plans to which Section 28 <i>Employee Benefits</i> applies.</p>		

# Section 10 - Accounting Policies, Estimates and Errors

Effective Date  
Periods beginning on or after 1 July 2009

## SCOPE

This section provides guidance for selecting and applying the accounting policies used in preparing the financial statements as well as changes in accounting estimates and correction of prior period errors. Accounting policies are the specific principles, bases, conventions, rules and practices applied in preparing and presenting financial statements.

### ACCOUNTING POLICY SELECTION AND APPLICATION

- Accounting policies applied are required to be in accordance with *IFRS for SMEs*
- If *IFRS for SMEs* does not cover a transaction, event or condition, management must apply its judgement in developing and applying an accounting policy that is relevant to the economic decision-making needs of users, and reliable, in that the financial statements:
  - Represent faithfully the financial position, financial performance and cash flows of the entity
  - Reflect the economic substance of transactions, other events and conditions, and not merely the legal form
  - Are neutral (i.e. free from bias), prudent; and complete in all material respects.
- In making this judgement consideration should be given to:
  - Requirements and guidance given by *IFRS for SMEs* in dealing with similar issues
  - Definitions, recognition criteria and measurement concepts for assets, liabilities, income, expenses and the pervasive principles in Section 2 *Concepts and Pervasive Principles*.

Management may also consider the requirements and guidance in full IFRSs dealing with similar and related issues.
- Accounting policies must be selected and applied consistently for similar transactions, other events and conditions (unless *IFRS for SMEs* requires or permits otherwise).

### CHANGES IN ACCOUNTING POLICIES

- Unless required by *IFRS for SMEs* or if following IAS 39 *Financial Instruments: Recognition and Measurement* and that standard's requirements change, changes in accounting policy should be accounted for retrospectively to the earliest date for which it is practicable, as if the new accounting policy had always been applied.
- Disclosure requirements include:
  - The nature of the change in policy
  - For the current and prior period the amount of adjustment for each financial statement line affected
  - For prior periods not presented the effect of the adjustment
  - When making a voluntary change in policy the reasons why applying the new accounting policy provides reliable and more relevant information.

### CHANGE IN ACCOUNTING ESTIMATES

- These are the adjustment of the carrying amount of an asset or liability, resulting from new information or developments. Corrections of errors are not changes in accounting estimates.
- Disclosures include:
- The nature and effect of the change in accounting estimate in the current financial statements
  - If practicable, the effect in one or more future periods.

### PRIOR PERIOD ERRORS

- Prior period errors are omissions and misstatements for one or more prior periods where the necessary information was either available or could reasonably be expected to have been available when the financial statements of prior periods were approved.
- Such errors include:
  - The effects of mathematical mistakes
  - Errors in applying accounting policies
  - Oversights or misinterpretations of facts
  - Fraud.
- Errors are corrected retrospectively by restating prior period comparatives or, if the error occurred before prior periods presented, the opening balances for assets, liabilities and equity should be adjusted.
- Disclosure of the error are required as follows:
  - Nature of error
  - For each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected
  - To the extent practicable, the amount of the correction at the beginning of the earliest prior period presented
  - An explanation if it is not practicable to determine the amounts above.



## Section 11 - *Basic Financial Instruments*

### SCOPE OF SECTIONS 11 & 12

<p>This section and Section 12 <i>Other Financial Instruments Issues</i> together deal with recognising, derecognising, measuring and disclosing financial instruments:</p> <ul style="list-style-type: none"> <li>Section 11: Basic financial instruments - relevant to all entities</li> <li>Section 12: More complex financial instruments and transactions.</li> </ul>	<p>Entities have an (accounting policy) choice to apply either:</p> <ul style="list-style-type: none"> <li>Sections 11 and Sections 12 in full</li> <li>Recognition and measurement provisions of IAS 39 Financial Instruments: <i>Recognition and Measurement</i> and the disclosure requirements of Sections 11 and 12.</li> </ul>
<p>A financial instrument is a contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another entity. Basic financial instruments are measured under the amortised cost model - except non-convertible/puttable preference shares and non-puttable ordinary shares that are publicly traded or if fair value can be measured reliably.</p>	
<p>Financial instruments that usually satisfy the 'basic' criteria of this section are:</p> <ul style="list-style-type: none"> <li>Cash and deposits</li> <li>Commercial paper and bills held</li> <li>Account, notes and loans receivable/payable</li> <li>Bond and similar debt instruments</li> <li>Investments in non-convertible preference shares and non-puttable ordinary and preference shares</li> <li>Commitments to receive a loan if the commitment cannot be net settled in cash.</li> </ul>	<p>Financial instruments usually do not satisfy the 'basic' criteria (below) of this section:</p> <ul style="list-style-type: none"> <li>Asset-backed securities, such as collateralised mortgage obligations, repurchase agreements and securitised packages of receivables</li> <li>Options, rights, warrants, futures contracts, forward contracts and interest rate swaps that can be settled in cash or by exchanging another financial instrument</li> <li>Financial instruments that qualify and are designated as hedging instruments in accordance with the requirements in Section 12</li> <li>Commitments to make a loan to another entity</li> <li>Commitments to receive a loan if the commitment can be net settled in cash.</li> </ul>

SCOPE	SCOPE EXCLUSIONS	'QUALIFYING DEBT INSTRUMENT' OR 'BASIC' CRITERIA
<p>Scoped into this section:</p> <ul style="list-style-type: none"> <li>Cash</li> <li>A 'qualifying debt instrument'*</li> <li>A commitment to receive a loan that:                             <ul style="list-style-type: none"> <li>(i) Cannot be settled net in cash</li> <li>(ii) When executed, is expected to meet the conditions 'of A 'qualifying debt instrument'*.</li> </ul> </li> <li>An investment in non-convertible preference shares and non-puttable ordinary shares or preference shares.</li> </ul> <p><i>*Refer to adjacent box for the criteria in relation to qualifying debt instrument.</i></p>	<p>Scoped out of this section:</p> <ul style="list-style-type: none"> <li>Investments in subsidiaries, associates and joint ventures (Section 9,14, and 15)</li> <li>Financial instruments that are the entity's own equity (Section 22 and 26)</li> <li>Leases (Section 20) - However, the derecognition requirements (11.33-11.38) apply to derecognition of lessor lease receivables and lessee lease payables recognised by a lessee</li> <li>Employers' rights and obligations under employee benefit plans (Section 28).</li> </ul>	<p>A debt instrument that satisfies all of the conditions in (a)-(d) below shall be accounted for in accordance with Section 11 9 (i.e. is a qualifying debt instrument):</p> <ol style="list-style-type: none"> <li>a) Returns to the holder of the instrument must be one of:                             <ul style="list-style-type: none"> <li>- A fixed amount</li> <li>- A fixed return over the life of the instrument</li> <li>- A variable return that throughout the life of the instrument is equal to a single references quoted or observable interest rate (e.g. LIBOR)</li> <li>- A combination of fixed and variable rates (e.g. LIBOR + 2%) provided that both the fixed and variable rates are positive.</li> </ul> </li> <li>b) No contractual provision that could, by its terms result in the holder losing the principal amount or any interest attributable to the current period or prior periods</li> <li>c) Any contractual provisions that permit the issuer to prepay a debt instrument or the holder to put it back to the issuer before maturity are not contingent on future events</li> <li>d) No conditional returns or repayment provisions except for the variable rates and prepayment provisions described above.</li> </ol>

## Section 11 - Basic financial instruments

RECOGNITION AND MEASUREMENT	EFFECTIVE INTEREST RATE METHOD
<p><i>Initial recognition</i></p> <ul style="list-style-type: none"> <li>An entity recognises a financial asset or liability only when the entity becomes a party to the contractual provisions for the instrument.</li> </ul> <p><i>Initial measurement</i></p> <ul style="list-style-type: none"> <li>At transaction price, plus transaction costs for those instruments not subsequently measured at fair value through profit or loss (except financing transactions)</li> <li>Financing transactions: measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.</li> </ul> <p><i>Subsequent measurement</i></p> <ul style="list-style-type: none"> <li>Debt instruments: amortised cost using the effective interest rate method. If the instrument is due to be settled within one year it is measured at the undiscounted amount of the cash or other consideration for the amount to be settled</li> <li>Financing transactions: present value of future payments discounted at a market rate of interest for a similar debt instrument</li> <li>Commitments to receive a loan which cannot be settled in cash and meet the 'basic' criteria above, are measured at cost less impairment</li> <li>Investments in non-convertible preference shares and non-puttable ordinary or preference shares are measured at fair value if publicly traded/fair value can be reliably measured, otherwise they are measured at cost less impairment.</li> </ul> <p>Objective evidence of impairment or uncollectibility must be assessed for the above financial instruments at each reporting date.</p> <p>Entities with only basic financial instruments will not have any financial liabilities measured at fair value through profit of loss.</p>	<ul style="list-style-type: none"> <li>The effective interest rate method calculates the cost of an instrument and allocates the interest element over the relevant period</li> <li>The effective interest rate is the rate that exactly discounts estimated cash payments/receipts through the expected life of the instrument - based on the carrying amount of the instrument at initial recognition</li> <li>Under the effective interest rate method:                         <ul style="list-style-type: none"> <li>The amortised cost of the instrument is the present value of future cash receipts/payments discounted at the effective interest rate</li> <li>The interest element in a period equals the carrying amount of the instrument at the beginning of a period multiplied by the effective rate for the period.</li> </ul> </li> <li>When calculating the rate, an estimate of cash flows considers all known contractual cash flows but excludes any possible future credit losses not yet incurred</li> <li>Related fees, charges, transaction costs are amortised over the life of the instrument</li> <li>For variable rate financial assets and liabilities a periodic re-estimation of cash flows to reflect changes in market rates of interest alters the effective interest rate</li> <li>If the entity revises its estimate of payments/receipts the carrying amount of instrument is adjusted to reflect actual and revised estimated cash flows.</li> </ul>
<p style="text-align: center;"><b>AMORTISED COST METHOD</b></p>	<p style="text-align: center;"><b>DERECOGNITION</b></p>
<p>The amortised cost of a financial instrument is:</p> <ul style="list-style-type: none"> <li>The amount at which the instrument is initially measured</li> <li>Minus any repayment of principal</li> <li>Plus or minus the cumulative amortisation using the effective interest method of any difference between the amount at initial recognition and maturity amount (note that this is not applicable for instruments that are due to be settled within one year)</li> <li>Minus (for financial assets) any reduction for impairment or uncollectibility.</li> </ul>	<p>A financial asset is derecognised when:</p> <ul style="list-style-type: none"> <li>Contractual rights to cash flows expire or are settled</li> <li>Substantially all the risks/rewards of ownership are transferred to another party</li> <li>If control of the asset is transferred to another party that has the practical ability to sell the asset in its entirety, and certain significant risks and rewards are retained, the asset is derecognised and any residual interest retained is recognised. Newly created rights and obligations are recognised at their fair values.</li> </ul> <p>A financial liability is derecognised when:</p> <ul style="list-style-type: none"> <li>The obligation specified in the contract is discharged, cancelled or expires</li> <li>If the borrower and lender exchange financial instruments with substantially different terms, or substantially modify an existing financial liability, the transaction is an extinguishment of the old, and recognition of a new, instrument</li> <li>Any difference between carrying amount of the liability extinguished and consideration paid is recognised in profit or loss.</li> </ul>

## Section 11 - *Basic financial instruments*

FAIR VALUE	DISCLOSURES
<ul style="list-style-type: none"> <li>Investments in non-convertible and non-puttable shares are required to be measured at fair value if they are publicly traded or the fair value can otherwise be reliably measured</li> <li>The following hierarchy is used to estimate the fair value of the shares:               <ul style="list-style-type: none"> <li>Quoted price for an identical asset in an active market (i.e. the current bid price) - if quoted prices are unavailable, a recent transaction price for an identical asset provides evidence of fair value</li> <li>By using a valuation technique.</li> </ul> </li> <li>Valuation techniques include:               <ul style="list-style-type: none"> <li>Recent arm's length market transactions of identical asset</li> <li>Current fair value of a similar asset</li> <li>Valuation technique currently used by market participants.</li> </ul> </li> <li>Where no active market exists the fair value is reliably measurable if the variability in the range of reasonable fair values is not significant for that asset or the probabilities of the estimates within the range can be reasonably assessed and used in estimating fair value</li> <li>If reliable measurement of fair value is no longer possible its carrying amount at the last date the asset was reliably measured becomes its new cost and the subsequent</li> </ul>	<ul style="list-style-type: none"> <li>Summary of significant accounting policies, measurement basis (or bases) used and the other accounting policies relevant to understanding the financial statements</li> <li>The carrying amount of each of the following categories either on the statement of financial position or within the notes to the financial statements:               <ul style="list-style-type: none"> <li>Financial assets measured at fair value through profit or loss</li> <li>Instruments measured at amortised cost</li> <li>Instruments measured at cost less impairment.</li> </ul> </li> <li>Information that enables users to evaluate the significance of financial instruments for the entity's financial position and performance</li> <li>For all instruments measured at fair value, the basis for determining fair value including assumptions when a valuation technique is applied</li> <li>Where fair value measurement is no longer available, disclosure to this effect is required</li> <li>If an entity has transferred financial assets to another party and the transaction does not qualify for derecognition there should be disclosure of the nature of the asset, the risk/rewards that have remained with the entity and to which the entity is exposed and the carrying amount of the asset and associated liability</li> <li>When a financial asset is pledged as collateral the carrying amount and terms and conditions must be disclosed</li> <li>Default or breach on a loan payable that has not been remedied by the reporting date: details of the breach, carrying amount of the loan and the outcome of the default prior to date on which the financial statements were authorised for issue</li> <li>In respect of the income statement, disclose:               <ul style="list-style-type: none"> <li>Changes in fair value recognised on financial assets/liabilities (Section 12 only for liabilities as noted above) measured at fair value through profit or loss and instruments measured at amortised cost</li> <li>Total interest income/expense for instruments not measured at fair value through profit or loss</li> <li>The amount of impairment loss recognised for each class of asset.</li> </ul> </li> <li>For financial instruments held at fair value (that are not held as part of a trading portfolio and are not derivatives):               <ul style="list-style-type: none"> <li>Changes in fair value during the period and cumulatively that are attributable to changes in the credit risk of that instrument</li> <li>Method used to establish the amount of change attributable to changes in own credit risk or if the change cannot be reliably measured</li> <li>Difference between the financial liability carrying amount and the amount contractually required to pay at maturity</li> <li>If an instrument has liability and equity features that substantially modify cash flows, the existence of these features</li> <li>Any difference between the fair value at initial recognition and the amount that would be determined at that date using a valuation technique as well as the amount recognised in profit or loss.</li> </ul> </li> </ul>
<p><b>IMPAIRMENT</b></p> <p>Objective evidence that a financial asset (group) is impaired:</p> <ul style="list-style-type: none"> <li>Financial difficulty, breach of contract, creditor concessions</li> <li>Probable bankruptcy/financial reorganisation</li> <li>Measurable decrease estimated future cash flows</li> <li>Adverse changes in technology, markets, economy, legal environment.</li> </ul> <p><u>ALL equity instruments</u> and other significant financial assets must be individually assessed for impairment. Impairment reversals are taken through profit or loss up to the carrying amount that would have been recognised had the impairment not been recognised.</p>	

