

2015

International Financial Reporting Standard[®] (IFRS[®])
for Small and Medium-sized Entities (SMEs)

IFRS for SMEs[®]

This official pronouncement incorporates *2015 Amendments to the IFRS for SMEs* (effective 1 January 2017 with early application permitted).

PART A
the requirements



**International Financial Reporting
Standard for Small and Medium-sized
Entities (IFRS for SMEs)**

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BASIS FOR CONCLUSIONS

ILLUSTRATIVE FINANCIAL STATEMENTS

The *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)* is set out in Sections 1–35 and Appendices A–B. Terms defined in the Glossary are in **bold type** the first time they appear in each section, as appropriate. The *IFRS for SMEs* is accompanied by a Preface, a Derivation Table, a Basis for Conclusions and Implementation Guidance consisting of illustrative financial statements and a table that collates the presentation and disclosure requirements in the *IFRS for SMEs*.

Preface to the *IFRS for SMEs*

The IASB

- P1 The International Accounting Standards Board (IASB) was established in 2001 as part of the International Accounting Standards Committee (IASC) Foundation. In 2010 the IASC Foundation was renamed the IFRS Foundation.
- P2 The governance of the IFRS Foundation rests with 22 Trustees. The Trustees' responsibilities include appointing the members of the IASB and associated councils and committees, as well as securing financing for the organisation.
- P3 The objectives of the IASB are:
- (a) to develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting Standards based on clearly articulated principles. These Standards should require high quality, transparent and comparable information in financial statements and other financial reporting to help investors, other participants in the various capital markets of the world and other users of financial information make economic decisions.
 - (b) to promote the use and rigorous application of those Standards.
 - (c) in fulfilling the objectives associated with (a) and (b), to take account of, as appropriate, the needs of a range of sizes and types of entities in diverse economic settings.
 - (d) to promote and facilitate the adoption of its Standards.
- P4 Approval of Standards and related documents, such as, Exposure Drafts and other discussion documents, is the responsibility of the IASB.

Full International Financial Reporting Standards (full IFRS)

- P5 The IASB achieves its objectives primarily by developing and publishing Standards and promoting their use in general purpose financial statements and other financial reporting. Other financial reporting comprises information provided outside financial statements that assists in the interpretation of a complete set of financial statements or improves users' ability to make efficient economic decisions. The term 'financial reporting' encompasses general purpose financial statements plus other financial reporting.
- P6 Full IFRS sets out recognition, measurement, presentation and disclosure requirements dealing with transactions and events that are important in general purpose financial statements. They may also set out such requirements for transactions, events and conditions that arise mainly in specific industries. Full IFRS is based on the *Conceptual Framework*, which addresses the concepts underlying the information presented in general purpose financial statements. The objective of the *Conceptual Framework* is to facilitate the consistent and logical formulation of full IFRS. It also provides a basis for the use of judgement in resolving accounting issues.

General purpose financial statements

- P7 The IASB's Standards are designed to apply to general purpose financial statements and other financial reporting of all profit-oriented entities. General purpose financial statements are directed towards the common information needs of a wide range of users, for example, shareholders, creditors, employees and the public at large. The objective of financial statements is to provide information about the financial position, performance and cash flows of an entity that is useful to those users in making economic decisions.
- P8 General purpose financial statements are those directed to general financial information needs of a wide range of users who are not in a position to demand reports tailored to meet their particular information needs. General purpose financial statements include those that are presented separately or within another public document such as an annual report or a prospectus.

The *IFRS for SMEs*

- P9 The IASB develops and issues a separate Standard intended to apply to the general purpose financial statements of, and other financial reporting by, entities that in many countries are referred to by a variety of terms, including small and medium-sized entities (SMEs), private entities and non-publicly accountable entities. That Standard is the *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)*. The *IFRS for SMEs* is based on full IFRS with modifications to reflect the needs of users of SMEs' financial statements and cost-benefit considerations.
- P10 The term small and medium-sized entities as used by the IASB is defined and explained in Section 1 *Small and Medium-sized Entities*. Many jurisdictions around the world have developed their own definitions of SMEs for a broad range of purposes including prescribing financial reporting obligations. Often those national or regional definitions include quantified criteria based on revenue, assets, employees or other factors. Frequently, the term SMEs is used to mean or to include very small entities without regard to whether they publish general purpose financial statements for external users.
- P11 SMEs often produce financial statements only for the use of owner-managers or only for the use of tax authorities or other governmental authorities. Financial statements produced solely for those purposes are not necessarily general purpose financial statements.
- P12 Tax laws are specific to each jurisdiction, and the objectives of general purpose financial reports differ from the objectives of reporting taxable profit. Thus, financial statements prepared in conformity with the *IFRS for SMEs* are unlikely to comply fully with all of the measurements required by a jurisdiction's tax laws and regulations. A jurisdiction may be able to lessen the 'dual reporting burden' on SMEs by structuring tax reports as reconciliations from the profit or loss determined in accordance with the *IFRS for SMEs* and by other means.

Authority of the *IFRS for SMEs*

- P13 Decisions on which entities are required or permitted to use the IASB's Standards rest with legislative and regulatory authorities and standard-setters in individual jurisdictions. This is true for full IFRS and for the *IFRS for SMEs*. However, a clear definition of the class of entity for which the *IFRS for SMEs* is intended—as set out in Section 1 of the Standard—is essential so that:
- (a) the IASB can decide on the accounting and disclosure requirements that are appropriate for that class of entity; and
 - (b) the legislative and regulatory authorities, standard-setters and reporting entities and their auditors will be informed of the intended scope of applicability of the *IFRS for SMEs*.

A clear definition is also essential so that entities that are not small or medium-sized entities, and therefore are not eligible to use the *IFRS for SMEs*, do not assert that they are in compliance with it (see paragraph 1.5).

Organisation of the *IFRS for SMEs*

- P14 The *IFRS for SMEs* is organised by topic, with each topic presented in a separate numbered section. Cross-references to paragraphs are identified by section number followed by paragraph number. Paragraph numbers are in the form xx.yy, where xx is the section number and yy is the sequential paragraph number within that section. In examples that include monetary amounts, the measuring unit is Currency Units (abbreviated as CU).
- P15 All of the paragraphs in the *IFRS for SMEs* have equal authority. Some sections include appendices of implementation guidance that are not part of the Standard but, instead, are guidance for applying it.

Maintenance of the *IFRS for SMEs*

- P16 The IASB expects to propose amendments to the *IFRS for SMEs* by publishing an omnibus Exposure Draft periodically, but not more frequently than approximately once every three years. In developing those Exposure Drafts, it expects to consider new and amended full IFRS Standards as well as specific issues that have been brought to its attention regarding application of the *IFRS for SMEs*. On occasion, the IASB may identify an urgent matter for which amendment of the *IFRS for SMEs* may need to be considered outside the periodic review process. However, such occasions are expected to be rare.
- P17 Until the *IFRS for SMEs* is amended, any changes that the IASB may make or propose with respect to full IFRS do not apply to the *IFRS for SMEs*. The *IFRS for SMEs* is a stand-alone document. SMEs shall not anticipate or apply changes made in full IFRS before those changes are incorporated into the *IFRS for SMEs* unless, in the absence of specific guidance in the *IFRS for SMEs*, an SME chooses to apply guidance in full IFRS and those principles do not conflict with requirements in the hierarchy in paragraphs 10.4–10.5.

- P18 The IASB expects that there will be a period of at least one year between when amendments to the *IFRS for SMEs* are issued and the effective date of those amendments.

International Financial Reporting Standard (IFRS) for Small and Medium-sized Entities

Section 1 Small and Medium-sized Entities

Intended scope of this Standard

- 1.1 The *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

- 1.2 Small and medium-sized entities are entities that:
- (a) do not have **public accountability**; and
 - (b) publish **general purpose financial statements** for external users.
- Examples of external users include **owners** who are not involved in managing the business, existing and potential creditors, and credit rating agencies.
- 1.3 An entity has public accountability if:
- (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 (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
 - (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this second criterion).
- 1.4 Some entities may also hold assets in a fiduciary capacity for a broad group of outsiders because they hold and manage financial resources entrusted to them by clients, customers or members not involved in the management of the entity. However, if they do so 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), that does not make them publicly accountable.
- 1.5 If a publicly accountable entity uses this Standard, its financial statements shall not be described as conforming to the *IFRS for SMEs*—even if law or regulation in its jurisdiction permits or requires this Standard to be used by publicly accountable entities.
- 1.6 A **subsidiary** whose **parent** uses **full IFRS**, or that is part of a consolidated **group** that uses full IFRS, is not prohibited from using this Standard in its own financial statements if that subsidiary by itself does not have public accountability. If its financial statements are described as conforming to the *IFRS for SMEs*, it must comply with all of the provisions of this Standard.

- 1.7 A parent entity (including the ultimate parent or any intermediate parent) assesses its eligibility to use this Standard in its **separate financial statements** on the basis of its own status without considering whether other group entities have, or the group as a whole has, public accountability. If a parent entity by itself does not have public accountability, it may present its separate financial statements in accordance with this Standard (see Section 9 *Consolidated and Separate Financial Statements*), even if it presents its **consolidated financial statements** in accordance with full IFRS or another set of generally accepted accounting principles (GAAP), such as its national accounting standards. Any financial statements prepared in accordance with this Standard shall be clearly distinguished from financial statements prepared in accordance with other requirements.

Section 2 *Concepts and Pervasive Principles*

Scope of this section

- 2.1 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.

Objective of financial statements of small and medium-sized entities

- 2.2 The objective of financial statements of a small or medium-sized entity is to provide information about the **financial position, performance and cash flows** of the entity that is useful for economic decision-making by a broad range of users of the financial statements who are not in a position to demand reports tailored to meet their particular information needs.
- 2.3 Financial statements also show the results of the stewardship of management—the accountability of management for the resources entrusted to it.

Qualitative characteristics of information in financial statements

Understandability

- 2.4 The information provided in financial statements should be presented in a way that makes it comprehensible by users who have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence. However, the need for **understandability** does not allow relevant information to be omitted on the grounds that it may be too difficult for some users to understand.

Relevance

- 2.5 The information provided in financial statements must be relevant to the decision-making needs of users. Information has the quality of **relevance** when it is capable of influencing the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations.

Materiality

- 2.6 Information is **material**—and therefore has relevance—if its omission or misstatement could 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. However, it is inappropriate to make, or leave uncorrected, immaterial departures from the *IFRS for SMEs* to achieve a particular presentation of an entity's financial position, financial performance or cash flows.

Reliability

- 2.7 The information provided in financial statements must be reliable. Information is reliable when it is free from material **error** and bias and represents faithfully that which it either purports to represent or could reasonably be expected to represent. Financial statements are not free from bias (ie not neutral) if, by the selection or presentation of information, they are intended to influence the making of a decision or judgement in order to achieve a predetermined result or outcome.

Substance over form

- 2.8 Transactions and other events and conditions should be accounted for and presented in accordance with their substance and not merely their legal form. This enhances the **reliability** of financial statements.

Prudence

- 2.9 The uncertainties that inevitably surround many events and circumstances are acknowledged by the disclosure of their nature and extent and by the exercise of **prudence** in the preparation of the financial statements. Prudence is the inclusion of a degree of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty, such that **assets** or **income** are not overstated and **liabilities** or **expenses** are not understated. However, the exercise of prudence does not allow the deliberate understatement of assets or income or the deliberate overstatement of liabilities or expenses. In short, prudence does not permit bias.

Completeness

- 2.10 To be reliable, the information in financial statements must be complete within the bounds of materiality and cost. An omission can cause information to be false or misleading and thus unreliable and deficient in terms of its relevance.

Comparability

- 2.11 Users must be able to compare the financial statements of an entity through time to identify trends in its financial position and performance. Users must also be able to compare the financial statements of different entities to evaluate their relative financial position, performance and cash flows. Hence, the **measurement** and display of the financial effects of like transactions and other events and conditions must be carried out in a consistent way throughout an entity and over time for that entity and in a consistent way across entities. In addition, users must be informed of the **accounting policies** employed in the preparation of the financial statements and of any changes in those policies and the effects of such changes.

Timeliness

- 2.12 To be relevant, financial information must be able to influence the economic decisions of users. **Timeliness** involves providing the information within the decision time frame. If there is undue delay in the reporting of information it may lose its relevance. Management may need to balance the relative merits of timely reporting and the provision of reliable information. In achieving a

balance between relevance and reliability, the overriding consideration is how best to satisfy the needs of users in making economic decisions.

Balance between benefit and cost

- 2.13 The benefits derived from information should exceed the cost of providing it. The evaluation of benefits and costs is substantially a judgemental process. Furthermore, the costs are not necessarily borne by those who enjoy the benefits, and often the benefits of the information are enjoyed by a broad range of external users.
- 2.14 Financial reporting information helps capital providers make better decisions, which results in more efficient functioning of capital markets and a lower cost of capital for the economy as a whole. Individual entities also enjoy benefits, including improved access to capital markets, favourable effect on public relations and perhaps lower costs of capital. The benefits may also include better management decisions because financial information used internally is often based at least partly on information prepared for general purpose financial reporting purposes.

Undue cost or effort

- 2.14A An undue cost or effort exemption is specified for some requirements in this Standard. This exemption shall not be used for other requirements in this Standard.
- 2.14B Considering whether obtaining or determining the information necessary to comply with a requirement would involve undue cost or effort depends on the entity's specific circumstances and on management's judgement of the costs and benefits from applying that requirement. This judgement requires consideration of how the economic decisions of those that are expected to use the financial statements could be affected by not having that information. Applying a requirement would involve undue cost or effort by an SME if the incremental cost (for example, valuers' fees) or additional effort (for example, endeavours by employees) substantially exceed the benefits that those that are expected to use the SME's financial statements would receive from having the information. An assessment of undue cost or effort by an SME in accordance with this Standard would usually constitute a lower hurdle than an assessment of undue cost or effort by a publicly accountable entity because SMEs are not accountable to public stakeholders.
- 2.14C Assessing whether a requirement would involve undue cost or effort on initial **recognition** in the financial statements, for example at the date of the transaction, should be based on information about the costs and benefits of the requirement at the time of initial recognition. If the undue cost or effort exemption also applies subsequent to initial recognition, for example to a subsequent measurement of an item, a new assessment of undue cost or effort should be made at that subsequent date, based on information available at that date.
- 2.14D Except for the undue cost or effort exemption in paragraph 19.15, which is covered by the disclosure requirements in paragraph 19.25, whenever an undue

cost or effort exemption is used by an entity, the entity shall disclose that fact and the reasons why applying the requirement would involve undue cost or effort.

Financial position

2.15 The financial position of an entity is the relationship of its assets, liabilities and **equity** as of a specific date as presented in the **statement of financial position**. These are defined as follows:

- (a) an asset is 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;
- (b) a liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits; and
- (c) equity is the residual interest in the assets of the entity after deducting all its liabilities.

2.16 Some items that meet the definition of an asset or a liability may not be recognised as assets or liabilities in the statement of financial position because they do not satisfy the criteria for recognition in paragraphs 2.27–2.32. In particular, the expectation that future economic benefits will flow to or from an entity must be sufficiently certain to meet the probability criterion before an asset or liability is recognised.

Assets

2.17 The future economic benefit of an asset is its potential to contribute, directly or indirectly, to the flow of **cash** and **cash equivalents** to the entity. Those cash flows may come from using the asset or from disposing of it.

2.18 Many assets, for example **property, plant and equipment**, have a physical form. However, physical form is not essential to the existence of an asset. Some assets are intangible.

2.19 In determining the existence of an asset, the right of ownership is not essential. Thus, for example, property held on a **lease** is an asset if the entity controls the benefits that are expected to flow from the property.

Liabilities

2.20 An essential characteristic of a liability is that the entity has a present obligation to act or perform in a particular way. The obligation may be either a legal obligation or a **constructive obligation**. A legal obligation is legally enforceable as a consequence of a binding contract or statutory requirement. A constructive obligation is an obligation that derives from an entity's actions when:

- (a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and

- (b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

2.21 The settlement of a present obligation usually involves the payment of cash, the transfer of other assets, the provision of services, the replacement of that obligation with another obligation or the conversion of the obligation to equity. An obligation may also be extinguished by other means, such as a creditor waiving or forfeiting its rights.

Equity

2.22 Equity is the residual of recognised assets minus recognised liabilities. It may be subclassified in the statement of financial position. For example, in a corporate entity, subclassifications may include funds contributed by shareholders, retained earnings and items of **other comprehensive income** recognised as a separate component of equity. This Standard does not prescribe how, when or if amounts can be transferred between components of equity.

Performance

2.23 Performance is the relationship of the income and expenses of an entity during a **reporting period**. This Standard permits entities to present performance in a single financial statement (a **statement of comprehensive income**) or in two financial statements (an **income statement** and a statement of comprehensive income). **Total comprehensive income** and **profit or loss** are frequently used as measures of performance or as the basis for other measures, such as return on investment or earnings per share. Income and expenses are defined as follows:

- (a) income is increases in economic benefits during the reporting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from **owners**; and
- (b) expenses are decreases in economic benefits during the reporting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to owners.

2.24 The recognition of income and expenses results directly from the recognition and measurement of assets and liabilities. Criteria for the recognition of income and expenses are discussed in paragraphs 2.27–2.32.

Income

2.25 The definition of income encompasses both **revenue** and **gains**:

- (a) revenue is income that arises in the course of the ordinary activities of an entity and is referred to by a variety of names including sales, fees, interest, dividends, royalties and rent.
- (b) gains are other items that meet the definition of income but are not revenue. When gains are recognised in the statement of comprehensive income, they are usually displayed separately because knowledge of them is useful for making economic decisions.

Expenses

- 2.26 The definition of expenses encompasses losses as well as those expenses that arise in the course of the ordinary activities of the entity:
- (a) expenses that arise in the course of the ordinary activities of the entity include, for example, cost of sales, wages and **depreciation**. They usually take the form of an outflow or depletion of assets such as cash and cash equivalents, **inventory** or property, plant and equipment.
 - (b) **losses** are other items that meet the definition of expenses and may arise in the course of the ordinary activities of the entity. When losses are recognised in the statement of comprehensive income, they are usually presented separately because knowledge of them is useful for making economic decisions.

Recognition of assets, liabilities, income and expenses

- 2.27 Recognition is the process of incorporating in the financial statements an item that meets the definition of an asset, liability, income or expense and satisfies the following criteria:
- (a) it is **probable** that any future economic benefit associated with the item will flow to or from the entity; and
 - (b) the item has a cost or value that can be measured reliably.
- 2.28 The failure to recognise an item that satisfies those criteria is not rectified by disclosure of the accounting policies used or by **notes** or explanatory material.

The probability of future economic benefit

- 2.29 The concept of probability is used in the first recognition criterion to refer to the degree of uncertainty that the future economic benefits associated with the item will flow to or from the entity. Assessments of the degree of uncertainty attaching to the flow of future economic benefits are made on the basis of the evidence relating to conditions at the end of the reporting period available when the financial statements are prepared. Those assessments are made individually for individually significant items, and for a group for a large population of individually insignificant items.

Reliability of measurement

- 2.30 The second criterion for the recognition of an item is that it possesses a cost or value that can be measured with reliability. In many cases, the cost or value of an item is known. In other cases it must be estimated. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability. When a reasonable estimate cannot be made, the item is not recognised in the financial statements.
- 2.31 An item that fails to meet the recognition criteria may qualify for recognition at a later date as a result of subsequent circumstances or events.
- 2.32 An item that fails to meet the criteria for recognition may nonetheless warrant disclosure in the notes or explanatory material or in supplementary schedules.

This is appropriate when knowledge of the item is relevant to the evaluation of the financial position, performance and changes in financial position of an entity by the users of financial statements.

Measurement of assets, liabilities, income and expenses

- 2.33 Measurement is the process of determining the monetary amounts at which an entity measures assets, liabilities, income and expenses in its financial statements. Measurement involves the selection of a basis of measurement. This Standard IFRS specifies which measurement basis an entity shall use for many types of assets, liabilities, income and expenses.
- 2.34 Two common measurement bases are historical cost and **fair value**:
- (a) for assets, historical cost is the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire the asset at the time of its acquisition. For liabilities, historical cost is the amount of proceeds of cash or cash equivalents received or the fair value of non-cash assets received in exchange for the obligation at the time the obligation is incurred, or in some circumstances (for example, **income tax**) the amounts of cash or cash equivalents expected to be paid to settle the liability in the normal course of business. Amortised historical cost is the historical cost of an asset or liability plus or minus that portion of its historical cost previously recognised as expense or income.
 - (b) fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. In situations in which fair value measurement is permitted or required, the guidance in paragraphs 11.27–11.32 shall be applied.

Pervasive recognition and measurement principles

- 2.35 The requirements for recognising and measuring assets, liabilities, income and expenses in this Standard are based on pervasive principles that are derived from **full IFRS**. In the absence of a requirement in this Standard that applies specifically to a transaction or other event or condition, paragraph 10.4 provides guidance for making a judgement and paragraph 10.5 establishes a hierarchy for an entity to follow in deciding on the appropriate accounting policy in the circumstances. The second level of that hierarchy requires an entity to look to the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses and the pervasive principles set out in this section.

Accrual basis

- 2.36 An entity shall prepare its financial statements, except for cash flow information, using the **accrual basis of accounting**. On the accrual basis, items are recognised as assets, liabilities, equity, income or expenses when they satisfy the definitions and recognition criteria for those items.

Recognition in financial statements

Assets

- 2.37 An entity shall recognise an asset in the statement of financial position when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably. An asset is not recognised in the statement of financial position when expenditure has been incurred for which it is considered not probable that economic benefits will flow to the entity beyond the current reporting period. Instead such a transaction results in the recognition of an expense in the statement of comprehensive income (or in the income statement, if presented).
- 2.38 An entity shall not recognise a **contingent asset** as an asset. However, when the flow of future economic benefits to the entity is virtually certain, then the related asset is not a contingent asset, and its recognition is appropriate.

Liabilities

- 2.39 An entity shall recognise a liability in the statement of financial position when:
- (a) the entity has an obligation at the end of the reporting period as a result of a past event;
 - (b) it is probable that the entity will be required to transfer resources embodying economic benefits in settlement; and
 - (c) the settlement amount can be measured reliably.
- 2.40 A **contingent liability** is either a possible but uncertain obligation or a present obligation that is not recognised because it fails to meet one or both of the conditions (b) and (c) in paragraph 2.39. An entity shall not recognise a contingent liability as a liability, except for contingent liabilities of an acquiree in a **business combination** (see Section 19 *Business Combinations and Goodwill*).

Income

- 2.41 The recognition of income results directly from the recognition and measurement of assets and liabilities. An entity shall recognise income in the statement of comprehensive income (or in the income statement, if presented) when an increase in future economic benefits related to an increase in an asset or a decrease of a liability has arisen that can be measured reliably.

Expenses

- 2.42 The recognition of expenses results directly from the recognition and measurement of assets and liabilities. An entity shall recognise expenses in the statement of comprehensive income (or in the income statement, if presented) when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

Total comprehensive income and profit or loss

- 2.43 Total comprehensive income is the arithmetical difference between income and expenses. It is not a separate element of financial statements and a separate recognition principle is not needed for it.
- 2.44 Profit or loss is the arithmetical difference between income and expenses other than those items of income and expense that this Standard classifies as items of other comprehensive income. It is not a separate element of financial statements and a separate recognition principle is not needed for it.
- 2.45 This Standard does not allow the recognition of items in the statement of financial position that do not meet the definition of assets or of liabilities regardless of whether they result from applying the notion commonly referred to as the 'matching concept' for measuring profit or loss.

Measurement at initial recognition

- 2.46 At initial recognition, an entity shall measure assets and liabilities at historical cost unless this Standard requires initial measurement on another basis such as fair value.

Subsequent measurement

Financial assets and financial liabilities

- 2.47 An entity measures basic **financial assets** and basic **financial liabilities**, as defined in Section 11 *Basic Financial Instruments*, at amortised cost less **impairment** except for investments in non-convertible preference shares and non-puttable ordinary or preference shares that are **publicly traded** or whose fair value can otherwise be measured reliably without undue cost or effort, which are measured at fair value with changes in fair value recognised in profit or loss.
- 2.48 An entity generally measures all other financial assets and financial liabilities at fair value, with changes in fair value recognised in profit or loss, unless this Standard requires or permits measurement on another basis such as cost or amortised cost.

Non-financial assets

- 2.49 Most non-financial assets that an entity initially recognised at historical cost are subsequently measured on other measurement bases. For example:
- (a) an entity measures property, plant and equipment either at the lower of cost less any accumulated depreciation and impairment and the **recoverable amount** (cost model) or the lower of the revalued amount and the recoverable amount (revaluation model);
 - (b) an entity measures inventories at the lower of cost and selling price less costs to complete and sell; and
 - (c) an entity recognises an impairment loss relating to non-financial assets that are in use or held for sale.

Measurement of assets at those lower amounts is intended to ensure that an asset is not measured at an amount greater than the entity expects to recover from the sale or use of that asset.