## Section 12 - *Other financial instruments issues*

### SCOPE

Section 12 applies to all financial instruments except for the following:

- |  |  |
|--|--|
| <ul style="list-style-type: none"> <li>• Basic financial instruments (Section 11)</li> <li>• Investments in subsidiaries, associates and joint ventures (Section 9,14, and 15)</li> <li>• Employers' rights and obligations under employee benefit plans (Section 28)</li> <li>• Rights under insurance contracts (unless resulting loss to either party could result due to contractual terms that are unrelated to: changes in the insured risk; changes in foreign exchange rates; or a default by one of the counterparties)</li> <li>• Financial instruments that are the entity's own equity (Section 22 and 26).</li> </ul> | <ul style="list-style-type: none"> <li>• Leases (Section 20) (unless the lease could result in a loss to the lessor or the lessee as a result of contractual terms that are unrelated to: changes in the price of the leased asset; changes in foreign exchange rates; or a default by one of the counterparties)</li> <li>• Contracts for acquirer contingent consideration in a business combination (Section 19)</li> <li>• Most contracts to buy or sell non-financial items such as a commodity, inventory or PPE unless the contracts impose risk on the buyer or seller that are not typical of contracts to buy or sell assets.</li> </ul> |
|--|--|

### RECOGNITION AND MEASUREMENT

#### *Initial recognition*

- An entity recognises a financial instrument when it becomes party to the contractual provisions.

#### *Initial measurement*

- The asset or liability is initially recorded at fair value, which is normally the transaction price.

#### *Subsequent measurement*

- At the end of each reporting period subsequent measurement is at fair value through profit or loss except for equity instruments that are not publicly traded and whose fair value cannot be reliably measured, which are measured at cost less impairment
- If fair value is no longer available, the fair value at the last date available is treated as the cost of the instrument and subsequent measurement is at cost less impairment
- Fair value guidance is as per Section 11. Transaction costs are not included in the initial measurement of an instrument that will subsequently be measured at fair value through profit or loss
- The guidance on impairment and derecognition of financial assets is as per Section 11.

### HEDGE ACCOUNTING

- If specified criteria are met an entity may designate a hedging relationship between a hedging instrument and a hedged item in such a way to qualify for hedge accounting which allows the gain or loss on the hedging instrument on the hedged items to be recognised in the profit or loss account at the same time
- To qualify for hedge accounting the following criteria must be met:
  - Entity designates and documents the hedging relationship so that the relationship between the item and instrument is clearly identified
  - The hedged risk must be:
    - Interest rate risk of a debt instrument
    - Foreign exchange or interest risk in a firm commitment or highly probable forecast transaction
    - Price risk of a commodity
    - Foreign exchange risk in a net investment in a foreign operation.
  - The hedging instrument must have the following terms and conditions:
    - It is a interest rate swap, foreign currency swap, cross currency interest swap, currency/commodity forward exchange contract, hedge of a foreign currency risk in a net investment in a foreign operation or a financial asset/liability that is expected to be highly effective in offsetting a hedged risk
    - It involves a party external to reporting entity
    - Its notional amount is equal to the designated amount of the principal or notional amount of the hedged item
    - It has a maturity date not later than the instrument being hedged, the expected settlement of a purchase/sale commitment or the later of the occurrence and settlement of the highly probable forecast foreign currency or commodity transaction being hedged.
  - It has no prepayment, early termination or extension features.

## Section 12 - Other financial instruments issues

### HEDGE EXAMPLE 1

*Hedge of fixed interest rate risk or a recognised financial instrument or commodity price risk of a commodity held*

- If the conditions for hedge accounting are met the hedging instrument is recognised as an asset or liability and the change in fair value recorded in profit or loss
- If the hedged risk is the fixed interest rate risk of a debt instrument measured at amortised cost, the periodic net cash settlements on the interest rate swap that is the hedging instrument are recognised in profit or loss in the period in which the net settlements accrue
- Hedge accounting is discontinued if the hedging instrument expires or is sold or terminated, the hedge no longer meets the requirements or the entity revokes the designation
- If hedge accounting is discontinued and the hedged item is an asset or liability carried at amortised cost that has not been derecognised any gains or losses recognised as adjustments to the carrying amount of the hedged item are amortised into profit or loss using the effective interest rate method over the hedged item's remaining life.

### HEDGE EXAMPLE 2

*Hedge of a variable interest rate risk of a recognised financial instrument, foreign exchange risk or commodity price risk in a firm commitment or highly probable forecast transaction or a net investment in a foreign operation*

- If the conditions for hedge accounting are met, and the hedged risk is the:
  - Variable interest rate risk in a debt instrument measured at amortised cost
  - Foreign exchange / commodity price risk in a firm commitment / highly probable forecast transaction
  - Foreign exchange risk in a net investment in a foreign operation.

...then the entity recognises, in other comprehensive income, the portion of the change in fair value of the hedging instrument that was effective in offsetting the change in the fair value or expected cash flows of the hedged item. Any excess of the change in fair value of the hedging instrument over the change in fair value of expected cash flows is recognised in profit or loss. When the hedge relationship ends the amounts classified in other comprehensive income are transferred to profit or loss.
- If the hedged risk is the variable interest rate risk in a debt instrument, the entity subsequently recognises in profit or loss the periodic net cash settlements from the interest rate swap that is the hedging instrument in the period in which the net settlements accrue
- Hedge accounting is discontinued if the hedging instrument expires or is sold or terminated, the hedge no longer meets the requirements or the entity revokes the designation.
- If the forecast transaction is not expected, or the debt instrument is derecognised, any gain or loss on the hedging instrument that was recognised in other comprehensive income is reclassified to profit or loss.

### DISCLOSURES

- All disclosures included in Section 11 are required
- For each hedge accounting applied the following shall be disclosed:
  - Description of the hedge
  - Description of the hedging instrument and fair value at reporting date
  - Nature of the risks being hedged.
- Where hedge accounting is used for a fixed interest rate risk or commodity price risk of a commodity held the amount of change in fair value of the hedging instrument recognised in profit or loss and the amount of change in fair value of the hedged items recognised in profit or loss
- Where hedge accounting is used for variable interest rate risk, foreign exchange risk, commodity price risk in a firm commitment or highly probable forecast transaction or a net investment in a foreign operation the following shall be disclosed:
  - The periods when the cash flows are expected to occur and when they are expected to impact profit or loss
  - Description of any forecast transaction where hedge accounting had been applied and is no longer expected to occur
  - Change in fair value of instrument recognised in other comprehensive income
  - Amount reclassified from other comprehensive income to profit or loss for the period
  - Amount of any excess of fair value of the hedging instrument over the change in the fair value of the expected cash flows that was recognised in profit or loss.

## Section 13 - Inventories

Effective Date  
Periods beginning on or after 1 July 2009

### SCOPE

This section sets out the principles for recognition and measurement of inventories.

Inventories are assets held for sale in the ordinary course of business as well as supplies to be consumed in the production process or in the rendering of services.

*Specific general scope exclusions*

- Work in progress arising under construction contracts (see Section 23)
- Financial instruments (see Sections 11 & 12)
- Biological assets related to agricultural activity and agricultural produce at the point of harvest (see Section 34).

*Specific measurement scope exclusions*

- Producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products, to the extent that they are measured at fair value less costs to sell through profit or loss
- Commodity brokers and dealers that measure their inventories at fair value less costs to sell through profit or loss.

### MEASUREMENT PRINCIPLES

Inventories are measured at the lower of cost, and estimated selling price less costs to complete and sell. The following guidance also applies:

- Service providers measure inventory at the costs of production
- Cost of Inventory acquired through a non-exchange transaction is measured at fair value at the date of acquisition.

### COST PRINCIPLES

Cost includes all costs of purchase, cost of conversion and any other costs (i.e. those incurred in bringing the asset to its current location and condition).

*Cost of purchase*

- Purchase price (after deducting trade discounts/rebates)
- Import duties, and other unrecoverable taxes
- Transport and handling costs.

*Cost of conversion*

- Direct labour
- Allocation of variable production overheads
- Allocation of fixed production overheads:
  - Based on normal capacity of the production facilities
  - Unallocated overheads are recognised as expenses
  - *Low production (or idle plant)*: allocation not adjusted
  - *Abnormal high production*: allocation adjusted (allocation per unit decreased so that inventories are not measured above cost.

*Costs excluded from inventories:*

- Abnormal wastage of material, labour or production costs
- Storage costs unless a necessary course of production
- Administrative overheads
- Selling costs.

### JOINT PRODUCTS AND BY PRODUCTS

A production process may result in more than one product being produced simultaneously.

When the costs of raw materials or conversion of each product are not separately identifiable, these costs are allocated between the products on a rational and consistent basis (e.g. relative sales value).

Immaterial products are measured at selling price less costs to complete and sell (with this amount being deducted from main product cost).

### MEASURING COST

- Techniques such as standard cost method, retail method or most recent purchase price are all acceptable measures
- Inventory must be measured on first-in first-out basis (FIFO) or weighted average cost
- Inventories are required to be assessed for impairment at the end of each reporting period (see Section 27 for further requirements)
- When inventories are sold or distributed the cost of inventory is reduced and recognised as an expense.

### DISCLOSURES

The following disclosures are required:

- Accounting policy adopted for measuring inventories, including the cost formula used
- Total carrying amount of inventory in classifications appropriate to that entity
- Amount of inventory recognised as an expense during the period
- Impairment losses recognised or reversed in the period in profit or loss in accordance with Section 27
- Carrying amount of inventory pledged as security for liabilities.



## Section 14 - Investments in associates

Effective Date  
Periods beginning on or after 1 July 2009

SCOPE	DEFINITION OF AN ASSOCIATE	SIGNIFICANT INFLUENCE	
This section applies to accounting for associates in consolidated financial statements and individual financial statements (refer Section 9 for separate financial statements).	An associate is an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.	The power to participate in the financial and operating policy decisions of the associate. Unless it can be clearly demonstrated to the contrary, significant influence is presumed to: <ul style="list-style-type: none"> <li>Exist when an investor holds (directly/indirectly) 20% or more of the voting power</li> <li>Not exist when an investor holds (directly/indirectly) 20% or more of the voting power.</li> </ul> A substantial majority ownership by a third party does not preclude significant influence.	
MEASUREMENT			
An investor accounts for all of its investments in associates using one of the following models: (1) cost model; (2) fair value model; (3) equity model.			
(1) COST METHOD	(2) FAIR VALUE METHOD		
Measurement is at cost less accumulated impairment losses.  Dividends are recognised as income. If an associate has a quoted price, it must be measured at fair value.	The fair value model requires that dividends received are recognised as income, and the investment in associate is: <ul style="list-style-type: none"> <li>Initially recognise at transaction price (excluding transaction costs)</li> <li>At reporting date, measure the investment at fair value in accordance with Section 11 (if impracticable, use cost model)</li> <li>Movement in fair value recognised in profit or loss.</li> </ul>		
(3) EQUITY METHOD			DISCLOSURES
Investment is initially recognised at the transaction price (including transaction costs) and is subsequently adjusted to reflect the investor's share of the profit or loss and other comprehensive income of the associate.			<ul style="list-style-type: none"> <li>Accounting policy used</li> <li>Carrying amount</li> <li>When using the cost model the amount of dividends and other distributions recognised as income</li> <li>Share of profit and loss and share of any discontinued activities (equity method)</li> <li>Section 11 disclosure requirements (if associate accounted for using the fair value method).</li> </ul>
<ul style="list-style-type: none"> <li>Distributions received reduce the investment carrying amount</li> <li>At acquisition, any difference between cost of acquisition and fair value of net identifiable assets is goodwill (see Section 19)</li> <li>Adjust share of profit or loss for additional depreciation or amortisation of amortisable assets (including goodwill) on the basis of the acquisition date fair values (residual amount for goodwill)</li> <li>Goodwill and investment are tested as a single asset when there are any indicators of impairment (see Section 27)</li> <li>Profits and losses from transactions between investor and associate are eliminated to the extent of the investor's interest</li> <li>The financial information used is the financial statements of the associate as of the same reporting date unless impracticable</li> <li>Adjustments are made to the share of profits or losses if the associates accounting policies differ from the investor.</li> </ul>	<ul style="list-style-type: none"> <li>If share of losses exceeds the value of the investment it shall be recognised as zero (unless the investor has a legal or constructive obligation, or has made payments on the associate's behalf)</li> <li>Once reduced to zero, profits are only recorded once the cumulative level of profits exceeds any losses not recorded</li> <li>Cease using the equity method when significant influence ceases</li> <li>If associate becomes a subsidiary or joint venture: previously held interest is fair valued, and gain or loss recorded in profit or loss</li> <li>If significant influence ceases through a full or partial disposal</li> <li>Difference between proceeds plus the fair value of retained interest, and the investment carrying amount is recognised in profit and loss</li> <li>The retained interest following a full or partial disposal or a loss of significant influence with no change in ownership is accounted for as an investment using Section 11 and 12.</li> </ul>		