- 2.50 For the following types of non-financial assets, this Standard permits or requires measurement at fair value:
- (a) investments in **associates** and **joint ventures** that an entity measures at fair value (see paragraphs 14.10 and 15.15 respectively);
 - (b) **investment property** that an entity measures at fair value (see paragraph 16.7);
 - (c) agricultural assets (**biological assets** and **agricultural produce** at the point of harvest) that an entity measures at fair value less estimated costs to sell (see paragraph 34.2); and
 - (d) property, plant and equipment that an entity measures in accordance with the revaluation model (see paragraph 17.15B).

Liabilities other than financial liabilities

- 2.51 Most liabilities other than financial liabilities are measured at the best estimate of the amount that would be required to settle the obligation at the **reporting date**.

Offsetting

- 2.52 An entity shall not offset assets and liabilities, or income and expenses, unless required or permitted by this Standard:
- (a) measuring assets net of valuation allowances is not offsetting. For example, allowances for inventory obsolescence and allowances for uncollectable receivables.
 - (b) if an entity's normal operating activities do not include buying and selling non-current assets, including investments and operating assets, then the entity reports gains and losses on disposal of such assets by deducting from the proceeds on disposal the **carrying amount** of the asset and related selling expenses.

Section 3 Financial Statement Presentation

Scope of this section

- 3.1 This section explains **fair presentation** of **financial statements**, what compliance with the *IFRS for SMEs* requires and what a complete set of financial statements is.

Fair presentation

- 3.2 Financial statements shall present fairly the **financial position**, financial **performance** and **cash flows** of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and **recognition** criteria for **assets**, **liabilities**, **income** and **expenses** set out in Section 2 *Concepts and Pervasive Principles*:

- (a) the application of the *IFRS for SMEs*, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation of the financial position, financial performance and cash flows of SMEs.
- (b) as explained in paragraph 1.5, the application of this Standard by an entity with **public accountability** does not result in a fair presentation in accordance with this Standard.

The additional disclosures referred to in (a) are necessary when compliance with the specific requirements in this Standard is insufficient to enable users to understand the effect of particular transactions, other events and conditions on the entity's financial position and financial performance.

Compliance with the *IFRS for SMEs*

- 3.3 An entity whose financial statements comply with the *IFRS for SMEs* shall make an explicit and unreserved statement of such compliance in the **notes**. Financial statements shall not be described as complying with the *IFRS for SMEs* unless they comply with all the requirements of this Standard.
- 3.4 In the extremely rare circumstances when management concludes that compliance with this Standard would be so misleading that it would conflict with the **objective of financial statements** of SMEs set out in Section 2, the entity shall depart from that requirement in the manner set out in paragraph 3.5 unless the relevant regulatory framework prohibits such a departure.
- 3.5 When an entity departs from a requirement of this Standard in accordance with paragraph 3.4, it shall disclose the following:
- (a) that management has concluded that the financial statements present fairly the entity's financial position, financial performance and cash flows;

- (b) that it has complied with the *IFRS for SMEs*, except that it has departed from a particular requirement to achieve a fair presentation; and
 - (c) the nature of the departure, including the treatment that the *IFRS for SMEs* would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in Section 2 and the treatment adopted.
- 3.6 When an entity has departed from a requirement of this Standard in a prior period, and that departure affects the amounts recognised in the financial statements for the current period, it shall make the disclosures set out in paragraph 3.5(c).
- 3.7 In the extremely rare circumstances when management concludes that compliance with a requirement in this Standard would be so misleading that it would conflict with the objective of financial statements of SMEs set out in Section 2, but the relevant regulatory framework prohibits departure from the requirement, the entity shall, to the maximum extent possible, reduce the perceived misleading aspects of compliance by disclosing the following:
- (a) the nature of the requirement in this Standard and the reason why management has concluded that complying with that requirement is so misleading in the circumstances that it conflicts with the objective of financial statements set out in Section 2; and
 - (b) for each period presented, the adjustments to each item in the financial statements that management has concluded would be necessary to achieve a fair presentation.

Going concern

- 3.8 When preparing financial statements, the management of an entity using this Standard shall make an assessment of the entity's ability to continue as a **going concern**. An entity is a going concern unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the **reporting date**.
- 3.9 When management is aware, in making its assessment, of **material** uncertainties related to events or conditions that cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.

Frequency of reporting

- 3.10 An entity shall present a complete set of financial statements (including comparative information—see paragraph 3.14) at least annually. When the end

of an entity's **reporting period** changes and the annual financial statements are presented for a period longer or shorter than one year, the entity shall disclose the following:

- (a) that fact;
- (b) the reason for using a longer or shorter period; and
- (c) the fact that comparative amounts presented in the financial statements (including the related notes) are not entirely comparable.

Consistency of presentation

- 3.11 An entity shall retain the presentation and classification of items in the financial statements from one period to the next unless:
- (a) it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of **accounting policies** in Section 10 *Accounting Policies, Estimates and Errors*; or
 - (b) this Standard requires a change in presentation.
- 3.12 When the presentation or classification of items in the financial statements is changed, an entity shall reclassify comparative amounts unless the reclassification is **impracticable**. When comparative amounts are reclassified, an entity shall disclose the following:
- (a) the nature of the reclassification;
 - (b) the amount of each item or class of items that is reclassified; and
 - (c) the reason for the reclassification.
- 3.13 If it is impracticable to reclassify comparative amounts, an entity shall disclose why reclassification was not practicable.

Comparative information

- 3.14 Except when this Standard permits or requires otherwise, an entity shall disclose comparative information in respect of the previous comparable period for all amounts presented in the current period's financial statements. An entity shall include comparative information for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.

Materiality and aggregation

- 3.15 An entity shall present separately each material class of similar items. An entity shall present separately items of a dissimilar nature or function unless they are immaterial.
- 3.16 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.

Complete set of financial statements

- 3.17 A complete set of financial statements of an entity shall include all of the following:
- (a) a **statement of financial position** as at the reporting date;
 - (b) either:
 - (i) a single **statement of comprehensive income** for the reporting period displaying all items of income and expense recognised during the period including those items recognised in determining **profit or loss** (which is a subtotal in the statement of comprehensive income) and items of **other comprehensive income**.
 - (ii) a separate **income statement** and a separate statement of comprehensive income. If an entity chooses to present both an income statement and a statement of comprehensive income, the statement of comprehensive income begins with profit or loss and then displays the items of other comprehensive income.
 - (c) a **statement of changes in equity** for the reporting period;
 - (d) a **statement of cash flows** for the reporting period; and
 - (e) notes, comprising a summary of significant accounting policies and other explanatory information.
- 3.18 If the only changes to equity during the periods for which financial statements are presented arise from profit or loss, payment of dividends, corrections of prior period **errors**, and changes in accounting policy, the entity may present a single **statement of income and retained earnings** in place of the statement of comprehensive income and statement of changes in equity (see paragraph 6.4).
- 3.19 If an entity has no items of other comprehensive income in any of the periods for which financial statements are presented, it may present only an income statement or it may present a statement of comprehensive income in which the 'bottom line' is labelled 'profit or loss'.
- 3.20 Because paragraph 3.14 requires comparative amounts in respect of the previous period for all amounts presented in the financial statements, a complete set of financial statements means that an entity shall present, as a minimum, two of each of the required financial statements and related notes.
- 3.21 In a complete set of financial statements, an entity shall present each financial statement with equal prominence.
- 3.22 An entity may use titles for the financial statements other than those used in this Standard as long as they are not misleading.

Identification of the financial statements

- 3.23 An entity shall clearly identify each of the financial statements and the notes and distinguish them from other information in the same document. In addition, an entity shall display the following information prominently and repeat it when necessary for an understanding of the information presented:
- (a) the name of the reporting entity and any change in its name since the end of the preceding reporting period;
 - (b) whether the financial statements cover the individual entity or a **group** of entities;
 - (c) the date of the end of the reporting period and the period covered by the financial statements;
 - (d) the **presentation currency**, as defined in Section 30 *Foreign Currency Translation*; and
 - (e) the level of rounding, if any, used in presenting amounts in the financial statements.
- 3.24 An entity shall disclose the following in the notes:
- (a) the domicile and legal form of the entity, its country of incorporation and the address of its registered office (or principal place of business, if different from the registered office); and
 - (b) a description of the nature of the entity's operations and its principal activities.

Presentation of information not required by this Standard

- 3.25 This Standard does not address presentation of segment information, earnings per share, or interim financial reports by a small or medium-sized entity. An entity making such disclosures shall describe the basis for preparing and presenting the information.

Section 4 *Statement of Financial Position*

Scope of this section

- 4.1 This section sets out the information that is to be presented in a **statement of financial position** 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**.

Information to be presented in the statement of financial position

- 4.2 As a minimum, the statement of financial position shall include line items that present the following amounts:
- (a) **cash and cash equivalents**;
 - (b) trade and other receivables;
 - (c) **financial assets** (excluding amounts shown under (a), (b), (j) and (k));
 - (d) **inventories**;
 - (e) **property, plant and equipment**;
 - (ea) **investment property** carried at cost less accumulated **depreciation** and **impairment**;
 - (f) investment property carried at **fair value** through **profit or loss**;
 - (g) **intangible assets**;
 - (h) **biological assets** carried at cost less accumulated depreciation and impairment;
 - (i) biological assets carried at fair value through profit or loss;
 - (j) investments in **associates**;
 - (k) investments in **jointly controlled entities**;
 - (l) trade and other payables;
 - (m) **financial liabilities** (excluding amounts shown under (l) and (p));
 - (n) liabilities and assets for **current tax**;
 - (o) **deferred tax liabilities** and **deferred tax assets** (these shall always be classified as non-current);
 - (p) **provisions**;
 - (q) **non-controlling interest**, presented within equity separately from the equity attributable to the **owners** of the **parent**; and
 - (r) equity attributable to the owners of the parent.
- 4.3 An entity shall present additional line items, headings and subtotals in the statement of financial position when such presentation is relevant to an understanding of the entity's **financial position**.

Current/non-current distinction

- 4.4 An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position in accordance with paragraphs 4.5–4.8, except when a presentation based on liquidity provides information that is reliable and more relevant. When that exception applies, all assets and liabilities shall be presented in order of approximate liquidity (ascending or descending).

Current assets

- 4.5 An entity shall classify an asset as current when:
- (a) it expects to realise the asset, or intends to sell or consume it, in the entity's normal operating cycle;
 - (b) it holds the asset primarily for the purpose of trading;
 - (c) it expects to realise the asset within twelve months after the **reporting date**; or
 - (d) the asset is cash or a cash equivalent, unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.
- 4.6 An entity shall classify all other assets as non-current. When the entity's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months.

Current liabilities

- 4.7 An entity shall classify a liability as current when:
- (a) it expects to settle the liability in the entity's normal operating cycle;
 - (b) it holds the liability primarily for the purpose of trading;
 - (c) the liability is due to be settled within twelve months after the reporting date; or
 - (d) the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after reporting date.
- 4.8 An entity shall classify all other liabilities as non-current.

Sequencing of items and format of items in the statement of financial position

- 4.9 This Standard does not prescribe the sequence or format in which items are to be presented. Paragraph 4.2 simply provides a list of items that are sufficiently different in nature or function to warrant separate presentation in the statement of financial position. In addition:

- (a) line items are included when the size, nature or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of the entity's financial position; and
 - (b) the descriptions used and the sequencing of items or aggregation of similar items may be amended according to the nature of the entity and its transactions, to provide information that is relevant to an understanding of the entity's financial position.
- 4.10 The judgement on whether additional items are presented separately is based on an assessment of all of the following:
- (a) the amounts, nature and liquidity of assets;
 - (b) the function of assets within the entity; and
 - (c) the amounts, nature and timing of liabilities.

Information to be presented either in the statement of financial position or in the notes

- 4.11 An entity shall disclose, either in the statement of financial position or in the **notes**, the following subclassifications of the line items presented:
- (a) property, plant and equipment in classifications appropriate to the entity;
 - (b) trade and other receivables showing separately amounts due from related parties, amounts due from other parties and receivables arising from accrued **income** not yet billed;
 - (c) inventories, showing separately amounts of inventories:
 - (i) held for sale in the ordinary course of business;
 - (ii) in the process of production for such sale; and
 - (iii) in the form of materials or supplies to be consumed in the production process or in the rendering of services.
 - (d) trade and other payables, showing separately amounts payable to trade suppliers, payable to related parties, deferred income and accruals;
 - (e) provisions for **employee benefits** and other provisions; and
 - (f) classes of equity, such as paid-in capital, share premium, retained earnings and items of income and **expense** that, as required by this Standard, are recognised in **other comprehensive income** and presented separately in equity.
- 4.12 An entity with share capital shall disclose the following, either in the statement of financial position or in the notes:
- (a) for each class of share capital:
 - (i) the number of shares authorised.
 - (ii) the number of shares issued and fully paid, and issued but not fully paid.

- (iii) par value per share or that the shares have no par value.
 - (iv) a reconciliation of the number of shares outstanding at the beginning and at the end of the period. This reconciliation need not be presented for prior periods.
 - (v) the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital.
 - (vi) shares in the entity held by the entity or by its **subsidiaries** or associates.
 - (vii) shares reserved for issue under options and contracts for the sale of shares, including the terms and amounts.
- (b) a description of each reserve within equity.
- 4.13 An entity without share capital, such as a partnership or trust, shall disclose information equivalent to that required by paragraph 4.12(a), showing changes during the period in each category of equity, and the rights, preferences and restrictions attaching to each category of equity.
- 4.14 If, at the reporting date, an entity has a binding sale agreement for a major disposal of assets, or a group of assets and liabilities, the entity shall disclose the following information:
- (a) a description of the asset(s) or the group of assets and liabilities;
 - (b) a description of the facts and circumstances of the sale or plan; and
 - (c) the **carrying amount** of the assets or, if the disposal involves a group of assets and liabilities, the carrying amounts of those assets and liabilities.

Section 5 *Statement of Comprehensive Income and Income Statement*

Scope of this section

- 5.1 This section requires an entity to present its **total comprehensive income** for a period—ie 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

- 5.2 An entity shall present its total comprehensive income for a period either:
- (a) in a single **statement of comprehensive income**, in which case the statement of comprehensive income presents all items of **income** and **expense** recognised in the period; or
 - (b) in two statements—an **income statement** and a statement of comprehensive income—in which case the income statement presents all items of income and expense recognised in the period except those that are recognised in total comprehensive income outside of **profit or loss** as permitted or required by this Standard.
- 5.3 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 *Accounting Policies, Estimates and Errors* applies.

Single-statement approach

- 5.4 Under the single-statement approach, the statement of comprehensive income shall include all items of income and expense recognised in a period unless this Standard requires otherwise. This Standard provides different treatment for the following circumstances:
- (a) the effects of corrections of **errors** and changes in **accounting policies** are presented as retrospective adjustments of prior periods instead of as part of profit or loss in the period in which they arise (see Section 10); and
 - (b) four types of **other comprehensive income** are recognised as part of total comprehensive income, outside of profit or loss, when they arise:
 - (i) some **gains** and **losses** arising on translating the financial statements of a **foreign operation** (see Section 30 *Foreign Currency Translation*);
 - (ii) some actuarial gains and losses (see Section 28 *Employee Benefits*);
 - (iii) some changes in **fair values** of **hedging instruments** (see Section 12 *Other Financial Instrument Issues*); and
 - (iv) changes in the revaluation surplus for **property, plant and equipment** measured in accordance with the revaluation model (see Section 17 *Property, Plant and Equipment*).

- 5.5 As a minimum, an entity shall include, in the statement of comprehensive income, line items that present the following amounts for the period:
- (a) **revenue.**
 - (b) finance costs.
 - (c) share of the profit or loss of investments in **associates** (see Section 14 *Investments in Associates*) and **jointly controlled entities** (see Section 15 *Investments in Joint Ventures*) accounted for using the equity method.
 - (d) **tax expense** excluding tax allocated to items (e), (g) and (h) (see paragraph 29.35).
 - (e) a single amount comprising the total of:
 - (i) the post-tax profit or loss of a **discontinued operation**; and
 - (ii) the post-tax gain or loss attributable to an **impairment**, or reversal of an impairment, of the **assets** in the discontinued operation (see Section 27 *Impairment of Assets*), both at the time and subsequent to being classified as a discontinued operation and to the disposal of the net assets constituting the discontinued operation.
 - (f) profit or loss (if an entity has no items of other comprehensive income, this line need not be presented).
 - (g) each item of other comprehensive income (see paragraph 5.4(b)) classified by nature (excluding amounts in (h)). Such items shall be grouped into those that, in accordance with this Standard:
 - (i) will not be reclassified subsequently to profit or loss—ie those in paragraph 5.4(b)(i)–(ii) and (iv); and
 - (ii) will be reclassified subsequently to profit or loss when specific conditions are met—ie those in paragraph 5.4(b)(iii).
 - (h) share of the other comprehensive income of associates and jointly controlled entities accounted for by the equity method.
 - (i) total comprehensive income (if an entity has no items of other comprehensive income, it may use another term for this line such as profit or loss).
- 5.6 An entity shall disclose separately the following items in the statement of comprehensive income as allocations for the period:
- (a) profit or loss for the period attributable to
 - (i) **non-controlling interest**; and
 - (ii) **owners** of the **parent**.
 - (b) total comprehensive income for the period attributable to
 - (i) non-controlling interest; and
 - (ii) owners of the parent.

Two-statement approach

- 5.7 Under the two-statement approach, the income statement shall display, as a minimum, line items that present the amounts in paragraph 5.5(a)–5.5(f) for the period, with profit or loss as the last line. The statement of comprehensive income shall begin with profit or loss as its first line and shall display, as a minimum, line items that present the amounts in paragraph 5.5(g)–5.5(i) and paragraph 5.6 for the period.

Requirements applicable to both approaches

- 5.8 Under this Standard, the effects of corrections of errors and changes in accounting policies are presented as retrospective adjustments of prior periods instead of as part of profit or loss in the period in which they arise (see Section 10).
- 5.9 An entity shall present additional line items, headings and subtotals in the statement of comprehensive income (and in the income statement, if presented), when such presentation is relevant to an understanding of the entity's financial performance.
- 5.10 An entity shall not present or describe any items of income and expense as 'extraordinary items' in the statement of comprehensive income (or in the income statement, if presented) or in the **notes**.

Analysis of expenses

- 5.11 An entity shall present an analysis of expenses using a classification based on either the nature of expenses or the function of expenses within the entity, whichever provides information that is reliable and more relevant.

Analysis by nature of expense

- (a) Under this method of classification, expenses are aggregated in the statement of comprehensive income according to their nature (for example, **depreciation**, purchases of materials, transport costs, **employee benefits** and advertising costs) and are not reallocated among various functions within the entity.

Analysis by function of expense

- (b) Under this method of classification, 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.

Section 6

Statement of Changes in Equity and Statement of Income and Retained Earnings

Scope of this section

- 6.1 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

- 6.2 The statement of changes in equity presents an entity's **profit or loss** for a **reporting period**, **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, **owners** in their capacity as owners during the period.

Information to be presented in the statement of changes in equity

- 6.3 The statement of changes in equity includes the following information:
- (a) **total comprehensive income** for the period, showing separately the total amounts attributable to owners of the **parent** and to **non-controlling interests**;
 - (b) for each component of equity, the effects of **retrospective application** or retrospective restatement recognised in accordance with Section 10 *Accounting Policies, Estimates and Errors*; and
 - (c) for each component of equity, a reconciliation between the **carrying amount** at the beginning and the end of the period, separately disclosing changes resulting from:
 - (i) profit or loss;
 - (ii) other comprehensive income; and
 - (iii) the amounts of investments by, and dividends and other distributions to, owners in their capacity as owners, showing separately issues of shares, **treasury share** transactions, dividends and other distributions to owners and changes in ownership interests in **subsidiaries** that do not result in a loss of **control**.

Statement of income and retained earnings

Purpose

- 6.4 The statement of income and retained earnings presents an entity's profit or loss and changes in retained earnings for a reporting period. Paragraph 3.18 permits

an entity to present a statement of income and retained earnings in place of a **statement of comprehensive income** and a statement of changes in equity if the only changes to its equity during the periods for which **financial statements** are presented arise from profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policy.

Information to be presented in the statement of income and retained earnings

6.5 An entity shall present, in the statement of income and retained earnings, the following items in addition to the information required by Section 5 *Statement of Comprehensive Income and Income Statement*:

- (a) retained earnings at the beginning of the reporting period;
- (b) dividends declared and paid or payable during the period;
- (c) restatements of retained earnings for corrections of prior period errors;
- (d) restatements of retained earnings for changes in accounting policy; and
- (e) retained earnings at the end of the reporting period.

Section 7 Statement of Cash Flows

Scope of this section

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

Cash equivalents

- 7.2 Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value. They are held to meet short-term cash commitments instead of for investment or other purposes. Consequently, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Bank overdrafts are normally considered financing activities similar to borrowings. However, if they are repayable on demand and form an integral part of an entity's cash management, bank overdrafts are a component of cash and cash equivalents.

Information to be presented in the statement of cash flows

- 7.3 An entity shall present a statement of cash flows that presents **cash flows** for a reporting period classified by operating activities, investing activities and financing activities.

Operating activities

- 7.4 Operating activities are the principal revenue-producing activities of the entity. Consequently, cash flows from operating activities generally result from the transactions and other events and conditions that enter into the determination of **profit or loss**. Examples of cash flows from operating activities are:
- (a) cash receipts from the sale of goods and the rendering of services;
 - (b) cash receipts from royalties, fees, commissions and other **revenue**;
 - (c) cash payments to suppliers for goods and services;
 - (d) cash payments to and on behalf of employees;
 - (e) cash payments or refunds of income tax, unless they can be specifically identified with financing and investing activities; and
 - (f) cash receipts and payments from investments, loans and other contracts held for dealing or trading purposes, which are similar to **inventory** acquired specifically for resale.

Some transactions, such as the sale of an item of plant by a manufacturing entity, may give rise to a **gain** or loss that is included in profit or loss. However, the cash flows relating to such transactions are cash flows from investing activities.

Investing activities

7.5 Investing activities are the acquisition and disposal of long-term **assets** and other investments not included in cash equivalents. Examples of cash flows arising from investing activities are:

- (a) cash payments to acquire **property, plant and equipment** (including self-constructed property, plant and equipment), **intangible assets** and other long-term assets;
- (b) cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;
- (c) cash payments to acquire **equity** or debt instruments of other entities and interests in **joint ventures** (other than payments for those instruments classified as cash equivalents or held for dealing or trading);
- (d) cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments classified as cash equivalents or held for dealing or trading);
- (e) cash advances and loans made to other parties;
- (f) cash receipts from the repayment of advances and loans made to other parties;
- (g) cash payments for futures contracts, forward contracts, option contracts and swap contracts, except when the contracts are held for dealing or trading, or the payments are classified as financing activities; and
- (h) cash receipts from futures contracts, forward contracts, option contracts and swap contracts, except when the contracts are held for dealing or trading, or the receipts are classified as financing activities.

When a contract is accounted for as a hedge (see Section 12 *Other Financial Instrument Issues*), an entity shall classify the cash flows of the contract in the same manner as the cash flows of the item being hedged.

Financing activities

7.6 Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of an entity. Examples of cash flows arising from financing activities are:

- (a) cash proceeds from issuing shares or other equity instruments;
- (b) cash payments to **owners** to acquire or redeem the entity's shares;
- (c) cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short-term or long-term borrowings;
- (d) cash repayments of amounts borrowed; and

- (e) cash payments by a lessee for the reduction of the outstanding **liability** relating to a **finance lease**.

Reporting cash flows from operating activities

- 7.7 An entity shall present cash flows from operating activities using either:
- (a) the indirect method, whereby profit or loss is adjusted for the effects of non-cash transactions, any deferrals or accruals of past or future operating cash receipts or payments and items of **income** or **expense** associated with investing or financing cash flows; or
 - (b) the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed.

Indirect method

- 7.8 Under the indirect method, the net cash flow from operating activities is determined by adjusting profit or loss for the effects of:
- (a) changes during the period in inventories and operating receivables and payables;
 - (b) non-cash items such as **depreciation, provisions, deferred tax**, accrued income (expenses) not yet received (paid) in cash, unrealised foreign currency gains and losses, undistributed profits of **associates** and **non-controlling interests**; and
 - (c) all other items for which the cash effects relate to investing or financing.

Direct method

- 7.9 Under the direct method, net cash flow from operating activities is presented by disclosing information about major classes of gross cash receipts and gross cash payments. Such information may be obtained either:
- (a) from the accounting records of the entity; or
 - (b) by adjusting sales, cost of sales and other items in the **statement of comprehensive income** (or the **income statement**, if presented) for:
 - (i) changes during the period in inventories and operating receivables and payables;
 - (ii) other non-cash items; and
 - (iii) other items for which the cash effects are investing or financing cash flows.

Reporting cash flows from investing and financing activities

- 7.10 An entity shall present separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities. The aggregate cash flows arising from acquisitions and from disposals of **subsidiaries** or other business units shall be presented separately and classified as investing activities.