## Section 15 - Investments in joint ventures

Effective Date  
Periods beginning on or after 1 July 2009

SCOPE	DEFINITIONS	
This section applies to accounting for joint ventures in consolidated financial statements and in the financial statements of an investor that is not a parent but that has a venturer's interest in one or more joint ventures (refer to Section 9 for accounting requirements for separate financial statements).	<p>Joint venture: A contractual arrangement whereby two or more parties undertake an economic activity that is subject to <i>joint control</i>. Joint ventures are classed as: <i>jointly controlled operations</i>, <i>jointly controlled assets</i>, or <i>jointly controlled entities</i>.</p> <p>Joint control: The contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).</p>	
JOINTLY CONTROLLED OPERATIONS	JOINTLY CONTROLLED ASSETS	
<ul style="list-style-type: none"> <li>Involve the use of assets and other resources of the venturers rather than the establishment of an entity</li> <li>Each venturer uses its own assets, incurs its own expenses and liabilities, and raises its own finance which represents its own obligations</li> <li>Each venturer recognises in its financial statements the share of income, the assets its controls, and liabilities and expenses incurred.</li> </ul>	<ul style="list-style-type: none"> <li>Involves joint control by the venturers of one or more assets contributed to, or acquired for the purpose of, the joint venture's activity</li> <li>The venturer recognises in its financial statements:                             <ul style="list-style-type: none"> <li>Share of the jointly controlled assets, classified according to the nature</li> <li>Liabilities and expenses incurred in respect of their interest in the joint venture</li> <li>Share of any liabilities jointly incurred</li> <li>Income from sale or use of its share of the asset together with their share of expenses incurred.</li> </ul> </li> </ul>	
JOINTLY CONTROLLED ENTITIES		
<p>Involves the establishment of a separate entity where a contractual arrangement between the venturers establishes joint control over the economic activity of the entity. All of a venturer's interests in its jointly controlled entities (JCE) are accounted for using one of three measurement models: (1) Cost model; (2) Fair value model, or (3) Equity model.</p>		
<p>(1) Cost Model</p> <ul style="list-style-type: none"> <li>Recognition at cost less impairment losses</li> <li>Any distributions received recognised as income</li> <li>Cannot be used for JCEs with publicly quoted prices - must use fair value model.</li> </ul>	<p>(2) Fair value model</p> <ul style="list-style-type: none"> <li>Initially recognise at transaction price (excl. transaction costs)</li> <li>Reporting date: Measure the investment at fair value - see Section 11 (if impracticable to measure at fair value, use cost model).</li> </ul>	<p>(3) Equity method</p> <ul style="list-style-type: none"> <li>Refer to Section 14 for a detailed description of the equity method (substitute 'joint control' for 'significant influence').</li> </ul>
TRANSACTIONS BETWEEN VENTURER AND JOINT VENTURE	DISCLOSURES	
<ul style="list-style-type: none"> <li>When a venturer contributes or sells assets to a joint venture it recognises only the portion of the gain or loss that relates to interests of other venturers</li> <li>The full amount of any loss is recognised when the contribution or sale provides evidence of an impairment loss</li> <li>When a venturer purchases assets from the joint venture, the share of profits from the joint venture from the transaction is not recognised until the asset is resold.</li> </ul>	<ul style="list-style-type: none"> <li>Accounting policy used for recognising interest in jointly controlled entities (JCEs)</li> <li>Carrying amount of investments in JCEs</li> <li>Fair value of equity accounted investments when published price quotations are available</li> <li>Aggregate amount of commitments relating to joint ventures</li> <li>For equity accounted JCEs, share of profit or loss and discontinued operations</li> <li>Share of profit and loss and share of any discontinued activities (equity method)</li> <li>Section 11 disclosure requirements (Fair value method).</li> </ul>	

## Section 16 - Investment property

Effective Date  
Periods beginning on or after 1 July 2009

SCOPE	DEFINITIONS
<p>This section applies to accounting for the following investments in land or buildings:</p> <ul style="list-style-type: none"> <li>Defined as investment property, and fair value can be reliably measured</li> <li>That are property interests held by a lessee under an operating lease if, and only if, the property would otherwise meet the definition of an investment property and its fair value can be measured reliably (this is optional, on a property by property basis).</li> </ul> <p>All other investment property accounted for as property, plant and equipment using the cost model (see Section 17) unless a reliable ongoing measure of fair value becomes available.</p>	<p><i>Investment property</i> is property held by owner (or lessee) to earn rental or for capital growth or both, rather than for:</p> <ul style="list-style-type: none"> <li>Use in the production/supply of goods or services, or administrative purposes</li> <li>Sale in the ordinary course of business.</li> </ul> <p><i>Mixed use property</i> is separated between investment property and property, plant and equipment. If cannot measure fair value reliably, account as PP&amp;E.</p>

MEASUREMENT		
<p><b>Initial measurement</b></p> <p>At cost, comprising the purchase price plus any directly attributable expenditure (legal and brokerage fees, property transfer taxes, other transaction costs).</p> <p>If payment is deferred beyond normal credit terms, the cost is the present value of all future payments.</p> <p>Cost of a self-constructed investment property is determined using Section 17.</p>	<p><b>Subsequent measurement</b></p> <p>If reliably measurable, fair value at each reporting date, with changes in fair value being recorded in the profit or loss.</p> <p>If fair value is not reliably measurable, use the cost-depreciation-impairment model (see Section 17).</p>	<p><b>Transfers</b></p> <p>If a reliable measure of fair value is no longer available, the property must be transferred to property, plant and equipment and accounted for in accordance with Section 17 - with carrying amount at that date becoming its cost.</p>

DISCLOSURES	
<ul style="list-style-type: none"> <li>Methods and significant assumptions applied in determining fair value</li> <li>The extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and class of the investment property being valued.</li> <li>If there has been no such valuation, that fact is required to be disclosed</li> <li>Any restrictions on the realisability of investment property or the remittance of income and proceeds of disposal</li> <li>Any contractual obligation to purchase, construct, develop, repair, maintain or enhance the investment property.</li> </ul>	<ul style="list-style-type: none"> <li>A reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing separately:               <ol style="list-style-type: none"> <li>(i) Additions, disclosing separately those additions resulting from acquisitions through business combinations</li> <li>(ii) Net gains or losses from fair value adjustments</li> <li>(iii) Transfers to property, plant and equipment when a reliable measure of fair value is no longer available without undue cost or effort (see paragraph 16.8)</li> <li>(iv) Transfers to and from inventories and owner-occupied property</li> <li>(v) Other changes.</li> </ol> </li> </ul> <p>This reconciliation need not be presented for prior periods.            Holders of investment property that is leased are required to give lessee's disclosures (see Section 20).</p>

# Section 17 - Property, Plant and Equipment

Effective Date  
Periods beginning on or after 1 July 2009

SCOPE	DEFINITION AND SPECIFIC EXCLUSIONS	
<p>This section applies to accounting for property, plant and equipment ("PP&amp;E") as well as investment property where fair value cannot be measured reliably.</p>	<p>PP&amp;E are tangible assets that are both:</p> <ul style="list-style-type: none"> <li>• Held for use in the production or supply of goods or services, rental to others, or administrative purposes</li> <li>• Expected to be used during more than one period.</li> </ul>	<p>PP&amp;E does not include biological assets, heritage assets, and mineral rights/similar reserves.</p>
INITIAL RECOGNITION AND MEASUREMENT	SUBSEQUENT MEASUREMENT	
<p><i>Initial recognition (criteria)</i></p> <ul style="list-style-type: none"> <li>• It is probable that associated future economic benefits will flow to the entity</li> <li>• The cost of the item can be measured reliably</li> <li>• Items of PP&amp;E are split into their major components for depreciation purposes.</li> </ul> <p><i>Initial measurement</i></p> <p>At cost, which includes the present value of the following costs:</p> <ul style="list-style-type: none"> <li>• Purchase price net of discounts (incl. legal, brokerage, duties and non-refundable taxes)</li> <li>• Directly attributable to bring PP&amp;E to location and condition necessary for operating in the manner intended</li> <li>• Initial estimate of costs of dismantling, removing the item and restoring the site on which it is located when an obligation has been incurred in respect of this.</li> </ul> <p>The following <u>do not</u> constitute costs of PPE:</p> <ul style="list-style-type: none"> <li>• Costs of opening a new facility</li> <li>• Costs of introducing a new product, service or conducting business in a new location</li> <li>• Administrative and other overheads, and borrowing costs.</li> </ul> <p>Exchange for a non-monetary asset: Cost measured at fair value, unless the transaction is not substantive or fair value is not reliably measurable, in which case cost is the carrying amount of the exchanged item of PP&amp;E.</p>	<p><i>Measurement after initial recognition</i></p> <p>PP&amp;E is measured at cost less accumulated depreciation and any impairment. The revaluation model is not permitted for PP&amp;E under <i>IFRS for SMEs</i>.</p> <p><i>Depreciation</i></p> <ul style="list-style-type: none"> <li>• The depreciable amount of an asset is allocated over its useful economic life from the date an asset is available for use in the manner intended by management</li> <li>• Land (except landfills and quarries) has an unlimited life and is not depreciated</li> <li>• Where there is a change in use, change in residual value or unexpected wear and tear, the residual value, depreciation method or useful life are visited and adjusted for as a change in an accounting estimate (see Section 10)</li> <li>• The depreciation method (i.e. straight line, diminishing value, or usage based such as units of production) should reflect the pattern which the entity expects to consume the asset's future economic benefits</li> <li>• Factors to be considered in determining the useful life of an item of PP&amp;E include: <ul style="list-style-type: none"> <li>- The expected usage of the asset</li> <li>- Expected physical wear and tear</li> <li>- Technical or commercial obsolescence</li> <li>- Legal or similar limits.</li> </ul> </li> </ul> <p><i>Impairment and Derecognition</i></p> <ul style="list-style-type: none"> <li>• At each reporting date, determine whether any PP&amp;E is impaired (see Section 27)</li> <li>• PP&amp;E is derecognised on disposal or when no future economic benefits are expected</li> <li>• Gain/loss on derecognition is taken to profit or loss (proceeds less carrying amount)</li> <li>• Proceeds from compensation in relation to impaired assets are only recognised when the compensation becomes receivable.</li> </ul> <p><i>PP&amp;E held for sale</i></p> <ul style="list-style-type: none"> <li>• A plan to dispose of an asset before the previously expected date is an indicator of impairment that triggers the calculation of the asset's recoverable amount for the purpose of determining whether the asset is impaired. (See Section 27).</li> </ul>	
DISCLOSURES		
<ul style="list-style-type: none"> <li>• For each class of PP&amp;E the following is required to be disclosed: <ul style="list-style-type: none"> <li>- Measurement basis, depreciation methods and useful lives/rates used</li> <li>- Gross carrying amount and accumulated depreciation</li> <li>- A reconciliation from opening to closing amount for the current period only.</li> </ul> </li> <li>• Carrying amount of assets which have restricted title or have been pledged as security</li> <li>• The amount of contractual commitments for acquisition of PP&amp;E.</li> </ul>		

# Section 18 - Intangible Assets other than Goodwill

Effective Date  
Periods beginning on or after 1 July 2009

SCOPE	DEFINITION AND SPECIFIC EXCLUSIONS	
<p>This section applies to accounting for all intangible assets other than goodwill (see Section 19).</p>	<p>Non-monetary asset without physical substance that is identifiable. This is, the asset:</p> <ul style="list-style-type: none"> <li>• Is separable - capable of being separated/divided from the entity (i.e. sold, licenced, rented etc.)</li> <li>• Arises from contractual or other legal rights (even if those rights are inseparable from the entity).</li> </ul>	<p>Intangible assets do not include:</p> <ul style="list-style-type: none"> <li>• Financial assets</li> <li>• Mineral rights and reserves.</li> </ul>
INITIAL REGOGNITION AND MEASUREMENT	SUBSEQUENT MEASUREMENT	INTERNALLY GENERATED INTANGIBLE ASSETS
<p><i>Initial recognition (criteria)</i></p> <ul style="list-style-type: none"> <li>• It is probable that associated future economic benefits will flow to the entity</li> <li>• The cost of the item can be measured reliably</li> <li>• Does not result from expenditure incurred internally on an intangible item (see separate section on this page).</li> </ul> <p><i>Initial measurement</i></p> <ul style="list-style-type: none"> <li>• Separate acquisition: Purchase price (net of discounts), including import duties and non-refundable taxes</li> <li>• Acquisition as part of business combination: Cost is the fair value at acquisition</li> <li>• Acquisition by way of a grant - Cost is the fair value at the date of the grant (see Section 24)</li> <li>• Exchange for a non-monetary asset: As for PP&amp;E (see Section 17).</li> </ul>	<p>Measured at cost less accumulated amortisation and any impairment losses.</p> <p><i>Amortisation</i></p> <ul style="list-style-type: none"> <li>• An entity allocates the depreciable amount of an asset over its useful economic life from when an asset is available for use in the manner intended by management</li> <li>• Finite useful life for all intangibles (10yrs if no reliable estimate)</li> <li>• Assume zero residual value (unless there is a contractually committed buyer at end of the useful life or active market in which to sell the asset)</li> <li>• The amortisation method (e.g. straight line, reducing balance) reflects the pattern which the entity expects to consume the asset's future economic benefits (assume straight line if the pattern cannot be determined)</li> <li>• Factors resulting in a review of amortisation period or method: changes to how the asset is used, technological advancement and changes in market prices. Dealt with as a change in estimate (see Section 10).</li> </ul> <p><i>Impairment and Derecognition</i></p> <ul style="list-style-type: none"> <li>• As for PP&amp;E (see Section 17).</li> </ul>	<p>Unless it forms part of the cost of another asset in accordance with the applicable section of <i>IFRS for SMEs</i>, all costs incurred internally on an intangible item (for both research and development activities), are recognised as an expense when incurred.</p> <p>Expenditure on the following items is recognised as an expense and does not result in recognition of intangible assets:</p> <ul style="list-style-type: none"> <li>• Internally generated brands, logos, publishing titles, customer lists and similar items</li> <li>• Start-up activities (i.e. start-up costs)</li> <li>• Training activities</li> <li>• Advertising and promotional activities</li> <li>• Relocating or reorganising part or all of an entity</li> <li>• Internally generated goodwill.</li> </ul>
DISCLOSURES		
<ul style="list-style-type: none"> <li>• The useful life and amortisation rate and method used</li> <li>• Line in which amortisation is included in the statement of comprehensive income</li> <li>• A reconciliation for the current period of the carrying amount from the beginning to end of the period</li> <li>• For all assets that are material to the financial statements a description of the carrying amount and remaining amortisation period</li> <li>• For assets acquired as part of a grant the fair value of assets and the carrying amounts</li> <li>• The existence and carrying amount of assets which have restricted title or pledged as security for liabilities</li> <li>• The amount of contractual commitments for the acquisition of intangible assets</li> <li>• Aggregate amount of research and development expenditure recognised as an expense during the period.</li> </ul>		

The requirements set out above do not preclude recognising a prepayment as an asset when payment for goods or services has been made in advance of the delivery of the goods or the rendering of the services.