Foreign currency cash flows

- 7.11 An entity shall record cash flows arising from transactions in a foreign currency in the entity's **functional currency** by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow. Paragraph 30.19 explains when an exchange rate that approximates the actual rate can be used.
- 7.12 The entity shall translate cash flows of a foreign subsidiary at the exchange rates between the entity's functional currency and the foreign currency at the dates of the cash flows.
- 7.13 Unrealised gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, to reconcile cash and cash equivalents at the beginning and the end of the period, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency must be presented in the statement of cash flows. Consequently, the entity shall remeasure cash and cash equivalents held during the reporting period (such as amounts of foreign currency held and foreign currency bank accounts) at period-end exchange rates. The entity shall present the resulting unrealised gain or loss separately from cash flows from operating, investing and financing activities.

Interest and dividends

- 7.14 An entity shall present separately cash flows from interest and dividends received and paid. The entity shall classify cash flows consistently from period to period as operating, investing or financing activities.
- 7.15 An entity may classify interest paid and interest and dividends received as operating cash flows because they are included in profit or loss. Alternatively, the entity may classify interest paid and interest and dividends received as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.
- 7.16 An entity may classify dividends paid as a financing cash flow because they are a cost of obtaining financial resources. Alternatively, the entity may classify dividends paid as a component of cash flows from operating activities because they are paid out of operating cash flows.

Income tax

- 7.17 An entity shall present separately cash flows arising from income tax and shall classify them as cash flows from operating activities unless they can be specifically identified with financing and investing activities. When tax cash flows are allocated over more than one class of activity, the entity shall disclose the total amount of taxes paid.

Non-cash transactions

- 7.18 An entity shall exclude from the statement of cash flows investing and financing transactions that do not require the use of cash or cash equivalents. An entity

shall disclose such transactions elsewhere in the **financial statements** in a way that provides all the relevant information about those investing and financing activities.

- 7.19 Many investing and financing activities do not have a direct impact on current cash flows even though they affect the capital and asset structure of an entity. The exclusion of non-cash transactions from the statement of cash flows is consistent with the objective of a statement of cash flows because these items do not involve cash flows in the current period. Examples of non-cash transactions are:
- (a) the acquisition of assets either by assuming directly related liabilities or by means of a finance lease;
 - (b) the acquisition of an entity by means of an equity issue; and
 - (c) the conversion of debt to equity.

Components of cash and cash equivalents

- 7.20 An entity shall present the components of cash and cash equivalents and shall present a reconciliation of the amounts presented in the statement of cash flows to the equivalent items presented in the **statement of financial position**. However, an entity is not required to present this reconciliation if the amount of cash and cash equivalents presented in the statement of cash flows is identical to the amount similarly described in the statement of financial position.

Other disclosures

- 7.21 An entity shall disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the entity. Cash and cash equivalents held by an entity may not be available for use by the entity because of, among other reasons, foreign exchange controls or legal restrictions.

Section 8 Notes to the Financial Statements

Scope of this section

- 8.1 This section sets out the principles underlying information that is to be presented in the **notes** to the **financial statements** and how to present it. Notes contain information in addition to that presented in the **statement of financial position**, the **statement of comprehensive income** (if presented), the **income statement** (if presented), the combined **statement of income and retained earnings** (if presented), the **statement of changes in equity** (if presented) and the **statement of cash flows**. Notes provide narrative descriptions or disaggregations of items presented in those statements and information about items that do not qualify for **recognition** in those statements. In addition to the requirements of this section, nearly every other section of this Standard requires disclosures that are normally presented in the notes.

Structure of the notes

- 8.2 The notes shall:
- (a) present information about the basis of preparation of the financial statements and the specific **accounting policies** used, in accordance with paragraphs 8.5–8.7;
 - (b) disclose the information required by this Standard that is not presented elsewhere in the financial statements; and
 - (c) provide information that is not presented elsewhere in the financial statements but is relevant to an understanding of any of them.
- 8.3 An entity shall, as far as practicable, present the notes in a systematic manner. An entity shall cross-reference each item in the financial statements to any related information in the notes.
- 8.4 An entity normally presents the notes in the following order:
- (a) a statement that the financial statements have been prepared in compliance with the *IFRS for SMEs* (see paragraph 3.3);
 - (b) a summary of significant accounting policies applied (see paragraph 8.5);
 - (c) supporting information for items presented in the financial statements, in the sequence in which each statement and each line item is presented; and
 - (d) any other disclosures.

Disclosure of accounting policies

- 8.5 An entity shall disclose the following in the summary of significant accounting policies:

- (a) the **measurement** basis (or bases) used in preparing the financial statements; and
- (b) the other accounting policies used that are relevant to an understanding of the financial statements.

Information about judgements

- 8.6 An entity shall disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 8.7), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Information about key sources of estimation uncertainty

- 8.7 An entity shall disclose in the notes information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the **reporting date**, that have a significant risk of causing a **material** adjustment to the **carrying amounts** of **assets** and **liabilities** within the next financial year. In respect of those assets and liabilities, the notes shall include details of:
- (a) their nature; and
 - (b) their carrying amount as at the end of the **reporting period**.

Section 9 *Consolidated and Separate Financial Statements*

Scope of this section

- 9.1 This section defines the circumstances in which an entity applying this Standard presents **consolidated financial statements** and the procedures for preparing those statements in accordance with this Standard. It also includes guidance on **separate financial statements** and **combined financial statements** if they are prepared in accordance with this Standard. If a **parent** entity by itself does not have **public accountability**, it may present its separate financial statements in accordance with this Standard, even if it presents its consolidated financial statements in accordance with **full IFRS** or another set of generally accepted accounting principles (GAAP).

Requirement to present consolidated financial statements

- 9.2 Except as permitted or required by paragraphs 9.3 and 9.3C, a parent entity shall present consolidated financial statements in which it consolidates its investments in **subsidiaries**. Consolidated financial statements shall include all subsidiaries of the parent.
- 9.3 A parent need not present consolidated financial statements if both of the following conditions are met:
- (a) the parent is itself a subsidiary; and
 - (b) its ultimate parent (or any intermediate parent) produces consolidated **general purpose financial statements** that comply with full IFRS or with this Standard.
- 9.3A Subject to paragraph 9.3B, a subsidiary is not consolidated if it is acquired and is held with the intention of selling or disposing of it within one year from its acquisition date (ie the date on which the acquirer obtains **control** of the acquiree). Such a subsidiary is accounted for in accordance with the requirements in Section 11 *Basic Financial Instruments* as for investments in paragraph 11.8(d), instead of in accordance with this section. The parent shall also provide the disclosure in paragraph 9.23A.
- 9.3B If a subsidiary previously excluded from consolidation in accordance with paragraph 9.3A is not disposed of within one year from its acquisition date (ie the parent entity still has control over that subsidiary):
- (a) the parent shall consolidate the subsidiary from the acquisition date unless it meets the condition in paragraph 9.3B(b). Consequently, if the acquisition date was in a prior period, the relevant prior periods shall be restated.
 - (b) if the delay is caused by events or circumstances beyond the parent's control and there is sufficient evidence at the **reporting date** that the parent remains committed to its plan to sell or dispose of the subsidiary, the parent shall continue to account for the subsidiary in accordance with paragraph 9.3A.

- 9.3C If a parent has no subsidiaries other than subsidiaries that are not required to be consolidated in accordance with paragraphs 9.3A–9.3B, it shall not present consolidated financial statements. However, the parent shall provide the disclosure in paragraph 9.23A.
- 9.4 A subsidiary is an entity that is controlled by the parent. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. If an entity has created a special purpose entity (SPE) to accomplish a narrow and well-defined objective, the entity shall consolidate the SPE when the substance of the relationship indicates that the SPE is controlled by that entity (see paragraphs 9.10–9.12).
- 9.5 Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. That presumption may be overcome in exceptional circumstances if it can be clearly demonstrated that such ownership does not constitute control. Control also exists when the parent owns half or less of the voting power of an entity but it has:
- (a) power over more than half of the voting rights by virtue of an agreement with other investors;
 - (b) power to govern the financial and operating policies of the entity under a statute or an agreement;
 - (c) power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body; or
 - (d) power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.
- 9.6 Control can also be achieved by having options or convertible instruments that are currently exercisable or by having an agent with the ability to direct the activities for the benefit of the controlling entity.
- 9.7 A subsidiary is not excluded from consolidation simply because the investor is a venture capital organisation or similar entity.
- 9.8 A subsidiary is not excluded from consolidation because its business activities are dissimilar to those of the other entities within the consolidation. Relevant information is provided by consolidating such subsidiaries and disclosing additional information in the consolidated financial statements about the different business activities of subsidiaries.
- 9.9 A subsidiary is not excluded from consolidation because it operates in a jurisdiction that imposes restrictions on transferring **cash** or other **assets** out of the jurisdiction.

Special purpose entities

- 9.10 An entity may be created to accomplish a narrow objective (for example, to effect a **lease**, undertake **research** and **development** activities or securitise **financial**

assets). Such an SPE may take the form of a corporation, trust, partnership or unincorporated entity. Often, SPEs are created with legal arrangements that impose strict requirements over the operations of the SPE.

- 9.11 An entity shall prepare consolidated financial statements that include the entity and any SPEs that are controlled by that entity. In addition to the circumstances described in paragraph 9.5, the following circumstances may indicate that an entity controls an SPE (this is not an exhaustive list):
- (a) the activities of the SPE are being conducted on behalf of the entity according to its specific business needs;
 - (b) the entity has the ultimate decision-making powers over the activities of the SPE even if the day-to-day decisions have been delegated;
 - (c) 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;
or
 - (d) the entity retains the majority of the residual or ownership risks related to the SPE or its assets.
- 9.12 Paragraphs 9.10 and 9.11 do not apply to **post-employment benefit plans** or other long-term **employee benefit** plans to which Section 28 *Employee Benefits* applies.

Consolidation procedures

- 9.13 The consolidated financial statements present financial information about the **group** as a single economic entity. In preparing consolidated financial statements, an entity shall:
- (a) combine the **financial statements** of the parent and its subsidiaries line by line by adding together like items of assets, **liabilities, equity, income and expenses**.
 - (b) eliminate the **carrying amount** of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary.
 - (c) measure and present **non-controlling interest** in the **profit or loss** of consolidated subsidiaries for the **reporting period** separately from the interest of the **owners** of the parent.
 - (d) measure and present non-controlling interest in the net assets of consolidated subsidiaries separately from the parent shareholders' equity in them. Non-controlling interest in the net assets consists of:
 - (i) the amount of the non-controlling interest at the date of the original combination calculated in accordance with Section 19 *Business Combinations and Goodwill*; and
 - (ii) the non-controlling interest's share of changes in equity since the date of the combination.
- 9.14 The proportions of profit or loss and changes in equity allocated to the owners of the parent and to the non-controlling interest are determined on the basis of

existing ownership interests and do not reflect the possible exercise or conversion of options or convertible instruments.

Intragroup balances and transactions

- 9.15 Intragroup balances and transactions, including income, expenses and dividends, are eliminated in full. Profits and losses resulting from intragroup transactions that are recognised in assets, such as **inventory** and **property, plant and equipment**, are eliminated in full. Intragroup losses may indicate an **impairment** that requires **recognition** in the consolidated financial statements (see Section 27 *Impairment of Assets*). Section 29 *Income Tax* applies to **temporary differences** that arise from the elimination of profits and losses resulting from intragroup transactions.

Uniform reporting date

- 9.16 The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall be prepared as of the same reporting date unless it is **impracticable** to do so. If it is impracticable to prepare the financial statements of a subsidiary as of the same reporting date as the parent, the parent shall consolidate the financial information of the subsidiary using the most recent financial statements of the subsidiary, adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements.

Uniform accounting policies

- 9.17 Consolidated financial statements shall be prepared using uniform **accounting policies** for like transactions and other events and conditions in similar circumstances. If a member of the group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

Acquisition and disposal of subsidiaries

- 9.18 The income and expenses of a subsidiary are included in the consolidated financial statements from the acquisition date until the date on which the parent ceases to control the subsidiary. When a parent ceases to control a subsidiary, the difference between the proceeds from the disposal of the subsidiary and its carrying amount at the date that control is lost is recognised in profit or loss in the consolidated **statement of comprehensive income** (or the **income statement**, if presented) as the **gain** or loss on the disposal of the subsidiary. The cumulative amount of any exchange differences that relate to a foreign subsidiary recognised in **other comprehensive income** in accordance with Section 30 *Foreign Currency Translation* is not reclassified to profit or loss on disposal of the subsidiary.
- 9.19 If an entity ceases to be a subsidiary but the investor (former parent) continues to hold an investment in the former subsidiary, that investment shall be accounted for as a financial asset in accordance with Section 11 or Section 12 *Other Financial Instrument Issues* from the date the entity ceases to be a subsidiary,

provided that it does not become an **associate** (in which case Section 14 *Investments in Associates* applies) or a **jointly controlled entity** (in which case Section 15 *Investments in Joint Ventures* applies). The carrying amount of the investment at the date that the entity ceases to be a subsidiary shall be regarded as the cost on initial **measurement** of the financial asset.

Non-controlling interest in subsidiaries

- 9.20 An entity shall present non-controlling interest in the consolidated **statement of financial position** within equity, separately from the equity of the owners of the parent, as required by paragraph 4.2(q).
- 9.21 An entity shall disclose non-controlling interest in the profit or loss of the group separately in the statement of comprehensive income, as required by paragraph 5.6 (or in the income statement, if presented, as required by paragraph 5.7).
- 9.22 Profit or loss and each component of other comprehensive income shall be attributed to the owners of the parent and to the non-controlling interest. **Total comprehensive income** shall be attributed to the owners of the parent and to the non-controlling interest even if this results in the non-controlling interest having a deficit balance.

Disclosures in consolidated financial statements

- 9.23 The following disclosures shall be made in consolidated financial statements:
- (a) the fact that the statements are consolidated financial statements;
 - (b) the basis for concluding that control exists when the parent does not own, directly or indirectly through subsidiaries, more than half of the voting power;
 - (c) any difference in the reporting date of the financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements; and
 - (d) the nature and extent of any significant restrictions (for example resulting from borrowing arrangements or regulatory requirements) on the ability of subsidiaries to transfer funds to the parent in the form of cash dividends or to repay loans.
- 9.23A In addition to the disclosure requirements in Section 11, a parent entity shall disclose the carrying amount of investments in subsidiaries that are not consolidated (see paragraphs 9.3A–9.3C) at the reporting date, in total, either in the statement of financial position or in the **notes**.

Separate financial statements

Presentation of separate financial statements

- 9.24 This Standard does not require presentation of separate financial statements for the parent entity or for the individual subsidiaries.

- 9.25 Separate financial statements are a second set of financial statements presented by an entity in addition to any of the following:
- (a) consolidated financial statements prepared by a parent;
 - (b) financial statements prepared by a parent exempted from preparing consolidated financial statements by paragraph 9.3C; or
 - (c) financial statements prepared by an entity that is not a parent but is an investor in an associate or has a **venturer's** interest in a **joint venture**.

Accounting policy election

- 9.26 When a parent, an investor in an associate or a venturer with an interest in a jointly controlled entity prepares separate financial statements and describes them as conforming to the *IFRS for SMEs*, those statements shall comply with all of the requirements of this Standard except as follows. The entity shall adopt a policy of accounting for its investments in subsidiaries, associates and **jointly controlled entities** in its separate financial statements either:
- (a) at cost less impairment;
 - (b) at **fair value** with changes in fair value recognised in profit or loss; or
 - (c) using the equity method following the procedures in paragraph 14.8.

The entity shall apply the same accounting policy for all investments in a single class (subsidiaries, associates or jointly controlled entities), but it can elect different policies for different classes.

Disclosures in separate financial statements

- 9.27 When a parent, an investor in an associate or a venturer with an interest in a jointly controlled entity prepares separate financial statements, those separate financial statements shall disclose:
- (a) that the statements are separate financial statements; and
 - (b) a description of the methods used to account for the investments in subsidiaries, jointly controlled entities and associates,

and shall identify the consolidated financial statements or other primary financial statements to which they relate.

Combined financial statements

- 9.28 Combined financial statements are a single set of financial statements of two or more entities under common control (as described in paragraph 19.2(a)). This Standard does not require combined financial statements to be prepared.
- 9.29 If the investor prepares combined financial statements and describes them as conforming to the *IFRS for SMEs*, those statements shall comply with all of the requirements of this Standard. Intercompany transactions and balances shall be eliminated; profits or losses resulting from intercompany transactions that are recognised in assets such as inventory and property, plant and equipment shall be eliminated; the financial statements of the entities included in the combined financial statements shall be prepared as of the same reporting date unless it is

impracticable to do so; and uniform accounting policies shall be followed for like transactions and other events in similar circumstances.

Disclosures in combined financial statements

9.30 The combined financial statements shall disclose the following:

- (a) the fact that the financial statements are combined financial statements;
- (b) the reason why combined financial statements are prepared;
- (c) the basis for determining which entities are included in the combined financial statements;
- (d) the basis of preparation of the combined financial statements; and
- (e) the **related party** disclosures required by Section 33 *Related Party Disclosures*.

Section 10 *Accounting Policies, Estimates and Errors*

Scope of this section

- 10.1 This section provides guidance for selecting and applying the **accounting policies** used in preparing **financial statements**. It also covers **changes in accounting estimates** and corrections of **errors** in prior period financial statements.

Selection and application of accounting policies

- 10.2 Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.
- 10.3 If this Standard specifically addresses a transaction, other event or condition, an entity shall apply this Standard. However, the entity need not follow a requirement in this Standard if the effect of doing so would not be **material**.
- 10.4 If this Standard does not specifically address a transaction, other event or condition, an entity's management shall use its judgement in developing and applying an accounting policy that results in information that is:
- (a) **relevant** to the economic decision-making needs of users; and
 - (b) **reliable**, in that the financial statements:
 - (i) represent faithfully the **financial position**, financial **performance** and **cash flows** of the entity;
 - (ii) reflect the economic substance of transactions, other events and conditions, and not merely the legal form;
 - (iii) are neutral, ie free from bias;
 - (iv) are prudent; and
 - (v) are complete in all material respects.
- 10.5 In making the judgement described in paragraph 10.4, management shall refer to, and consider the applicability of, the following sources in descending order:
- (a) the requirements and guidance in this Standard dealing with similar and related issues; and
 - (b) the definitions, **recognition** criteria and **measurement** concepts for **assets, liabilities, income** and **expenses** and the pervasive principles in Section 2 *Concepts and Pervasive Principles*.
- 10.6 In making the judgement described in paragraph 10.4, management may also consider the requirements and guidance in **full IFRS** dealing with similar and related issues.

Consistency of accounting policies

- 10.7 An entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless this Standard specifically requires or permits categorisation of items for which different policies may be appropriate. If this Standard requires or permits such categorisation, an appropriate accounting policy shall be selected and applied consistently to each category.

Changes in accounting policies

- 10.8 An entity shall change an accounting policy only if the change:
- (a) is required by changes to this Standard; or
 - (b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.
- 10.9 The following are not changes in accounting policies:
- (a) the application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring;
 - (b) the application of a new accounting policy for transactions, other events or conditions that did not occur previously or were not material; or
 - (c) a change to the cost model when a reliable measure of **fair value** is no longer available (or vice versa) for an asset that this Standard would otherwise require or permit to be measured at fair value.
- 10.10 If this Standard allows a choice of accounting treatment (including the measurement basis) for a specified transaction or other event or condition and an entity changes its previous choice, that is a change in accounting policy.
- 10.10A The initial application of a policy to revalue assets in accordance with Section 17 *Property, Plant and Equipment* is a change in an accounting policy to be dealt with as a revaluation in accordance with Section 17. Consequently, a change from the cost model to the revaluation model for a class of **property, plant and equipment** shall be accounted for prospectively, instead of in accordance with paragraphs 10.11–10.12.

Applying changes in accounting policies

- 10.11 An entity shall account for changes in accounting policy as follows:
- (a) an entity shall account for a change in accounting policy resulting from a change in the requirements of this Standard in accordance with the transitional provisions, if any, specified in that amendment;
 - (b) when an entity has elected to follow IAS 39 *Financial Instruments: Recognition and Measurement* instead of following Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instrument Issues* as permitted by paragraph 11.2, and the requirements of IAS 39 change, the entity shall

account for that change in accounting policy in accordance with the transitional provisions, if any, specified in the revised IAS 39; and

- (c) an entity shall account for all other changes in accounting policy **retrospectively** (see paragraph 10.12).

Retrospective application

- 10.12 When a change in accounting policy is applied retrospectively in accordance with paragraph 10.11, the entity shall apply the new accounting policy to comparative information for prior periods to the earliest date for which it is practicable, as if the new accounting policy had always been applied. When it is **impracticable** to determine the individual-period effects of a change in accounting policy on comparative information for one or more prior periods presented, the entity shall apply the new accounting policy to the **carrying amounts** of assets and liabilities as at the beginning of the earliest period for which **retrospective application** is practicable, which may be the current period, and shall make a corresponding adjustment to the opening balance of each affected component of **equity** for that period.

Disclosure of a change in accounting policy

- 10.13 When an amendment to this Standard has an effect on the current period or any prior period, or might have an effect on future periods, an entity shall disclose the following:

- (a) the nature of the change in accounting policy;
- (b) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;
- (c) the amount of the adjustment relating to periods before those presented, to the extent practicable; and
- (d) an explanation if it is impracticable to determine the amounts to be disclosed in (b) or (c).

Financial statements of subsequent periods need not repeat these disclosures.

- 10.14 When a voluntary change in accounting policy has an effect on the current period or any prior period, an entity shall disclose the following:

- (a) the nature of the change in accounting policy;
- (b) the reasons why applying the new accounting policy provides reliable and more relevant information;
- (c) to the extent practicable, the amount of the adjustment for each financial statement line item affected, shown separately:
 - (i) for the current period;
 - (ii) for each prior period presented; and
 - (iii) in the aggregate for periods before those presented.
- (d) an explanation if it is impracticable to determine the amounts to be disclosed in (c).

Financial statements of subsequent periods need not repeat these disclosures.

Changes in accounting estimates

- 10.15 A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.
- 10.16 An entity shall recognise the effect of a change in an accounting estimate, other than a change to which paragraph 10.17 applies, **prospectively** by including it in **profit or loss** in:
- (a) the period of the change, if the change affects that period only; or
 - (b) the period of the change and future periods, if the change affects both.
- 10.17 To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of equity, the entity shall recognise it by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.

Disclosure of a change in estimate

- 10.18 An entity shall disclose the nature of any change in an accounting estimate and the effect of the change on assets, liabilities, income and expense for the current period. If it is practicable for the entity to estimate the effect of the change in one or more future periods, the entity shall disclose those estimates.

Corrections of prior period errors

- 10.19 Prior period errors are omissions from, and misstatements in, an entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:
- (a) was available when financial statements for those periods were authorised for issue; and
 - (b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.
- 10.20 Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts and fraud.
- 10.21 To the extent practicable, an entity shall correct a material prior period error retrospectively in the first financial statements authorised for issue after its discovery by:
- (a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or

- (b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

10.22 When it is impracticable to determine the effects of an error on comparative information for one or more prior periods presented, the entity shall restate the opening balances of assets, liabilities and equity for the earliest period for which retrospective restatement is practicable (which may be the current period).

Disclosure of prior period errors

10.23 An entity shall disclose the following about prior period errors:

- (a) the nature of the prior period error;
- (b) for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;
- (c) to the extent practicable, the amount of the correction at the beginning of the earliest prior period presented; and
- (d) an explanation if it is not practicable to determine the amounts to be disclosed in (b) or (c).

Financial statements of subsequent periods need not repeat these disclosures.

Section 11 *Basic Financial Instruments*

Scope of Sections 11 and 12

- 11.1 Section 11 and Section 12 *Other Financial Instrument Issues* together deal with recognising, derecognising, measuring and disclosing **financial instruments** (**financial assets** and **financial liabilities**). Section 11 applies to basic financial instruments and is relevant to all entities. Section 12 applies to other, more complex financial instruments and transactions. If an entity enters into only basic financial instrument transactions then Section 12 is not applicable. However, even entities with only basic financial instruments shall consider the scope of Section 12 to ensure they are exempt.

Accounting policy choice

- 11.2 An entity shall choose to apply either:
- (a) the requirements of both Sections 11 and 12 in full; or
 - (b) the **recognition** and **measurement** requirements of IAS 39 *Financial Instruments: Recognition and Measurement*¹ and the disclosure requirements of Sections 11 and 12

to account for all of its financial instruments. An entity's choice of (a) or (b) is an accounting policy choice. Paragraphs 10.8–10.14 contain requirements for determining when a change in accounting policy is appropriate, how such a change should be accounted for and what information should be disclosed about the change.