Expenditure on an intangible item that was initially recognised as an expense is not recognised at a later date as part of the cost of an asset.

## Section 19 - Business Combinations

SCOPE		DEFINITIONS
<p>This section applies to accounting for business combinations:</p> <ul style="list-style-type: none"> <li>Identifying the acquirer</li> <li>Measuring the cost of the business combination</li> <li>Allocating cost to the assets acquired and liabilities and contingent liabilities assumed</li> <li>Initial and subsequent accounting for goodwill.</li> </ul>	<p>Scope exclusions:</p> <ul style="list-style-type: none"> <li>Combinations of entities or businesses under common control</li> <li>The formation of a joint venture</li> <li>Acquisition of a group of assets that do not constitute a business.</li> </ul>	<p>A business combination is the bringing together of separate entities or businesses into one reporting entity, where (in nearly all instances) one entity, the acquirer, obtains control of one or more other businesses, the acquiree.</p> <p>The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.</p>
THE PURCHASE METHOD		
<p>The purchase method must be used for all business combinations, and involves applying the following three steps detailed below:</p>		
<p><u>Step 1 - Identify the acquirer</u></p> <p>The acquirer is the combining entity that obtains control of the other combining entity.</p> <p>Control is the power to govern the financial and operating policies of an entity or business so as to obtain benefits from its activities.</p> <p>Indicators that may identify the which party is (usually) acquirer:</p> <ul style="list-style-type: none"> <li>Entity with the higher fair value</li> <li>The entity giving up cash or other assets</li> <li>The entity with management that dominates the selection of management of the combined entity.</li> </ul>	<p><u>Step 3 - Allocating the cost of a business combination</u></p> <p>At acquisition date, the acquirer recognises and measures at fair value:</p> <ul style="list-style-type: none"> <li>Assets (other than intangible assets), where it is probable that future economic benefits will flow to the entity, and their fair values can be reliably measured</li> <li>Liabilities (other than contingent liabilities), where it is probable that an outflow of resources will be required to settle the obligation and fair value can be measured reliably</li> <li>Intangible assets and contingent liabilities, where their fair value can be reliably measured.</li> </ul> <p>Any excess of the consideration paid over the identifiable net assets acquired is recognised as goodwill (or as 'negative goodwill', which is recognised immediately in profit or loss).</p> <p>Provisional amounts are recognised for business combinations where the initial accounting is incomplete at the end of the reporting period. Adjustments to those amounts, to reflect new information obtained within 12 months from the acquisition date about amounts recognised for assets and liabilities, are applied retrospectively. After 12 months, an adjustment is only made to the initial accounting if it is the correction of an error.</p> <p>The statement of comprehensive income of the acquirer includes the acquiree's profits and losses since the date of acquisition, based on the cost of the business combination to the acquirer (e.g. an adjusted depreciation charge to take account of the acquisition date fair value of PP&amp;E).</p> <p>If the fair value of a contingent liability cannot be measured reliably, there is a resulting effect on the amount recognised as goodwill, and the acquirer is required to disclose the information about the contingent liability as set out in Section 21</p>	
<p><u>Step 2 - Measure the cost of the business combination.</u></p> <p>The cost of a business combination is the aggregate of:</p> <ul style="list-style-type: none"> <li>The fair value of the consideration given and liabilities incurred or assumed</li> <li>Any directly attributable costs.</li> </ul> <p>Any adjustments to the cost that are contingent on future events are included as part of the cost of the combination provided they are probable and can be measured reliably.</p> <p>The cost of the combination is adjusted retrospectively where a potential adjustment is not recognised at the acquisition date and subsequently become probable.</p>		

## Section 19 - *Business Combinations*

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Effective Date  
Periods beginning on or after 1 July 2009

### GOODWILL

The acquirer, at the acquisition date:

- Recognises goodwill acquired in a business combination as an asset
- Initially measures that goodwill at its cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

After initial recognition, the acquirer measures goodwill acquired in a business combination at cost less accumulated amortisation and accumulated impairment losses:

- An entity shall follow the subsequent measurement principles in Section 18 for amortisation of goodwill. If an entity is unable to make a reliable estimate of the useful life of goodwill, the life is presumed to be ten years
- Impairment against goodwill is recognised and measured in accordance with Section 27 *Impairment of Assets*.

### DISCLOSURES FOR BUSINESS COMBINATIONS EFFECTED DURING THE REPORTING PERIOD

- Names and descriptions of the combining entities, and the acquisition date
- Percentage of voting equity instruments acquired
- The cost of the combination and a description of the components of that cost (e.g. cash, equity instruments and debt instruments)
- The amounts recognised at the acquisition date for each class of the acquired assets, liabilities and contingent liabilities, including goodwill
- The amount of any negative goodwill recognised in profit or loss, and the line item in which it is recognised
- A reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period, showing separately changes arising from new business combinations, impairment losses, disposals and other changes.

## Section 20 - Leases

### SCOPE

This section covers accounting for all leases and contracts that convey the right to use assets in return for payments, including arrangements that do not take the legal form of a lease but convey the right to use assets in return for payments. Arrangements excluded from the scope of Section 20 are:

- Leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources (see Section 34)
- Licensing agreements (e.g. for motion picture films, video recordings, plays, manuscripts, patents and copyrights - see Section 18)
- Measurement of property accounted for as investment property (lessees), and, measurement of investment property provided by lessors under operating leases (see Section 16)
- Measurement of biological assets held by lessees under finance leases and biological assets provided by lessors under operating leases (see Section 34)
- Leases where contractual terms could lead to a loss that is unrelated to changes in the price of the leased asset, foreign exchange rates, or a default by one of the counterparties
- Operating leases that are onerous
- Agreements that are contracts for services which involve the use of assets, but do not transfer the right to use those assets from one contracting party to the other.

### CLASSIFICATION OF LEASE AS EITHER FINANCE OR OPERATING

- A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership, based on the substance of the transaction rather than the form of the contract
- Operating leases are leases that are not finance leases
- Lease classification is made at the inception of the lease and is not changed during the term of the lease unless the lessee and the lessor agree to change the provisions of the lease (other than simply by renewing the lease), in which case the lease classification is re-evaluated.

#### Situations that individually/in combination would normally lead to a finance lease

- Ownership of the asset transfers to the lessee by the end of the lease term
- Lessee option to purchase at a price expected to be lower than fair value as at exercise date
- Lease term is for the major part of the economic life of the asset
- Present value of minimum lease payments at inception amounts to at least substantially all of the fair value of the leased asset
- The leased assets are of such a specialised nature that only the lessee can use them without major modifications.

#### Indicators that individually/in combination would normally lead to a finance lease

- Lessor losses upon cancellation by the lessee are borne by the lessee
- Gains or losses from the fluctuation in the residual value of the leased asset accrue to the lessee
- The lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.



## Section 20 - Leases

### FINANCIAL STATEMENTS OF LESSEES

#### FINANCE LEASES

##### Initial recognition and measurement

- A lessee recognises its right of use (an asset) and obligation (a liability) under the lease agreement in its statement of financial position equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments
- Initial (incremental) direct costs incurred in arranging the lease are added to the amount recognised as an asset
- The present value of the minimum lease payments is calculated using the interest rate implicit in the lease or, if this cannot be determined, the lessee's incremental borrowing rate.

##### Subsequent measurement

- Minimum lease payments are allocated between the finance charge and the reduction of the outstanding liability using the effective interest rate (see Section 11)
- Contingent rents are recognised as an expense in the periods in which they are incurred
- The leased asset is depreciated in accordance with the relevant Section of IFRS for SMEs or, if it is not reasonably certain that the lessee will obtain ownership by the end of the lease term, over the shorter of the asset life or the lease term
- The asset is also assessed for impairment at each reporting date.

#### OPERATING LEASES

##### Recognition of lease payments

- There is no initial recognition of any right of use (an asset) and obligation (a liability).
- Lease payments are recognised as an expense on a straight line basis unless another systematic basis is more representative of the time pattern of the user's benefit, or the payments are structured to increase in line with expected general inflation (and there are no other factors that vary payments to the lessor).

#### SALE AND LEASEBACK TRANSACTIONS

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. The lease payment and the sale price are usually interdependent because they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends on the type of lease.

If the transaction results in a finance lease:

- The seller-lessee does not recognise immediately any excess of sales proceeds over the carrying amount
- Instead, the seller-lessee defers any excess and amortises it over the lease term.

If the transaction results in an operating lease:

- The transaction is at fair value - the seller recognises profit/loss immediately
- If the transaction is below fair value, then the seller recognises profit/loss immediately unless it is compensated for by future lease payments below market price, in which case the loss is deferred and amortised in proportion to the lease payments over the expected useful life of the asset
- If the transaction is above fair value, the seller defers the excess over fair value and amortises it over the useful life of the asset.

### DISCLOSURES

##### Finance lease disclosures include:

- Net carrying amount at the financial reporting date for each class of asset
- Total future minimum lease payments, analysed as within 1 year, later than 1 year but within 5 years, and over 5 years
- General description of the lessee's significant leasing arrangements. This includes contingent rent, renewal or purchase options, subleases and restrictions arising from lease contracts
- Also refer to Sections 17, 18, 27, and 34 for additional disclosures for assets held under finance leases.

##### Operating lease disclosures include:

- Total future minimum lease payments under non-cancellable operating leases, analysed as within 1 year, later than 1 year but within 5 years, and over 5 years
- Lease payments recognised as an expense
- General description of the lessee's significant leasing arrangements. This includes contingent rent, renewal or purchase options, subleases and restrictions arising from lease contracts.

## Section 20 - Leases

### FINANCIAL STATEMENTS OF LESSORS

#### FINANCE LEASES

##### Initial recognition and measurement

- Assets held under a finance lease should be presented as a receivable, measured at the net investment of the lease (being the gross investment in the lease discounted at the interest rate implicit in the lease)
- The gross investment is the aggregate of the minimum lease payments receivable and any unguaranteed residual value accruing to the lessor
- Initial direct costs are included in the initial measurement and recognised over the lease term (except leases involving manufacturer or dealer lessors).

##### Subsequent measurement

- The recognition of finance income reflects a constant periodic rate of return on the net investment in the lease
- The lease payments are applied to the gross investment receivable to reduce both the principal and the unearned finance income
- Adjustments to the unguaranteed residual value will result in a reassessment of the finance income allocation, with reductions in amounts receivable recognised immediately in profit or loss.

#### FINANCE LEASES - MANUFACTURER/DEALER LESSORS

- Income on a manufacturer/dealer lessor arrangement arises as follows:
  - Profit/loss equivalent to that arising on an outright sale
  - Finance income over the lease term.
- The revenue recognised is the lower of:
  - The fair value of the asset
  - The present value of the minimum lease payments computed at a market rate of interest.
- The cost of sale recognised is the cost of the asset (or the carrying amount if different) less the present value of the unguaranteed residual amount
- Costs incurred in arranging the lease are expensed
- Where artificially low rates of interest are quoted, profit is restricted to that which would apply if market rates were charged.

#### OPERATING LEASES

##### Initial recognition and measurement

- Assets subject to operating leases should be presented in the statement of financial position according to the nature of the asset.

##### Subsequent measurement

- Lease payments are recognised as income in profit or loss on a straight line basis unless another systematic basis is more representative of the time pattern of the lessee's benefit from the asset or the payments are structured to increase in line with expected general inflation (and there are no other factors that vary payments to the lessor)
- Costs incurred in earning lease income are expensed and the asset should be depreciated in line with the entity's policy for similar assets
- Costs incurred in arranging the lease are added to the cost of the asset and recognised on the same basis as lease income.

#### DISCLOSURES

##### Finance lease disclosures include:

- Reconciliation between the gross investment in the lease at the end of the reporting period and the PV of minimum lease payments at the end of the reporting period
- Gross investment in the lease and the present value of minimum lease payments receivable at the end of the reporting period analysed as within 1 year, later than 1 year but within 5 years, and over 5 years
- Unearned finance income
- Unguaranteed residual values
- Accumulated allowance for uncollectible minimum lease payments
- Contingent rents recognised as income
- General description of significant leasing arrangements.

##### Operating lease disclosures include:

- Future minimum lease payments under non-cancellable operating leases as within 1 year, later than 1 year but within 5 years and over 5 years
- Total contingent rents recognised as income
- General description of the lessor's significant leasing arrangements.