Introduction to Section 11

- 11.3 A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or **equity** instrument of another entity.
- 11.4 Section 11 requires an amortised cost model for all basic financial instruments except for investments in non-convertible preference shares and non-puttable ordinary or preference shares that are **publicly traded** or whose **fair value** can otherwise be measured reliably without undue cost or effort.
- 11.5 Basic financial instruments within the scope of Section 11 are those that satisfy the conditions in paragraph 11.8. Examples of financial instruments that normally satisfy those conditions include:
- (a) **cash**;

¹ Until IAS 39 is superseded by IFRS 9 *Financial Instruments*, an entity shall apply the version of IAS 39 that is in effect at the entity's reporting date, by reference to the full IFRS publication titled *International Financial Reporting Standards IFRS® Consolidated without early application* (Blue Book). When IAS 39 is superseded by IFRS 9, an entity shall apply the version of IAS 39 that applied immediately prior to IFRS 9 superseding IAS 39. A copy of that version will be retained for reference on the SME webpages of the IASB website (<http://go.ifrs.org/IFRSforSMEs>).

- (b) demand and fixed-term deposits when the entity is the depositor, for example bank accounts;
 - (c) commercial paper and commercial bills held;
 - (d) accounts, notes and loans receivable and payable;
 - (e) bonds and similar debt instruments;
 - (f) investments in non-convertible preference shares and non-puttable ordinary and preference shares; and
 - (g) commitments to receive a loan if the commitment cannot be net settled in cash.
- 11.6 Examples of financial instruments that do not normally satisfy the conditions in paragraph 11.8, and are therefore within the scope of Section 12, include:
- (a) asset-backed securities, such as collateralised mortgage obligations, repurchase agreements and securitised packages of receivables;
 - (b) options, rights, warrants, futures contracts, forward contracts and interest rate swaps that can be settled in cash or by exchanging another financial instrument;
 - (c) financial instruments that qualify and are designated as **hedging instruments** in accordance with the requirements in Section 12;
 - (d) commitments to make a loan to another entity; and
 - (e) commitments to receive a loan if the commitment can be net settled in cash.

Scope of Section 11

- 11.7 Section 11 applies to all financial instruments meeting the conditions of paragraph 11.8 except for the following:
- (a) investments in **subsidiaries, associates** and **joint ventures** that are accounted for in accordance with Section 9 *Consolidated and Separate Financial Statements*, Section 14 *Investments in Associates* or Section 15 *Investments in Joint Ventures*.
 - (b) financial instruments that meet the definition of an entity's own equity, including the equity component of **compound financial instruments** issued by the entity (see Section 22 *Liabilities and Equity*).
 - (c) **leases**, to which Section 20 *Leases* or paragraph 12.3(f) apply. However, the **derecognition** requirements in paragraphs 11.33–11.38 apply to the derecognition of lease receivables recognised by a lessor and lease payables recognised by a lessee, and the impairment requirements in paragraphs 11.21–11.26 apply to lease receivables recognised by a lessor.
 - (d) employers' rights and obligations under **employee benefit** plans, to which Section 28 *Employee Benefits* applies.
 - (e) financial instruments, contracts and obligations under **share-based payment transactions** to which Section 26 *Share-based Payment* applies.

- (f) reimbursement **assets** that are accounted for in accordance with Section 21 *Provisions and Contingencies* (see paragraph 21.9).

Basic financial instruments

11.8 An entity shall account for the following financial instruments as basic financial instruments in accordance with Section 11:

- (a) cash;
- (b) a debt instrument (such as an account, note or loan receivable or payable) that meets the conditions in paragraph 11.9;
- (c) a commitment to receive a loan that:
 - (i) cannot be settled net in cash; and
 - (ii) when the commitment is executed, is expected to meet the conditions in paragraph 11.9.
- (d) an investment in non-convertible preference shares and non-puttable ordinary shares or preference shares.

11.9 A debt instrument that satisfies all of the conditions in (a)–(d) shall be accounted for in accordance with Section 11:

- (a) returns to the holder (the lender/creditor) assessed in the currency in which the debt instrument is denominated are either:
 - (i) a fixed amount;
 - (ii) a fixed rate of return over the life of the instrument;
 - (iii) a variable return that, throughout the life of the instrument, is equal to a single referenced quoted or observable interest rate (such as LIBOR); or
 - (iv) some combination of such fixed and variable rates, provided that both the fixed and variable rates are positive (for example, an interest rate swap with a positive fixed rate and negative variable rate would not meet this criterion).

For fixed and variable rate interest returns, interest is calculated by multiplying the rate for the applicable period by the principal amount outstanding during the period.

- (b) there is no contractual provision that could, by its terms, result in the holder (the lender/creditor) losing the principal amount or any interest attributable to the current period or prior periods. The fact that a debt instrument is subordinated to other debt instruments is not an example of such a contractual provision.
- (c) contractual provisions that permit or require the issuer (the borrower) to prepay a debt instrument or permit or require the holder (the lender/creditor) to put it back to the issuer (ie to demand repayment) before maturity are not contingent on future events other than to protect:

- (i) the holder against a change in the credit risk of the issuer or the instrument (for example, defaults, credit downgrades or loan covenant violations) or a change in **control** of the issuer; or
 - (ii) the holder or issuer against changes in relevant taxation or law.
- (d) there are no conditional returns or repayment provisions except for the variable rate return described in (a) and prepayment provisions described in (c).
- 11.9A Examples of debt instruments that would normally satisfy the conditions in paragraph 11.9(a)(iv) include:
- (a) a bank loan that has a fixed interest rate for an initial period that then reverts to a quoted or observable variable interest rate after that period; and
 - (b) a bank loan with interest payable at a quoted or observable variable interest rate plus a fixed rate throughout the life of the loan, for example LIBOR plus 200 basis points.
- 11.9B An example of a debt instrument that would normally satisfy the conditions set out in paragraph 11.9(c) would be a bank loan that permits the borrower to terminate the arrangement early, even though the borrower may be required to pay a penalty to compensate the bank for its costs of the borrower terminating the arrangement early.
- 11.10 Other examples of financial instruments that would normally satisfy the conditions in paragraph 11.9 are:
- (a) trade accounts and notes receivable and payable, and loans from banks or other third parties.
 - (b) accounts payable in a foreign currency. However, any change in the account payable because of a change in the exchange rate is recognised in **profit or loss** as required by paragraph 30.10.
 - (c) loans to or from subsidiaries or associates that are due on demand.
 - (d) a debt instrument that would become immediately receivable if the issuer defaults on an interest or principal payment (such a provision does not violate the conditions in paragraph 11.9).
- 11.11 Examples of financial instruments that do not satisfy the conditions in paragraph 11.9 (and are therefore within the scope of Section 12) include:
- (a) an investment in another entity's equity instruments other than non-convertible preference shares and non-puttable ordinary and preference shares (see paragraph 11.8(d));
 - (b) an interest rate swap that returns a cash flow that is positive or negative, or a forward commitment to purchase a commodity or financial instrument that is capable of being cash-settled and that, on settlement, could have positive or negative cash flow, because such swaps and forwards do not meet the condition in paragraph 11.9(a);

- (c) options and forward contracts, because returns to the holder are not fixed and the condition in paragraph 11.9(a) is not met; and
- (d) investments in convertible debt, because the return to the holder can vary with the price of the issuer's equity shares instead of just with market interest rates.

Initial recognition of financial assets and liabilities

- 11.12 An entity shall recognise a financial asset or a financial liability only when the entity becomes a party to the contractual provisions of the instrument.

Initial measurement

- 11.13 When a financial asset or financial liability is recognised initially, an entity shall measure it at the transaction price (including **transaction costs** except in the initial measurement of financial assets and liabilities that are subsequently measured at fair value through profit or loss) unless the arrangement constitutes, in effect, a financing transaction for either the entity (for a financial liability) or the counterparty (for a financial asset) to the arrangement. An arrangement constitutes a financing transaction if payment is deferred beyond normal business terms, for example, providing interest-free credit to a buyer for the sale of goods, or is financed at a rate of interest that is not a market rate, for example, an interest-free or below market interest rate loan made to an employee. If the arrangement constitutes a financing transaction, the entity shall measure the financial asset or financial liability at the **present value** of the future payments discounted at a market rate of interest for a similar debt instrument as determined at initial recognition.

Examples—financial assets

- 1 For a long-term loan made to another entity, a receivable is recognised at the present value of cash receivable (including interest payments and repayment of principal) from that entity.
- 2 For goods sold to a customer on short-term credit, a receivable is recognised at the undiscounted amount of cash receivable from that entity, which is normally the invoice price.
- 3 For an item sold to a customer on two-year interest-free credit, a receivable is recognised at the current cash sale price for that item. If the current cash sale price is not known, it may be estimated as the present value of the cash receivable discounted using the prevailing market rate(s) of interest for a similar receivable.
- 4 For a cash purchase of another entity's ordinary shares, the investment is recognised at the amount of cash paid to acquire the shares.

Examples—financial liabilities

- | | |
|---|--|
| 1 | For a loan received from a bank, a payable is recognised initially at the present value of cash payable to the bank (for example, including interest payments and repayment of principal). |
| 2 | For goods purchased from a supplier on short-term credit, a payable is recognised at the undiscounted amount owed to the supplier, which is normally the invoice price. |

Subsequent measurement

11.14 At the end of each **reporting period**, an entity shall measure financial instruments as follows, without any deduction for transaction costs the entity may incur on sale or other disposal:

- (a) debt instruments that meet the conditions in paragraph 11.8(b) shall be measured at **amortised cost** using the **effective interest method**. Paragraphs 11.15–11.20 provide guidance on determining amortised cost using the effective interest method. Debt instruments that are classified as current assets or current **liabilities** shall be measured at the undiscounted amount of the cash or other consideration expected to be paid or received (ie net of impairment—see paragraphs 11.21–11.26) unless the arrangement constitutes, in effect, a financing transaction (see paragraph 11.13).
- (b) commitments to receive a loan that meet the conditions in paragraph 11.8(c) shall be measured at cost (which sometimes is nil) less impairment.
- (c) investments in non-convertible preference shares and non-puttable ordinary or preference shares shall be measured as follows (paragraphs 11.27–11.32 provide guidance on fair value):
 - (i) if the shares are publicly traded or their fair value can otherwise be measured reliably without undue cost or effort, the investment shall be measured at fair value with changes in fair value recognised in profit or loss; and
 - (ii) all other such investments shall be measured at cost less impairment.

Impairment or uncollectability must be assessed for financial assets in (a), (b) and (c)(ii). Paragraphs 11.21–11.26 provide guidance.

Amortised cost and effective interest method

11.15 The **amortised cost of a financial asset or financial liability** at each **reporting date** is the net of the following amounts:

- (a) the amount at which the financial asset or financial liability is measured at initial recognition;
- (b) minus any repayments of the principal;

- (c) plus or minus the cumulative **amortisation** using the effective interest method of any difference between the amount at initial recognition and the maturity amount;
- (d) minus, in the case of a financial asset, any reduction (directly or through the use of an allowance account) for impairment or uncollectability.

Financial assets and financial liabilities that have no stated interest rate, that do not relate to an arrangement that constitutes a financing transaction and that are classified as current assets or current liabilities are initially measured at an undiscounted amount in accordance with paragraph 11.13. Consequently, (c) does not apply to them.

- 11.16 The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or a group of financial assets or financial liabilities) and of allocating the interest **income** or interest **expense** over the relevant period. The **effective interest rate** is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the **carrying amount** of the financial asset or financial liability. The effective interest rate is determined on the basis of the carrying amount of the financial asset or liability at initial recognition. Under the effective interest method:
- (a) the amortised cost of a financial asset (liability) is the present value of future cash receipts (payments) discounted at the effective interest rate; and
 - (b) the interest expense (income) in a period equals the carrying amount of the financial liability (asset) at the beginning of a period multiplied by the effective interest rate for the period.
- 11.17 When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example prepayment, call and similar options) and known credit losses that have been incurred, but it shall not consider possible future credit losses not yet incurred.
- 11.18 When calculating the effective interest rate, an entity shall amortise any related fees, finance charges paid or received (such as 'points'), transaction costs and other premiums or discounts over the expected life of the instrument, except as follows. The entity shall use a shorter period if that is the period to which the fees, finance charges paid or received, transaction costs, premiums or discounts relate. This will be the case when the variable to which the fees, finance charges paid or received, transaction costs, premiums or discounts relate is repriced to market rates before the expected maturity of the instrument. In such a case, the appropriate amortisation period is the period to the next such repricing date.
- 11.19 For variable rate financial assets and variable rate financial liabilities, periodic re-estimation of cash flows to reflect changes in market rates of interest alters the effective interest rate. If a variable rate financial asset or variable rate financial liability is recognised initially at an amount equal to the principal receivable or payable at maturity, re-estimating the future interest payments normally has no significant effect on the carrying amount of the asset or liability.

- 11.20 If an entity revises its estimates of payments or receipts, the entity shall adjust the carrying amount of the financial asset or financial liability (or group of financial instruments) to reflect actual and revised estimated cash flows. The entity shall recalculate the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate. The entity shall recognise the adjustment as income or expense in profit or loss at the date of the revision.