## Section 21 - Provisions and Contingencies

Effective Date  
Periods beginning on or after 1 July 2009

SCOPE		
<p>This section applies to all provisions, contingent liabilities and contingent assets, except:</p> <ul style="list-style-type: none"> <li>Leases (Section 20) and Construction contracts (Section 23)</li> <li>Employee benefit obligations (Section 28) and Income tax (Section 29).</li> </ul>	<p>This section does not apply to executory contracts unless they are onerous contracts.</p>	<p>The term 'provision' does not refer to:</p> <ul style="list-style-type: none"> <li>Depreciation</li> <li>Impairment of assets</li> <li>Uncollectible receivables.</li> </ul>
PROVISIONS		
<p><u>Recognition</u></p> <p>A provision is recognised in the statement of financial position and as an expense when:</p> <ul style="list-style-type: none"> <li>As a result of a past event, there is a legal or constructive obligation at the reporting date which cannot be avoided</li> <li>The obligation can be reliably measured</li> <li>It is probable (more likely than not) that there will be an outflow of economic benefits in settlement.</li> </ul>	<p><u>Initial measurement</u></p> <ul style="list-style-type: none"> <li>Measurement is at the present value of the best estimate of the amount required to settle the obligation</li> <li>The provision for a single obligation is taken to be the most likely outcome</li> <li>The provision for a large population of items should be based on the estimate that reflects the weighting of all possible outcomes by their associated probabilities</li> <li>Gains from the expected disposal of assets are excluded from the measurement of the provision</li> <li>When part of the provision may be reimbursed by another party, this amount should be recognised as a separate asset when it is virtually certain the reimbursement will be received. The reimbursement asset is not offset against the provision.</li> </ul>	<p><u>Subsequent measurement</u></p> <ul style="list-style-type: none"> <li>Charges made against a provision to reduce the carrying value in the statement of financial position must relate to the expenditure for which the provision was originally recognised</li> <li>Provisions are reviewed at each reporting date and adjusted to reflect the present value of the current best estimate required to settle the obligation</li> <li>Subsequent amendments to the provision are charged to profit or loss as an expense in line with previous recognition, with the exception of the unwinding of discount, which is recorded within finance costs.</li> </ul>
<div style="background-color: #00bcd4; color: white; text-align: center; padding: 2px 5px; font-weight: bold;">CONTINGENT LIABILITIES</div> <p>A contingent liability is either a possible but uncertain obligation, a present obligation that cannot be reliably measured or one where it is less likely than not (but not remote) that there will be an outflow of economic benefits. Contingent liabilities are required to be disclosed in the financial statements but are not recognised in the statement of financial position unless they arise from a business combination (see Section 19).</p>		
<div style="background-color: #00bcd4; color: white; text-align: center; padding: 2px 5px; font-weight: bold;">CONTINGENT ASSETS</div> <p>Contingent assets are not recognised as an asset and are disclosed within the financial statements only. When future economic benefits become virtually certain, the asset is no longer considered contingent and is recognised in the statement of financial position.</p>		
DISCLOSURES		
<ul style="list-style-type: none"> <li>For each provision:                             <ul style="list-style-type: none"> <li>- Opening carrying amount reconciled to closing carrying amount showing additions, adjustments and amounts charged/reversed in the period</li> <li>- A description of nature, amount and timing</li> <li>- Uncertainties around timing or amount</li> <li>- Amount of any expected reimbursement.</li> </ul> </li> <li>Each contingent liability requires a description of its nature, an estimate of financial effect as well as an indication of uncertainty around amount and timing and any possible reimbursement</li> <li>Each contingent asset requires description of nature and estimate of financial effect.</li> </ul>		

## Section 22 - *Liabilities and Equity*

### SCOPE

<p>This section establishes principles for classifying financial instruments as either liabilities or equity and addresses accounting for equity instruments issued to individuals or other parties acting in their capacity as investors in equity instruments (i.e. in their capacity as owners).</p>	<p>Section 26 addresses accounting for a transaction in which the entity receives goods or services (incl. employee services) as consideration for its equity instruments (incl. shares or share options) from employees and other vendors acting in their capacity as vendors of goods and services.</p>	<p>This section applies to all types of financial instruments, except:</p> <ul style="list-style-type: none"> <li>Interests in subsidiaries (Section 9), associates (Section 14) and JVs (Section 15)</li> <li>Employers' rights and obligations under employee benefit plans (Section 28)</li> <li>Acquirer contingent consideration in a business combination (Section 19)</li> <li>Contracts and obligations under share-based payment (Section 26) - however Section 22 does apply to treasury share transactions.</li> </ul>
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### CLASSIFICATION AS EQUITY

<p>Equity: the residual interest in the net assets of an entity.</p> <p><i>(i) Puttable instruments</i></p> <p>These meet the definition of a liability, as they permit the holder to 'put' the instrument back to the issuer, or are automatically redeemed on the occurrence of an uncertain future event or the death/retirement of the holder. In limited cases, they are classified as equity because they represent a residual interest in the issuer's net assets.</p> <p>Criteria for the recognition of a puttable instrument as equity are:</p> <ul style="list-style-type: none"> <li>Entitles the holder to a pro rata share of the entity's net assets upon liquidation</li> <li>Included in the class of instruments that is subordinate to all other classes</li> <li>All instruments in this subordinate class have identical features</li> <li>There is no contractual obligation to deliver cash or another financial assets - except for redemption as indicated above</li> <li>Total lifetime expected cash flows are based on profit or loss, change in recognised net assets, or change in fair value of the recognised and unrecognised net assets.</li> </ul> <p><i>(ii) Other instruments classified as equity</i></p> <p>Instruments that are subordinate to all other classes and impose an obligation to deliver a pro rata share of the net assets of the entity to the holder only upon liquidation.</p>
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### CLASSIFICATION AS LIABILITY

<p>Liability: a present obligation arising from past events, expected to be settled with an outflow of economic benefits.</p> <p><i>(i) Puttable instruments (see 'Classification as Equity' for a description and examples)</i></p> <ul style="list-style-type: none"> <li>Liabilities if the pro-rata share of net assets is determined on a non-IFRS for SME basis</li> <li>Puttables of a subsidiary are liabilities in the group consolidated financial statements.</li> </ul> <p><i>(ii) Preference shares</i></p> <ul style="list-style-type: none"> <li>With a mandatory redemption feature at a fixed/determinable amount and date</li> <li>With a right of redemption feature (holder) at a fixed/determinable amount and date.</li> </ul> <p><i>(iii) Other instruments</i></p> <ul style="list-style-type: none"> <li>If the instrument is entitled to a distribution of net assets on liquidation that is subject to a maximum amount (a ceiling)</li> <li>An instrument that requires payments be made to the holder before liquidation (e.g. mandatory dividends).</li> </ul>
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### DISTRIBUTIONS TO OWNERS

<p>These should be treated as a deduction to equity. Any non-cash distributions are disclosed except where they are ultimately controlled by the same party before and after the distribution.</p>
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### CONVERTIBLE DEBT (AND SIMILAR COMPOUND INSTRUMENTS)

<ul style="list-style-type: none"> <li>Proceeds must be split between the liability and equity component</li> <li>The liability component is assessed as the present value of a similar liability with no conversion options, with the difference between the total proceeds and the liability component being taken as equity</li> <li>Interest on the liability component is recognised in accordance with the effective interest rate method.</li> </ul>
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## Section 22 - Liabilities and equity

### ISSUE OF EQUITY INSTRUMENTS

#### Recognition

Recognition is on the issue of instruments that require another party to provide cash or other resources in exchange for those instruments.

*If instruments are issued before the entity receives the cash or other resources:*

- Present the amount receivable as an offset to equity (not as an asset).

*If cash or other resources are received before the equity instruments are issued, and the entity cannot be required to repay the cash or other resources received:*

- Recognise an increase in equity to the extent of consideration received.

*If instruments have been subscribed for but not issued, and the entity has not yet received the cash or other resources:*

- Do not recognise an increase in equity.

#### Measurement

- Fair value of cash (other resources) received or receivable, less direct issuing costs
- Present value if payment is deferred, and the time value of money is significant
- Transaction costs (net of tax) are treated as a deduction from equity
- Presentation of the increase in equity from issuing shares is governed by applicable laws (such as a requirement to split the increase between par value and share premium).

### SALE OF OPTIONS, RIGHTS, AND WARRENTS

Apply the same principles as '*Issue of equity instruments*'.

### CAPITALISATION OR BONUS ISSUES OF SHARES AND SHARE SPLITS

Capitalisation or bonus issue (sometimes referred to as a 'stock dividend')

- Issue of new shares to shareholders in proportion to their existing holdings
- e.g. Issue of one dividend or bonus share for every five shares held.

A share split (sometimes referred to as a 'stock split')

- The dividing of an entity's existing shares into multiple shares
- e.g. Each shareholder may receive one additional share for each share held (in some cases the old shares may be cancelled and replaced with new shares).

Capitalisation and bonus issues and share splits do not change total equity.

Amounts are reclassified within equity as required by applicable laws.

### TREASURY SHARES

These are equity instruments of an entity that it has reacquired.

Deduct from equity the fair value of the consideration given for the treasury shares.

No recognition of a gain or loss in profit or loss on the purchase, sale, issue or cancellation of treasury shares is permitted.

### NON-CONTROLLING INTEREST (AND TRANSACTIONS IN SHARES OF A CONSOLIDATED SUBSIDIARY)

- On consolidation, a non-controlling interest (NCI) in the net assets of a subsidiary is included within equity
- Any changes in the parent's controlling interest that do not result in a loss of control are treated as transactions with equity holders in their capacity as equity holders
- The NCI will therefore be adjusted to reflect changes in the parent's interest in subsidiary net assets
- The difference between the fair value of consideration and the change in the NCI is recognised directly in equity, attributable to equity holders of the parent
- No gains/losses or changes in the carrying amounts of assets/liabilities are recognised.

## Section 23 - Revenue

### SCOPE

<p>This section covers accounting for revenue arising from:</p> <ul style="list-style-type: none"> <li>• Sale of goods</li> <li>• Rendering of services</li> <li>• Construction contracts</li> <li>• Interest, royalties or dividends arising from the use by others of the entity's assets.</li> </ul>	<p>This section does not cover accounting for revenue from some transactions and events dealt with in other sections:</p> <ul style="list-style-type: none"> <li>• Lease agreements (Section 20)</li> <li>• Dividends and other income arising from equity accounted associates and JVs (Section 14 and 15)</li> <li>• Changes in the fair value of financial assets and financial liabilities or their disposal Section 11 and 12)</li> <li>• Changes in the fair value of investment property (Section 16)</li> <li>• Initial recognition and changes in the fair value of biological assets related to agricultural activity (Section 34)</li> <li>• Initial recognition of agricultural produce (Section 34).</li> </ul>
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### MEASUREMENT

<ul style="list-style-type: none"> <li>• Revenue is measured at the fair value of the consideration received or receivable</li> <li>• Revenue excludes all amounts collected on behalf of third parties (e.g. sales taxes, or when acting as an agent when an entity recognises only the amount of any commission).</li> </ul>	
<p>Exchanges of goods and services</p> <p>Revenue is not recognised when goods or services are exchanged for:</p> <ul style="list-style-type: none"> <li>• Goods or services that are of a similar nature and value</li> <li>• Dissimilar goods or services but the transaction lacks commercial substance.</li> </ul> <p>When goods are sold or services are exchanged for dissimilar goods or services in a transaction that has commercial substance, the transaction is measured at:</p> <ul style="list-style-type: none"> <li>• The fair value of the goods/services received adjusted by the amount of any payment transferred</li> <li>• If the amount above cannot be measured reliably, then at the fair value of the goods/services given up adjusted by the amount of any payment transferred</li> <li>• If the fair value of neither the asset received nor the asset given up can be measured reliably, then at the carrying amount of the asset given up adjusted by the amount of any payment transferred.</li> </ul>	<p>Financing transactions and deferred payments</p> <p>These arise where interest-free credit or below market rate interest terms are provided to the buyer.</p> <p>If payment is deferred, this constitutes a financing transaction.</p> <p>The fair value of the consideration is the present value of all future receipts determined using an imputed rate of interest, determined as either:</p> <ul style="list-style-type: none"> <li>• The prevailing rate of interest for a similar instrument of an issuer with a similar credit rating</li> <li>• A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.</li> </ul> <p>The difference between the present value and nominal value is accounted for as interest.</p>

### IDENTIFICATION OF THE REVENUE TRANSACTION

<p>The revenue recognition criteria in this section are applied separately to each transaction, However, when necessary to reflect the substance of the transaction, the revenue recognition criteria are applied:</p> <ul style="list-style-type: none"> <li>• To the separately identifiable components of a single transaction</li> <li>• To two or more transactions as one, when linked in such a way that the commercial effect cannot be understood without reference to the series of transactions as a whole.</li> </ul>	<p>Customer Loyalty Awards (CLA)</p> <ul style="list-style-type: none"> <li>• Accounted for as a separate component of the transaction</li> <li>• Fair value of the consideration is allocated between the CLAs and the other components of the sale</li> <li>• Consideration allocated to the CLAs is measured by reference to their fair value (i.e. the amount for which the CLAs could be sold separately).</li> </ul>
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## Section 23 - Revenue

### SALE OF GOODS

- Revenue is recognised when all the following conditions are satisfied:
  - Significant risks and rewards of ownership have been transferred to the buyer, which is most likely to occur when legal title or possession passes
  - The entity does not retain continuing managerial involvement nor effective control over the goods sold
  - It is probable that economic benefits will flow to the entity
  - The costs incurred in respect of the transaction can be measured reliably.
- Significant risks and rewards may be retained in the following circumstances:
  - The entity retains an obligation for unsatisfactory performance not covered by normal warranties
  - Receipt of revenue is contingent on the buyer selling the goods
  - When goods are shipped subject to installation and installation is a major part of the contract
  - When the buyer has the right to rescind purchase for a reason specified in the sales contract and there is uncertainty about the probability of return.

### RENDERING OF SERVICES

- When the outcome of a transaction involving rendering of services can be estimated reliably revenue is recognised by reference to the stage of completion when the following conditions are met:
  - Revenue can be reliably measured
  - It is probable that the economic benefits of the transaction will flow to the entity
  - The stage of completion of the transaction can be measured reliably
  - Costs incurred and costs to complete can be measured reliably.
- When the outcome of rendering services cannot be estimated reliably, revenue is recognised to the extent that expenses recognised are recoverable.

### INTEREST, ROYALTIES AND DIVIDENDS

- Recognised when the inflow of economic benefits is probable and reliably measureable:
- Interest: Account for using the effective interest method (Section 11)
  - Royalties: Recognised on an accruals basis
  - Dividends: Recognised when shareholder's right to receive payment is established.

### CONSTRUCTION CONTRACTS

- When the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to stage of completion
- Requires reliable estimates of stage of completion, future costs and collectability
- The requirements are applied separately to each construction contract and, where necessary, to separately identifiable components
- A group of contracts (whether with a single or multiple customers) are accounted for together if they are negotiated as a single package, are interrelated to the extent they are part of a single project, and are performed concurrently or in a continuous sequence.

### STAGE OF COMPLETION MEASUREMENT

- The stage of completion is measured using the method that most reliably measures the work performed, methods include:
  - Costs incurred to date as a proportion of total expected costs
  - Surveys of work performed
  - Completion of a physical proportion of the service transaction or contract work.
- Often measured using the percentage of completion method, which is used to recognise revenue from rendering of services and from construction contract. It is noted that progress payments and advances received from customers often do not reflect the percentage of completion
- Costs that relate to future activity are recognised as an asset if it is probable that the costs will be recovered. If not probable, they are recognised as an expense immediately
- When expected costs exceed expected revenues, the expected loss is recognised as an expense immediately.

### DISCLOSURES

- Accounting policies adopted for revenue recognition including the methods used to determine stage of completion
- Revenue recognised in the period showing separately for; sale of goods, rendering of services, interest, royalties, dividends, commissions, grant and other significant streams
- For construction contracts the following disclosures are required:
  - Revenue recognised in the period
  - Methods used to determine contract revenue and stage of completion
  - Gross amount due from/to customers for contract work as an asset/liability.



## Section 24 - Government Grants

Effective Date  
Periods beginning on or after 1 July 2009

### SCOPE

This section specifies the accounting for all government grants. A government grant is assistance by government in the form of a transfer of resources to an entity in return for past or future compliance with specified conditions relating to the operating activities of the entity.

Government grants exclude those forms of government assistance that cannot reasonably have a value placed upon them and transactions with government that cannot be distinguished from the normal trading transactions of the entity.

This section does not cover government assistance that is provided for an entity in the form of benefits that are available in determining taxable profit or tax loss, or are determined or limited on the basis of income tax liability. Examples of such benefits are income tax holidays, investment tax credits, accelerated depreciation allowances and reduced income tax rates.

Section 29 *Income Tax* covers accounting for taxes based on income.

### RECOGNITION AND MEASUREMENT

An entity recognises government grants as follows:

- a) A grant that does not impose specified future performance conditions on the recipient is recognised in income when the grant proceeds are receivable
- b) A grant that imposes specified future performance conditions on the recipient is recognised in income only when the performance conditions are met
- c) Grants received before the recognition criteria are satisfied are recognised as a liability.

An entity measures grants at the fair value of the asset received or receivable.

### DISCLOSURES

- The nature and amounts of government grants recognised in the financial statements
- Unfulfilled conditions and other contingencies attaching to grants that have not been recognised in income
- An indication of other forms of government assistance from which the entity has directly benefited - government assistance is action by government designed to provide an economic benefit specific to an entity or range of entities qualifying under specified criteria (e.g. free technical or marketing advice, the provision of guarantees, and loans at nil or low interest rates.)

## Section 25 - *Borrowing costs*

Effective Date  
Periods beginning on or after 1 July 2009

### SCOPE

This section covers the accounting for borrowing costs incurred in connection with the borrowing of funds including:

- Interest expense calculated using the effective interest method (per Section 11)
- Finance charges relating to finance leases (per Section 20)
- Exchange differences arising from foreign currency borrowings when they relate to an adjustment to interest costs.

### RECOGNITION

All borrowing costs are recognised as an expense in profit or loss in the period in which they are incurred.

Borrowing costs are not capitalised as part of the cost (or carrying amount) of assets.

### DISCLOSURES

- Section 5 sets out the required disclosures for finance costs
- Section 11 sets out the required disclosures for total interest expense (using the effective interest method) for financial liabilities that are not measured at fair value through profit or loss
- Section 25 does not require any additional disclosures.

## Section 26 - Share-based payment

### SCOPE

This section applies to all equity-settled share based payment (SBP) transactions and cash-settled share-based payment transactions.

Equity settled SBPs are when goods or services are acquired as consideration for equity instruments of the entity (including shares or share options).

Cash-settled SBPs are when goods or services are acquired and a liability incurred based on the price or value of the entity's shares.

### GENERAL RECOGNITION AND MEASUREMENT CRITERIA

A SBP is recognised when the goods or services have been acquired or received:

- *Equity settled SBP*: A corresponding increase in equity
- *Cash-settled SBP*: A corresponding recognition of a liability.

When the goods or services received or acquired in a share-based payment transaction do not qualify for recognition as assets, the entity recognises an expense.

#### Vesting conditions

Where an employee is not required to complete a specified period of service before becoming unconditionally entitled to SBP, the SBP vests immediately. In the absence of evidence to the contrary, it is assumed that services rendered by the employee as consideration for the SBP have been received. On grant date, recognise an expense for the services received in full, and an increase in equity/liabilities.

Where the SBP is subject to a vesting period, the entity accounts for the services received over the vesting period with a corresponding increase in equity or liabilities.

### MEASUREMENT - EQUITY-SETTLED SBPs

#### Measurement principle

Equity settled SBPs are measured at the fair value of the goods or services received or, if not reliably measureable, at the fair value of the equity instruments granted. Typically, it is not possible to reliably measure the fair value of services received from employees.

- Transactions with employees are measured at grant date
- Transactions with third parties are measured at the date the good or service is received
- Where the grant of equity instruments is conditional on vesting conditions:
  - All vesting condition related only to employee service and non-market vesting conditions are taken into account when estimating the number of equity instruments expected to vest. Revisions are made to the estimates in future accounting periods where required
  - All market vesting conditions and non-vesting conditions are taken into account when estimating the fair value of the share options at the measurement date, with no subsequent revision irrespective of whether the SBP vests.

#### Modifications to terms and conditions

- If the fair value increases as a result of the modification, the incremental fair value granted is included in the measurement of the amount recognised for services received
- If the fair value decreases as a result of the modification, no adjustment is made for this decrease and the accounting assumes that no modification has occurred
- Where a SBP award is cancelled or settled, it is treated as an acceleration of vesting (an immediate charge).

#### Shares - Fair value measurement

The fair value is measured in accordance with the following hierarchy:

1. Observable market price
2. Entity specific market data (i.e. recent transaction in the entity's shares or an independent fair valuation)
3. Indirect measurement using a valuation method (refer paragraph 26.10(c)).

#### Share options and share appreciation rights - Fair value measurement

The fair value should be measured in line with the following hierarchy:

1. Observable market price
2. Entity specific market data (i.e. recent transaction in the entity's shares)
3. Use of an option pricing model (see Section 26).

## Section 26 - *Share-based payment*

### MEASUREMENT - CASH-SETTLED SBPs

#### Measurement principle

- Cash-settled SBP are measured at the fair value of the liability
- Until the liability is settled, the liability is remeasured to fair value at each reporting date, with any changes taken to profit or loss.

#### Share based payments with cash alternatives (entity or counterparty has a choice to settle in cash or equity)

This is accounted for as a cash settled SBP, unless (in which case treat as an equity settled SBP):

- The entity has a past practice of settling in equity instruments
- The option has no commercial substance because the cash settlement amount bears no relationship to, and is likely to be lower in value than, the fair value of the equity instrument.

### GROUP PLANS

If a SBP award is granted by a parent entity to the employees of one or more subsidiaries in the group, and the parent presents consolidated financial statements using either *the IFRS for SMEs* or full IFRSs, such subsidiaries are permitted to recognise and measure SBP expense (and the related capital contribution by the parent) on the basis of a reasonable allocation of the expense recognised for the group.

### GOVERNMENT MANDATED PLANS

Some jurisdictions have programmes established under law by which equity investors (such as employees) are able to acquire equity without providing goods or services that can be specifically identified (or by providing goods or services that are clearly less than the fair value of the equity instruments granted).

This indicates that other consideration has been or will be received (such as past or future employee services).

These are equity-settled SBPs which result in a charge to profit or loss for unidentifiable goods or services.

The entity shall measure the unidentifiable goods or services received (or to be received) as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received) measured at the grant date.

### DISCLOSURES

- A description of each type of SBP arrangement, including general terms and conditions such as the number of options granted, maximum terms and method of settlement
- The number and weighted average exercise prices of share options that were outstanding at the beginning and end of the period
- The number and weighted average exercise prices of share options that were granted, forfeited, exercised or that expired during the period
- The number and weighted average exercise price of options exercisable at the end of the period
- Details of how the fair value was measured for equity settled transactions
- Details of how the liability was measured for cash-settled transactions
- Details of any modifications to share based payment arrangements
- Where group plans have been recognised on the basis of a reasonable allocation of expense, this should be stated along with the basis of the allocation
- Total expense recognised for the period and the total carrying amount of SBP liabilities.

## Section 27 - Impairment of assets

Effective Date  
Periods beginning on or after 1 July 2009

### SCOPE

This section covers the accounting for impairment of all assets with the exception of: deferred tax assets (Section 29), assets arising from employee benefits (Section 28), financial assets (Sections 11 & 12), investment property measured at fair value (Section 16) and biological assets (Section 34). An impairment loss occurs when the carrying amount of an asset exceeds its recoverable amount.

#### IMPAIRMENT OF INVENTORIES

- At each reporting date, inventories are assessed for impairment by comparing the carrying amount to the selling price less costs to complete
- If impaired the carrying value is reduced to selling price less costs to sell with the loss being recorded in profit or loss
- When part or all of a previous impairment no longer exists, a reversal of impairment is recorded. Reversal is capped at the amount of the original impairment loss.

#### IMPAIRMENT OF OTHER ASSETS

- An impairment loss is recorded immediately in profit or loss
- At each reporting date an entity assesses whether there are any indicators of impairment. If indicators are identified the recoverable amount of the asset is estimated
- Where the recoverable amount of an individual asset cannot be estimated, the recoverable amount of the cash-generating unit to which the asset belongs is estimated
- Indicators of impairment include:
  - Decline in an asset's market value
  - Significant changes with an adverse effect on the entity have taken place, including changes in its technological, market, economic or legal environment
  - Increases in market interest rates or other market rates of return on investments
  - Carrying amount of the net asset is more than the estimated fair value of the entity as a whole
  - Evidence of damage or obsolescence of an asset
  - Asset no longer in use within the business or plans are in place to dispose of the asset or discontinue/restructure the operation to which the asset belongs
  - Economic performance of the asset is worse than expected.

#### GOODWILL - ADDITIONAL REQUIREMENTS

- The fair value of goodwill must be derived from the measurement of the fair value of the CGU, of which goodwill is a part
- Goodwill acquired in a business combination is allocated to each of the acquirer's CGUs that are expected to benefit from the combination
- If goodwill cannot be allocated to individual CGUs on a non-arbitrary basis then it will be tested by determining the recoverable amount of either the acquired entity in its entirety (if the goodwill relates to an acquired entity that has not been integrated) or the entire group of entities excluding those which are not integrated (if the goodwill relates to an entity that has been integrated).

#### MEASURING THE RECOVERABLE AMOUNT OF AN ASSET

- The recoverable is the higher of its fair value less costs to sell and value in use.
- Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal.
- Value in use is the present value of the future cash flows expected to be derived from an asset. The present value calculation requires an estimate of future net cash flows to be generated from an asset, discounted at an appropriate discount rate.

The following should be included within a value in use calculation:

- An estimate of future net cash flows expected to be generated from the asset, excluding the impact of cash flows from financing activities and tax
- Expectations about possible variations in the amount or timing of cash flows
- Time value of money is reflected in the discount rate applied which is a pre-tax rate that reflects the risks specific to the asset. The discount rate is not adjusted for risks that have already been reflected in the estimated net cash flows in order to avoid double counting of the risk adjustment.

### DISCLOSURES

For each class of asset disclose the amount of impairment loss/reversal of loss recognised in profit or loss during the period and the line in the statement of comprehensive income where the amount is included.

## Section 28 - Employee benefits

Effective Date  
Periods beginning on or after 1 July 2009

### SCOPE

Employee benefits are split into 4 categories:

- Short-term benefits - employee benefits (excluding termination payments) which are wholly due within 12 months of the end of the period in which services are received
- Post-employment benefits - employee benefits that are payable after the completion of employment (and do not meet the criteria for termination benefits)
- Termination benefits - employee benefits provided in exchange for the termination of an employee's employment
- Other long-term employee benefits - employee benefits which do not meet the criteria for short-term, post-employment or termination benefits.

### RECOGNITION CRITERIA

All employee benefits are recognised as follows:

- As a liability after deducting payments to employees (including amounts paid directly to employees or to an employee benefit fund)
- As an expense unless another section of *IFRS for SMEs* requires capitalisation.

### DEFINED BENEFIT PLANS

- An entity recognises:
  - A liability net of plan assets - the defined benefit liability
  - A cost of the plan, equal to the net change in the liability.
- A plan surplus may only be recognised to the extent that this is recoverable
- The defined benefit liability is measured as the net of:
  - The obligations under the plan, discounted to present value using the projected unit credit method (PUCM). (Note: if the PUCM requires the use of undue cost or effort, simplifications are permitted - see paragraph 28.19)
  - The fair value of assets held in the plan.
- The cost of a defined benefit plan is recognised as follows:
  - Profit or loss - change in the liability arising from employee service rendered, the net interest on the defined benefit obligation during the period, returns on plan assets, introductions of new plans, changes to existing plans, curtailments and settlements
  - Profit or loss, or other comprehensive income: actuarial gains/losses.
- Where adequate information is available, a multi-employer scheme is treated as a defined benefit scheme, but otherwise this may be accounted for as a defined contribution scheme.

### DISCLOSURES

Defined contribution plans (DCP):

- The amount recognised in profit or loss as an expense. Where a multi-employer plan is treated as a DCP, disclose that it is a DBP in nature and any available information regarding the surplus/deficit of the plan is disclosed along with any implications for the entity.

Defined benefit plans (DBP):

- General description of the type of plan
- Narrative explanation of any simplifications taken in measuring the obligation
- Accounting policy for recognising actuarial gains and losses (P&L or OCI)
- Most recent actuarial valuation date and any adjustments made since the last valuation
- A reconciliation between the opening and closing balances for the DBP obligation, FV of plan assets and any reimbursement right recognised as an asset. This should be split between the individual components of the movement (change due to employee service rendered, interest income/expense, return on plan assets, actuarial gains and losses, and other changes)
- Total cost for the period, split between the amounts recognised as an expense and those included as part of the cost of an asset
- The percentage/amount of total plan assets represented by each major class of plan assets
- Plan assets: amounts of own financial instruments and property occupied by the entity
- Actual return on plan assets
- Principal actuarial assumptions used.

Long-term benefits - nature of the benefit, amount of the obligation, extent of funding.

Termination benefits - disclosures as for long-term benefits above, but an accounting policy should also be disclosed.

### OTHER LONG-TERM EMPLOYEE BENEFITS

These should be measured at the net of:

- Present value of the benefit obligation at the reporting date, less
- Fair value of plan assets (if any) out of which the obligations will be settled directly.

### TERMINATION BENEFITS

Recognised as an expense when the entity is committed to terminate employment or provide termination benefits from a voluntary redundancy offer, measured at the best estimate of amount required to settle the obligation.

## Section 29 - Income tax

### SCOPE

*Income tax* includes all domestic and foreign taxes based on taxable profit (including withholding taxes, that are payable by a subsidiary, associate or joint venture on distributions).

This section covers accounting for income tax. It requires an entity to recognise the current and future tax consequences of transactions and other events that have been recognised in the financial statements. These recognised tax amounts comprise current tax and deferred tax.

*Current tax* is tax payable (refundable) in respect of the taxable profit (tax loss) for the current period or past periods.

*Deferred tax* is tax payable or recoverable in future periods, generally as a result of the entity recovering or settling its assets and liabilities for their current carrying amount, and the tax effect of the carry forward of currently unused tax losses and tax credits.

### STEPS IN ACCOUNTING FOR INCOME TAX

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|--|--|
| <ul style="list-style-type: none"> <li>a) Recognise current tax, measured at an amount that includes the effect of the possible outcomes of a review by the tax authorities</li> <li>b) Identify which assets and liabilities would be expected to affect taxable profit if they were recovered or settled for their present carrying amounts</li> <li>c) Determine the tax basis of the following at the end of the reporting period:             <ul style="list-style-type: none"> <li>(i) The assets and liabilities in (b). The tax basis of assets and liabilities is determined by the consequences of the sale of the assets or settlement of liabilities for their present carrying amounts</li> <li>(ii) Other items that have a tax basis although they are not recognised as assets or liabilities, i.e. items recognised as income or expense that will become taxable or tax-deductible in future periods.</li> </ul> </li> <li>d) Compute any temporary differences, unused tax losses and unused tax credits.</li> </ul> | <ul style="list-style-type: none"> <li>e) Recognise deferred tax assets and deferred tax liabilities arising from the temporary differences, unused tax losses and unused tax credits</li> <li>f) Measure deferred tax assets and liabilities at an amount that includes the effect of the possible outcomes of a review by the tax authorities using tax rates that, on the basis of enacted or substantively enacted tax law at the end of the reporting period, are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled</li> <li>g) Recognise a valuation allowance against deferred tax assets so that the net amount equals the highest amount that is more likely than not to be realised on the basis of current or future taxable profit</li> <li>h) Allocate current and deferred tax to the related components of profit or loss, other comprehensive income and equity</li> <li>i) Present and disclose the information required by this Section.</li> </ul> |
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#### STEP a) - RECOGNITION AND MEASUREMENT OF CURRENT TAX

- Recognise current tax payable on taxable profits in current and past periods
- If amounts already paid exceed the tax payable, recognise a current tax asset
- A current tax asset should also be recorded for the benefit of tax loss that can be carried back to offset taxes paid in previous periods
- Calculate using tax rates and laws enacted or substantively enacted by reporting date
- Changes in current tax liability/asset are recognised in profit or loss, except for changes attributable to an item of income or expense that is recognised in OCI (recognised in OCI also)
- Current tax is not discounted
- Where there is uncertainty whether the tax authorities will accept the amounts reported, use probability-weighted average amount of all the possible outcomes
- Current tax is measured based on the tax rate applicable to undistributed profits, until the entity recognises a liability to pay a dividend (at which point, if different, the tax rate applicable to distributed profits applies).

#### STEP b) - RECOGNITION OF DEFERRED TAX

- Deferred tax arises from differences between amounts recognised for assets and liabilities by the entity ('carrying value'), and the tax authority ('tax basis')
  - Deferred tax also arises from the carry forward of unused tax losses and tax credits.
- Initial recognition exemption of deferred tax
- Where an entity expects to recover the carrying amount of an asset or (settle a liability) without affecting taxable profit, no deferred tax is recognised.



## Section 29 - Income tax

### STEP c) DETERMINE TAX BASIS

The tax basis of an asset, liability or other item is determined in accordance with enacted or substantively enacted law.

<p><b>Tax base of an asset</b></p> <ul style="list-style-type: none"> <li>• Equals the amount that would have been deductible in arriving at taxable profit if the carrying amount of the asset had been recovered through sale at the end of the reporting period. If the recovery of the asset through sale does not increase taxable profit, the tax basis shall be deemed to be equal to the carrying amount.</li> </ul>	<p><b>Tax basis of a liability (excluding deferred revenue liability)</b></p> <ul style="list-style-type: none"> <li>• Equals its carrying amount less any amounts deductible in determining taxable profit (or plus any amounts included in taxable profit) that would have arisen if the liability had been settled for its carrying amount at the end of the reporting period.</li> </ul> <p><b>Tax basis of deferred revenue liability</b></p> <ul style="list-style-type: none"> <li>• Equals carrying amount, less any amount of revenue that will not be taxable in future periods.</li> </ul>	<p><b>Tax basis of other items</b></p> <ul style="list-style-type: none"> <li>• Some items have a tax basis but no asset or liability carrying value, for example:             <ul style="list-style-type: none"> <li>- Research costs that are tax deductible</li> <li>- Equity instruments that are tax deductible.</li> </ul> </li> </ul>
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### STEP d) COMPUTE TEMPORARY DIFFERENCES

*Temporary differences* arise when:

- There is a difference between the carrying amount and tax basis at initial recognition
- There is a difference between the carrying amount and tax basis after initial recognition because income or expense is recognised in comprehensive income or equity in one reporting period but is recognised in taxable profit in a different period
- When the tax basis of an asset or liability changes and the change will not be recognised in the asset or liability's carrying amount in any period.

### STEP e) RECOGNISE DEFERRED TAX ASSETS AND LIABILITIES

- Recognise a deferred tax liability for all temporary differences that are expected to increase taxable profit in the future
- Recognise a deferred tax asset for all temporary differences that are expected to reduce taxable profit in the future
- Recognise a deferred tax asset for the carry forward of unused tax losses and unused tax credits.

Changes in deferred tax liability/asset is recognised in profit or loss, except for changes attributable to an item of income or expense that is recognised in OCI (recognised in OCI).

### STEP f) MEASUREMENT OF DEFERRED TAX ASSETS AND LIABILITIES

- Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the reporting date
- When different tax rates apply to different levels of taxable profit, use the average enacted or substantively enacted rates that is expected to be applicable
- Measurement of deferred tax reflects the tax consequences that would follow from the manner in which the entity expects, at the reporting date, to recover or settle the carrying amount of the related assets and liabilities (i.e. recovery through sale would use the applicable capital gains tax rate rather than the income tax rate)
- Deferred tax is not discounted
- Where there is uncertainty whether the tax authorities will accept the amounts reported, use probability-weighted average amount of all the possible outcomes
- Deferred tax is measured based on the tax rate applicable to undistributed profits, until the entity recognises a liability to pay a dividend (at which point, if different, the tax rate applicable to distributed profits applies).

## Section 29 - *Income tax*

### STEP g) RECOGNISE ANY VALUATION ALLOWANCES

- A valuation allowance is recognised against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit. The valuation allowance is reviewed at each reporting date and adjusted if necessary
- Adjustments are recognised in profit or loss, except for adjustments attributable to an item of income or expense that is recognised in OCI (recognised in OCI).

### STEP h) ALLOCATION IN COMPREHENSIVE INCOME AND EQUITY

An entity recognises tax expense in the same component of total comprehensive income (i.e. continuing operations, discontinued operations, or other comprehensive income) or equity as the transaction or other event that resulted in the tax expense.

### PRESENTATION AND DISCLOSURE

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|---|---|
| <ul style="list-style-type: none"> <li>• Changes in current or deferred tax balances are recognised as an income tax expense/credit and are recognised in the same component of comprehensive income or equity as the transaction that resulted in the tax expense/credit</li> <li>• Separate disclosure of the major components of tax expense is required, including:             <ul style="list-style-type: none"> <li>- Current tax expense/income</li> <li>- Adjustments recognised for current tax of previous periods</li> <li>- Amount of deferred tax relating to origination and reversal of timing differences and relating to changes in tax rates</li> <li>- Changes in deferred tax relating to change in the effect of possible outcomes of a review by the tax authorities</li> <li>- Adjustments to deferred tax expense arising from a change in the tax status</li> <li>- Changes in the valuation allowance</li> <li>- Tax expense relating to changes in accounting policies and errors.</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>• Within the statement of financial position deferred tax liabilities are presented within provisions and deferred tax within debtors due after more than one year</li> <li>• The aggregate current and deferred tax relating to items within other comprehensive income</li> <li>• Explanation of significant differences in amounts present in the financial statements and amounts reported to tax authorities</li> <li>• Explanation of changes in applicable tax rates compared with previous periods</li> <li>• For each type of temporary difference and each type of tax losses and credits:             <ul style="list-style-type: none"> <li>➢ Amount of deferred tax liabilities, assets and valuation allowance</li> <li>➢ Analysis of changes during the period.</li> </ul> </li> <li>• Expiry date, if any of timing differences, unused tax losses and unused tax credits.</li> </ul> <p>Offsetting of current/deferred tax assets/liability's is required when there is a legally enforceable right to set off the amounts and an intention to settle on a net basis or for the asset and liability to be settled simultaneously.</p> |
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### NOTE: WITHHOLDING TAX ON DIVIDENDS

When an entity pays dividends to its shareholders, it may be required to pay a portion of the dividends to taxation authorities on behalf of shareholders. Such an amount paid or payable to taxation authorities is charged to equity as a part of the dividends.

## Section 30 - Foreign currency translation

Effective Date  
Periods beginning on or after 1 July 2009

### SCOPE

This section addresses the accounting for foreign currency transactions and foreign operations, and how to translate financial statements into a presentation currency. Accounting for financial instruments denominated in a foreign currency and hedge accounting of foreign currency items are dealt with in Sections 11 & 12.

### FUNCTIONAL CURRENCY

- Each entity is required to identify its functional currency which is the currency of the primary economic environment in which the entity operates
- The functional currency is the one that mainly influences prices for sale/purchase of goods and services (including the competitive forces and regulations of the countries in which it operates)
- Other indicators include the currency from which funds from financing activities are generated, and in which receipts from operating activities are usually maintained
- A foreign currency transaction is recognised in an entity's functional currency at the spot exchange rate on the date of the transaction
- At each reporting period end, the following approach is followed:
  - Monetary items are translated using the closing rate
  - Non-monetary items measured in terms of historical cost in a foreign currency using the exchange rate at the date of the transaction
  - Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates as the date when the fair value was determined.
- Exchange differences on monetary items are recognised in profit and loss except where other specific requirements of *IFRS for SMEs* require the difference to be recognised in other comprehensive income
- When a gain or loss on a non-monetary item is presented in other comprehensive income the exchange component of that gain or loss is also recognised in other comprehensive income
- When there is a change in functional currency, the entity applies the translation procedures for the new functional currency from the date of the change
- Prospective accounting for a change in functional currency. All items are retranslated at the date of change; amounts for non-monetary items are their historic cost.

### PRESENTATION CURRENCY DIFFERENT TO FUNCTIONAL CURRENCY

- An entity may present its financial statements in any currency and, if the presentation currency differs from the functional currency, the entity translates its items of income/expense and financial position to the presentation currency
- Where the functional currency is not the currency of a hyperinflationary economy the following procedure is applied when translating to presentation currency:
  - Assets/liabilities are translated at the closing rate at the date of the statement of financial position
  - Income/expenses are translated at the exchange rates at the dates of the transactions (for practical reasons an entity may use the average rate unless exchange rates fluctuate significantly in which case an average rate is not appropriate)
  - All resulting exchange differences are recognised in other comprehensive income.

### DISCLOSURES

- The amount of exchange differences arising in profit or loss except those arising on financial instruments measured at fair value through profit or loss (Sections 11 and 12)
- Exchange differences arising during the period and classified in a separate component of equity at the end of the period
- The currency in which the financial statements are presented
- Any difference between the presentational currency and the functional currency, including the reason(s) why they are different
- Any change made to functional currency.

### NET INVESTMENT IN A FOREIGN OPERATION

Where a monetary item receivable from or payable to a foreign operation is not planned or likely to be settled for the foreseeable future it is in substance part of the entity's net investment in that operation and is accounted for in the financial statements that include the foreign operation within other comprehensive income.

## Section 31 - *Hyperinflation*

Effective Date  
Periods beginning on or after 1 July 2009

### SCOPE

This section applies where the functional currency of an entity is the currency of a hyperinflationary economy.

#### INDICATORS OF A HYPERINFLATIONARY ECONOMY

- The general population hold their wealth predominantly in non-monetary assets/a stable foreign currency
- The general population view monetary amounts in terms of a stable foreign currency
- Credit sales/purchases incorporate the expected loss of purchasing power in the agreed price
- Interest rates, wages and prices are linked to a price index
- The cumulative inflation rate over three years is approaching, or exceeds, 100%.

#### MEASURING UNIT IN FINANCIAL STATEMENTS

- All amounts are stated in terms of the measuring unit current at the end of the reporting period, with comparatives stated in terms of the measuring unit current at the reporting date
- The restatement of financial statement amounts requires the use of a general price index that reflects changes in general purchasing power
- All items presented in the income statement/statement of comprehensive income must be restated to the measuring unit current at the end of the reporting period by applying the general price index from the date the items of income and expense arose
- An average rate of inflation may be used if inflation was even, and the income and expense arose evenly, throughout the period.

#### GAIN OR LOSS ON NET MONETARY POSITION

- A gain or loss on net monetary assets will be recognised as follows:
- An entity will lose purchasing power where it has an excess of monetary assets over monetary liabilities
  - An entity will gain purchasing power where it has an excess of monetary liabilities over monetary assets
  - Movements are recorded in the profit of loss for the period.

#### STATEMENT OF FINANCIAL POSITION

- Monetary amounts are not restated because they are expressed in terms of the measuring unit current at the end of the reporting period
- Assets and liabilities linked by agreement to changes in prices are adjusted in accordance with the agreement and presented at the revised amounts
- All other assets and liabilities are treated as follows:
  - Non-monetary assets held at current amounts (i.e. those that are held at net realisable value/fair value) are not restated
  - Non-monetary items carried at cost or cost less depreciation are restated, by applying the general price index to the historical cost and accumulated depreciation from the date of acquisition to the end of the reporting period
  - The restated amount of a non-monetary item is reduced when it exceeds its recoverable amount.
- At the beginning of the first period of application, components of equity (excluding retained earnings) are restated by applying the general price index from the dates the components arose
- At the end of the first period of application, and subsequently, the components are restated from the beginning of the period.

#### STATEMENT OF CASH FLOWS

Must be restated to the measuring unit current at the end of the reporting period.

#### DISCLOSURE

- An entity discloses the following:
- The fact that the financial statements have been restated for changes in the general purchasing power of the functional currency
  - The identity and level of the price index at the reporting date and changes during the current and previous reporting period
  - Amount of gain/loss on monetary items.

## Section 32 - *Events after the end of the reporting period*

Effective Date  
Periods beginning on or after 1 July 2009

### SCOPE

This section sets out the principles for recognising, measuring and disclosing events after the end of the reporting period. Events after the end of the reporting period are those events, favourable and unfavourable that occur between the end of the reporting period and the date on which the financial statements are authorised for issue.

### NON-ADJUSTING EVENTS

- An event that provides evidence of conditions that existed at the balance sheet date is an adjusting event. The entity adjusts the amounts recognised and related disclosures to reflect the adjusting event.
- The following are examples of events that could be considered to be adjusting events:
  - Settlement after the reporting date of a court case that confirms that the entity had a present obligation at the end of the reporting period and confirms that a provision should be recognised
  - The receipt of information after the reporting period end date that confirms that an asset was impaired at the end of the reporting period
  - The determination after the end of reporting period of the cost of assets purchased or proceeds from assets sold, before the end of the reporting period
  - The discovery of fraud or errors that show that the financial statements are incorrect.

### ADJUSTING EVENTS

- A non-adjusting event is one which relates to events after the end of the reporting period that relate to the period after the reporting date. The effect(s) of non-adjusting events are not recognised in the financial statements
- Example of non-adjusting events are follows:
  - The decline in the market value of investments between the end of the reporting period and the date when the financial statements are authorised for issue
  - A major business combination or disposal of a subsidiary
  - Announcement of plans to discontinue an operation
  - Abnormally large changes in asset prices or foreign exchange rates.

### DISCLOSURE

An entity discloses the following:

- Date that the accounts were authorised for issue and who gave that authorisation
- If the owners or others have the power to amend the financial statements after issue the entity shall disclose that fact
- For non-adjusting events the nature of the event and an estimate of its financial effect (or a statement that an estimate cannot be made).

## Section 33 - *Related party transactions*

Effective Date  
Periods beginning on or after 1 July 2009

### SCOPE

This section requires an entity to include in its financial statements the disclosures necessary to draw attention to the possibility that its financial position and profit or loss have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

#### RELATED PARTY - ENTITY

- A entity is related to a reporting entity if:
  - It is a member of the same group
  - An entity is an associate or joint venture of the other entity
  - It and another entity are joint ventures of the same third party
  - One entity is a joint venture of a third entity and the other entity is an associate of the third entity
  - The entity is a post-employment benefit plan
  - The entity is controlled or jointly controlled by a Related Party - Person
  - A Related Party - Person is a member of the key management personnel of the reporting entity (or a parent of the reporting entity)
  - A Related Party - Person has control over the entity, has significant influence or significant voting power
  - A person or a close member of that person's family has both significant influence over the entity or significant voting power in it or joint control over the reporting entity
  - A member of the key management personnel of the entity or of a parent of the entity, or a close member of that member's family, has control or joint control over the reporting entity or has significant voting power in it.
- The following are not related parties:
  - Two entities simply because they have a director or other key management personnel in common or because a member of key management personnel of one entity has significant influence over the other entity
  - Two venturers simply because they share joint control over a joint venture
  - An organisation by virtue of their normal dealings i.e. providers of finance, trade unions and government departments
  - A customer, supplier, franchisor with whom an entity has a significant volume of business.

When considering related party transactions, it is necessary to consider the substance of the relationship and not merely the legal form.

#### RELATED PARTY - PERSON

- A person or a close member of that person's family that:
  - Has control or joint control over the entity
  - Has significant influence over the entity
  - Is a member of key management personnel of the entity or parent entity.

#### EXAMPLES OF RELATED PARTY TRANSACTIONS

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|--|--|
| <ul style="list-style-type: none"> <li>• Transfers of research and development</li> <li>• Transfers under licence agreements</li> <li>• Settlements of liabilities on behalf of the entity or by the entity on behalf of another party.</li> </ul> | <ul style="list-style-type: none"> <li>• Purchases or sales of goods, properties and other assets</li> <li>• Rendering or receiving of services</li> <li>• Leases</li> <li>• Provision of guarantees or collateral.</li> </ul> |
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#### DISCLOSURE

- Relationship between parent and subsidiaries irrespective of whether there have been related party transactions
- Name of parent entity and, if different, the ultimate controlling party
- Compensation of key management personnel in aggregate
- Nature of related party transactions as well as information about the transactions and outstanding balances
- Commitments entered into and guarantees given
- Provisions for uncollectible receivables as well as the quantum of expense recognised in the period in respect of bad or doubtful debts from related parties
- Separate disclosure of the above is required for the following:
  - Entities with control, joint control or significant influence over the reporting entity
  - Entities over which the entity has control, joint control or significant influence
  - Key management personnel of the entity or its parent
  - Other related parties.
- An entity may disclose items of a similar nature in aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions.

## Section 34 - Specialised activities

### SCOPE

This section provides guidance on financial reporting by SMEs involved in three types of specialised activities—agriculture, extractive activities, and service concessions.

### (1) AGRICULTURE

An entity that carries out biological activities accounts for each class of biological asset using either the fair value model (if readily determinable without undue cost or effort, or the cost model (for all other biological assets).

A biological asset or agricultural produce is recognised when, and only when:

- The entity controls the asset as a result of past events
- It is probable that associated future economic benefits will flow to the entity
- Fair value or cost can be measured reliably without undue cost or effort.

### (1) AGRICULTURE - FAIR VALUE MODEL

#### Measurement

- Biological asset is measured at fair value initially, and at each reporting date
- Changes in fair value are recognised in profit or loss
- Agricultural produce harvested from an entity's biological assets is measured at its fair value less costs to sell at the point of harvest. This measurement is the cost at that date when applying Section 13 or another applicable section of *IFRS for SMEs*.

#### Disclosures

- A description of each class of its biological assets
- The methods and significant assumptions applied in determining the fair value of each category biological assets and agricultural produce at the point of harvest
- A reconciliation of changes in the carrying amount, including: the gain or loss arising from changes in fair value less costs to sell; increases resulting from purchases; decreases resulting from harvest; increases resulting from business combinations; net exchange differences arising on the translation of financial statements into a different presentation currency, and on the translation of a foreign operation into the presentation currency of the reporting entity; and other changes.

#### Determining fair value (considerations)

- Whether an active market exists for a biological asset or agricultural produce in its present location and condition
- If an active market exists, the quoted price is the appropriate basis for determining the value (if multiple active markets, use the price existing in the market the entity expects to use)
- If an active market does not exist, use one or more of the following, if available:
  - The most recent market transaction price, provided there have been no significant changes in economic circumstances since the transaction date
  - Market prices for similar assets with adjustments to reflect differences
  - Sector benchmarks (e.g. value of an orchard expressed per export tray, bushel, or hectare, and the value of cattle expressed per kilogram of meat).
- If there appear to be differences in fair values from different sources, consider the reasons in order to arrive at the most reliable estimate of fair value within a relatively narrow range of reasonable estimates
- Consider whether the present value of expected net discounted cash flows from the asset results in a reliable fair value, if no market determined amounts are available.

### (1) AGRICULTURE - COST MODEL

#### Measurement

- Cost less any accumulated depreciation and any accumulated impairment losses
- Agricultural produce harvested from biological assets is measured at fair value less estimated costs to sell at the point of harvest. This measurement is the cost at that date when applying Section 13 or another applicable section of *IFRS for SMEs*.

#### Disclosures

- A description of each class of its biological assets
- An explanation of why fair value cannot be measured reliably
- The depreciation method used
- The useful lives or the depreciation rates used
- The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period.



## Section 34 - *Specialised activities*

### (2) EXTRACTIVE ACTIVITIES

An entity engaged in the exploration for, evaluation or extraction of mineral resources (extractive activities) accounts for expenditure on the acquisition or development of tangible or intangible assets for use in extractive activities by applying Section 17 and 18, respectively.

When an entity has an obligation to dismantle or remove an item, or to restore the site, such obligations and costs are accounted for in accordance with Section 17 and 21.

### (3) SERVICE CONCESSION ARRANGEMENTS

A service concession arrangement is an arrangement whereby a government or other public sector body (the grantor) contracts with a private operator to develop (or upgrade), operate and maintain the grantor's infrastructure assets such as roads, bridges, tunnels, airports, energy distribution networks, prisons or hospitals. In those arrangements, the grantor controls or regulates what services the operator must provide using the assets, to whom, and at what price, and also controls any significant residual interest in the assets at the end of the term of the arrangement.

There are two principal categories of service concession arrangements:

- 1) The operator receives a financial asset—an unconditional contractual right to receive a specified or determinable amount of cash or another financial asset from the government in return for constructing or upgrading a public sector asset, and then operating and maintaining the asset for a specified period of time. This category includes guarantees by the government to pay for any shortfall between amounts received from users of the public service and specified or determinable amounts.
- 2) The operator receives an intangible asset—a right to charge for use of a public sector asset that it constructs or upgrades and then operates and maintains for a specified period of time. A right to charge users is not an unconditional right to receive cash because the amounts are contingent on the extent to which the public uses the service.

Sometimes, a single contract may contain both types: to the extent that the government has given an unconditional guarantee of payment for the construction of the public sector asset, the operator has a financial asset; to the extent that the operator has to rely on the public using the service in order to obtain payment, the operator has an intangible asset.

#### Accounting - financial asset

- Recognise a financial asset to the extent there is an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services
- Initially measure the financial asset at fair value
- For subsequent measurement, see Sections 11 and 12.

#### Accounting - intangible asset model

- Recognise an intangible asset to the extent there is a right (a licence) to charge users of the public service
- Initially measure the intangible asset at fair value
- For subsequent measurement, see Section 18.

#### Operating revenue

The operator of a service concession arrangement recognises, measures and discloses revenue in accordance with Section 23 *Revenue* for the services it performs.

## Section 35 - Transition to IFRS for SMEs

### SCOPE

This section applies to first time adopters of *IFRS for SMEs* and is applied to the first set of financial statements that comply with *IFRS for SMEs*. Section 3 requires comparative information in respect of previous periods to be presented; therefore an entity's date of transition to *IFRS for SMEs* is the beginning of the earliest period for which the entity prepares full comparative information in accordance with *IFRS for SMEs*.

### PROCEDURES FOR PREPARING FINANCIAL STATEMENTS

- In its opening statement of financial position at the date of transition an entity:
  - Recognises all assets and liabilities whose recognition is required by *IFRS for SMEs*, and derecognises assets or liabilities that are not permitted to be recognised
  - Reclassifies items recognised under its previous accounting framework which *IFRS for SMEs* requires to be presented differently
  - Applies the measurement requirements of *IFRS for SMEs* for all assets and liabilities.
- If it is impracticable for an entity to restate its opening statement of financial position at the date of transition for one or more of the adjustments required, the entity applies adjustments in the earliest period for which it is practicable to do so, and identifies the data presented for prior periods that are not comparable with data for the period in which it prepares its first financial statements that conform with *IFRS for SMEs*
- Differences in the opening statement of financial position that arise from the transactions prior to the date of transition are recorded in retained earnings at the date of transition
- On adoption of *IFRS for SMEs*, an entity does not retrospectively change the accounting treatment it followed under its previous reporting framework for the following transactions:
  - Derecognition of financial assets and financial liabilities
  - Hedge accounting when it was applied prior to the date of transition and the hedging relationship no longer exists at the date of transition
  - Accounting estimates
  - Discontinued operations
  - Measurement of non-controlling interests.

### EXEMPTIONS ON FIRST TIME ADOPTION

- *Business combinations* - a first time adopter may elect not to apply Section 19 to business combinations effected before the date of transition. If a pre date of transition business combination is restated, all business combinations from the date of that restated business combination are restated
- *Share based payment transactions* - a first time adopter is not required to apply Section 26 to equity instruments granted or liabilities arising prior to the date of transition
- *Fair value as deemed cost* - An entity may use the fair value of an item of PP&E, an investment property or an intangible asset as deemed cost as at the date of transition
- *Revaluation at deemed cost* - A previous GAAP revaluation of an item of PP&E, an investment property or an intangible asset may be elected as deemed cost at the revaluation date
- *Cumulative translation differences* - Cumulative translation differences for all foreign operations can be reset to zero at the date of transition (i.e. a fresh start)
- *Separate financial statements* - When an entity prepares separate financial statements and accounts for investments in subsidiaries, associates and jointly controlled entities at cost, a first time adopter is required to measure its investment in its opening statement of financial position at cost in accordance with Section 9 or deemed cost, which is either fair value at the date of transition or the previous GAAP carrying amount on that date
- *Compound financial instruments* - If the liability component of a compound instrument is not outstanding at the date of transition, an entity is not required to separate the previous liability and equity components.

## Section 35 - Transition to IFRS for SMEs

### OTHER POINTS ON FIRST TIME ADOPTION (continued)

- *Deferred income tax* - At the date of transition, there is no requirement to recognise deferred tax assets/liabilities relating to differences between tax base and carrying amount for which recognition would involve undue cost of effort
- *Service concessions arrangements* - The requirements of Section 34 are not required to be applied for contracts entered into prior to the date of transition
- *Extractive activities* - When an entity previously used full cost accounting under previous GAAP, it may elect to measure oil and gas assets on the date of transition to *IFRS for SMEs* at an amount determined under that previous GAAP. Those assets are tested for impairment at the date of transition
- *Arrangements containing a lease* - An entity is permitted to determine whether an arrangement which exists at the date of transition contains a lease, rather than the facts and circumstances that existed when the lease was entered into
- *Decommissioning liabilities included in PPE* - An entity is permitted to measure the liability at the date of transition instead of as at the date on which the obligation originally arose.

### DISCLOSURES

An entity explains how the transition from its previous financial reporting framework to *IFRS for SMEs* affected its reported financial position, financial performance and cash flows.

To comply with the above, an entity's first financial statements prepared in accordance with *IFRS for SMEs* include:

- a) A description of the nature of each change in accounting policy
- b) Reconciliations of its equity determined in accordance with its previous financial reporting framework to its equity determined in accordance with *IFRS for SMEs* for both of the following dates:
  - i. The date of transition to *IFRS for SMEs*, and
  - ii. The end of the latest period presented in the entity's most recent annual financial statements determined in accordance with its previous financial reporting framework.
- c) A reconciliation of the profit or loss determined in accordance with its previous financial reporting framework for the latest period in the entity's most recent annual financial statements to its profit or loss determined in accordance with *IFRS for SMEs* for the same period.

If an entity becomes aware of errors made under its previous financial reporting framework, the reconciliations required above, to the extent practicable, are required to distinguish the correction of those errors from changes in accounting policies.

If an entity did not present financial statements for previous periods, it discloses that fact in its first financial statements that comply with *IFRS for SMEs*.

If it is impracticable for an entity to provide any disclosures required by *IFRS for SMEs* for any period before the period in which it prepares its first financial statements that comply with *IFRS for SMEs*, the omission is disclosed.

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](http://www.bdo.global) where you can find full lists of regional and country contacts.

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