Example of determining amortised cost for a five-year loan using the effective interest method

On 1 January 20X0, an entity acquires a bond for CU900, incurring transaction costs of CU50.^(a) Interest of CU40 is receivable annually, in arrears, over the next five years (31 December 20X0–31 December 20X4). The bond has a mandatory redemption of CU1100 on 31 December 20X4.

Year	Carrying amount at beginning of period CU	Interest income at 6.9584%* CU	Cash inflow CU	Carrying amount at end of period CU
20X0	950.00	66.11	(40.00)	976.11
20X1	976.11	67.92	(40.00)	1,004.03
20X2	1,004.03	69.86	(40.00)	1,033.89
20X3	1,033.89	71.94	(40.00)	1,065.83
20X4	1,065.83	74.17	(40.00)	1,100.00
			(1,100.00)	–

* The effective interest rate of 6.9584 per cent is the rate that discounts the expected cash flows on the bond to the initial carrying amount:
 $40 \div (1.069584)^1 + 40 \div (1.069584)^2 + 40 \div (1.069584)^3 + 40 \div (1.069584)^4 + 1,140 \div (1.069584)^5 = 950$

(a) In this publication, monetary items are denominated in 'currency units' (CU).

Impairment of financial assets measured at cost or amortised cost

Recognition

- 11.21 At the end of each reporting period, an entity shall assess whether there is objective evidence of impairment of any financial assets that are measured at cost or amortised cost. If there is objective evidence of impairment, the entity shall recognise an impairment loss in profit or loss immediately.
- 11.22 Objective evidence that a financial asset or group of assets is impaired includes observable data that come to the attention of the holder of the asset about the following loss events:
- significant financial difficulty of the issuer or obligor;
 - a breach of contract, such as a default or delinquency in interest or principal payments;

- (c) the creditor, for economic or legal reasons relating to the debtor's financial difficulty, granting to the debtor a concession that the creditor would not otherwise consider;
- (d) it has become **probable** that the debtor will enter bankruptcy or other financial reorganisation; or
- (e) observable data indicating that there has been a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, even though the decrease cannot yet be identified with the individual financial assets in the group, such as adverse national or local economic conditions or adverse changes in industry conditions.

11.23 Other factors may also be evidence of impairment, including significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates.

11.24 An entity shall assess the following financial assets individually for impairment:

- (a) all equity instruments regardless of significance; and
- (b) other financial assets that are individually significant.

An entity shall assess other financial assets for financial assets either individually or grouped on the basis of similar credit risk characteristics.

Measurement

11.25 An entity shall measure an impairment loss on the following financial assets measured at cost or amortised cost as follows:

- (a) for a financial asset measured at amortised cost in accordance with paragraph 11.14(a), the impairment loss is the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If such a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.
- (b) for a financial asset measured at cost less impairment in accordance with paragraph 11.14(b) and (c)(ii) the impairment loss is the difference between the asset's carrying amount and the best estimate (which will necessarily be an approximation) of the amount (which might be zero) that the entity would receive for the asset if it were to be sold at the reporting date.

Reversal

11.26 If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the entity shall reverse the previously recognised impairment loss either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset (net of any allowance account) that exceeds what

the carrying amount would have been had the impairment not previously been recognised. The entity shall recognise the amount of the reversal in profit or loss immediately.

Fair value

11.27 An entity shall use the following hierarchy to estimate the fair value of an asset:

- (a) the best evidence of fair value is a quoted price for an identical asset (or similar asset) in an **active market**. This is usually the current bid price.
- (b) when quoted prices are unavailable, the price in a binding sale agreement or a recent transaction for an identical asset (or similar asset) in an arm's length transaction between knowledgeable, willing parties provides evidence of fair value. However this price may not be a good estimate of fair value if there has been a significant change in economic circumstances or a significant period of time between the date of the binding sale agreement, or the transaction, and the measurement date. If the entity can demonstrate that the last transaction price is not a good estimate of fair value (for example, because it reflects the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale), then that price is adjusted.
- (c) if the market for the asset is not active and any binding sale agreements or recent transactions of an identical asset (or similar asset) on their own are not a good estimate of fair value, an entity estimates the fair value by using another valuation technique. The objective of using a valuation technique is to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

Other sections of this Standard make reference to the fair value guidance in paragraphs 11.27–11.32, including Section 9, Section 12, Section 14, Section 15, Section 16 *Investment Property*, Section 17 *Property, Plant and Equipment* and Section 28.

Valuation technique

11.28 Valuation techniques include using recent arm's length market transactions for an identical asset between knowledgeable, willing parties, if available, reference to the current fair value of another asset that is substantially the same as the asset being measured, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the asset and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique.

11.29 The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations. Fair value is estimated on the basis of the results of a valuation technique that makes maximum use of market inputs, and relies as little as possible on entity-determined inputs. A valuation technique would be expected to arrive at a reliable estimate of the fair value if

- (a) it reasonably reflects how the market could be expected to price the asset; and
- (b) the inputs to the valuation technique reasonably represent market expectations and measures of the risk return factors inherent in the asset.

No active market

- 11.30 The fair value of investments in assets that do not have a quoted market price in an active market is reliably measurable if
- (a) the variability in the range of reasonable fair value estimates is not significant for that asset; or
 - (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value.
- 11.31 There are many situations in which the variability in the range of reasonable fair value estimates of assets that do not have a quoted market price is likely not to be significant. Normally it is possible to estimate the fair value of an asset that an entity has acquired from an outside party. However, if the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed, an entity is precluded from measuring the asset at fair value.
- 11.32 If a reliable measure of fair value is no longer available for an asset measured at fair value (or is not available without undue cost or effort when such an exemption is provided (see paragraphs 11.14(c) and 12.8(b)), its carrying amount at the last date the asset was reliably measurable becomes its new cost. The entity shall measure the asset at this cost amount less impairment until a reliable measure of fair value becomes available (or becomes available without undue cost or effort when such an exemption is provided).

Derecognition of a financial asset

- 11.33 An entity shall derecognise a financial asset only when either:
- (a) the contractual rights to the cash flows from the financial asset expire or are settled;
 - (b) the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
 - (c) the entity, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer—in this case, the entity shall:
 - (i) derecognise the asset; and
 - (ii) recognise separately any rights and obligations retained or created in the transfer.

The carrying amount of the transferred asset shall be allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations shall be measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised in accordance with this paragraph shall be recognised in profit or loss in the period of the transfer.

- 11.34 If a transfer does not result in derecognition because the entity has retained significant risks and rewards of ownership of the transferred asset, the entity shall continue to recognise the transferred asset in its entirety and shall recognise a financial liability for the consideration received. The asset and liability shall not be offset. In subsequent periods, the entity shall recognise any income on the transferred asset and any expense incurred on the financial liability.
- 11.35 If a transferor provides non-cash collateral (such as debt or equity instruments) to the transferee, the accounting for the collateral by the transferor and the transferee depends on whether the transferee has the right to sell or repledge the collateral and on whether the transferor has defaulted. The transferor and transferee shall account for the collateral as follows:
- (a) if the transferee has the right by contract or custom to sell or repledge the collateral, the transferor shall reclassify that asset in its **statement of financial position** (for example, as a loaned asset, pledged equity instruments or repurchase receivable) separately from other assets;
 - (b) if the transferee sells collateral pledged to it, it shall recognise the proceeds from the sale and a liability measured at fair value for its obligation to return the collateral;
 - (c) if the transferor defaults under the terms of the contract and is no longer entitled to redeem the collateral, it shall derecognise the collateral and the transferee shall recognise the collateral as its asset initially measured at fair value or, if it has already sold the collateral, derecognise its obligation to return the collateral; and
 - (d) except as provided in (c), the transferor shall continue to carry the collateral as its asset and the transferee shall not recognise the collateral as an asset.

Example—transfer that qualifies for derecognition

An entity sells a group of its accounts receivable to a bank at less than their face amount. The entity continues to handle collections from the debtors on behalf of the bank, including sending monthly statements, and the bank pays the entity a market-rate fee for servicing the receivables. The entity is obliged to remit promptly to the bank any and all amounts collected, but it has no obligation to the bank for slow payment or non-payment by the debtors. In this case, the entity has transferred to the bank substantially all of the risks and rewards of ownership of the receivables. Accordingly, it removes the receivables from its statement of financial position (ie derecognises them) and it shows no liability in respect of the proceeds received from the bank. The entity recognises a loss calculated as the difference between the carrying amount of the receivables at the time of sale and the proceeds received from the bank. The entity recognises a liability to the extent that it has collected funds from the debtors but has not yet remitted them to the bank.

Example—transfer that does not qualify for derecognition

The facts are the same as the preceding example except that the entity has agreed to buy back from the bank any receivables for which the debtor is in arrears as to principal or interest for more than 120 days. In this case, the entity has retained the risk of slow payment or non-payment by the debtors—a significant risk with respect to receivables. Accordingly, the entity does not treat the receivables as having been sold to the bank, and it does not derecognise them. Instead, it treats the proceeds from the bank as a loan secured by the receivables. The entity continues to recognise the receivables as an asset until they are collected or written off as uncollectable.

Derecognition of a financial liability

- 11.36 An entity shall derecognise a financial liability (or a part of a financial liability) only when it is extinguished—ie when the obligation specified in the contract is discharged, is cancelled or expires.
- 11.37 If an existing borrower and lender exchange financial instruments with substantially different terms, the entities shall account for the transaction as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, an entity shall account for a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) as an extinguishment of the original financial liability and the recognition of a new financial liability.
- 11.38 The entity shall recognise in profit or loss any difference between the carrying amount of the financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed.

Disclosures

- 11.39 The following disclosures make reference to disclosures for financial liabilities measured at fair value through profit or loss. Entities that have only basic financial instruments (and therefore do not apply Section 12) will not have any financial liabilities measured at fair value through profit or loss and hence will not need to provide such disclosures.

Disclosure of accounting policies for financial instruments

- 11.40 In accordance with paragraph 8.5, an entity shall disclose, in the summary of significant **accounting policies**, the measurement basis (or bases) used for financial instruments and the other accounting policies used for financial instruments that are relevant to an understanding of the **financial statements**.

Statement of financial position—categories of financial assets and financial liabilities

- 11.41 An entity shall disclose the carrying amounts of each of the following categories of financial assets and financial liabilities at the reporting date, in total, either in the statement of financial position or in the notes:
- (a) financial assets measured at fair value through profit or loss (paragraph 11.14(c)(i) and paragraphs 12.8 and 12.9);
 - (b) financial assets that are debt instruments measured at amortised cost (paragraph 11.14(a));
 - (c) financial assets that are equity instruments measured at cost less impairment (paragraph 11.14(c)(ii) and paragraphs 12.8 and 12.9);
 - (d) financial liabilities measured at fair value through profit or loss (paragraphs 12.8 and 12.9);
 - (e) financial liabilities measured at amortised cost (paragraph 11.14(a)); and
 - (f) loan commitments measured at cost less impairment (paragraph 11.14(b)).
- 11.42 An entity shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its **financial position** and **performance**. For example, for long-term debt such information would normally include the terms and conditions of the debt instrument (such as interest rate, maturity, repayment schedule, and restrictions that the debt instrument imposes on the entity).
- 11.43 For all financial assets and financial liabilities measured at fair value, the entity shall disclose the basis for determining fair value, for example, quoted market price in an active market or a valuation technique. When a valuation technique is used, the entity shall disclose the assumptions applied in determining fair value for each class of financial assets or financial liabilities. For example, if applicable, an entity discloses information about the assumptions relating to prepayment rates, rates of estimated credit losses, and interest rates or discount rates.

- 11.44 If a reliable measure of fair value is no longer available, or is not available without undue cost or effort when such an exemption is provided, for any financial instruments that would otherwise be required to be measured at fair value through profit or loss in accordance with this Standard, the entity shall disclose that fact, the carrying amount of those financial instruments and, if an undue cost or effort exemption has been used, the reasons why a reliable fair value measurement would involve undue cost or effort.

Derecognition

- 11.45 If an entity has transferred financial assets to another party in a transaction that does not qualify for derecognition (see paragraphs 11.33–11.35), the entity shall disclose the following for each class of such financial assets:
- (a) the nature of the assets;
 - (b) the nature of the risks and rewards of ownership to which the entity remains exposed; and
 - (c) the carrying amounts of the assets and of any associated liabilities that the entity continues to recognise.

Collateral

- 11.46 When an entity has pledged financial assets as collateral for liabilities or **contingent liabilities**, it shall disclose the following:
- (a) the carrying amount of the financial assets pledged as collateral; and
 - (b) the terms and conditions relating to its pledge.

Defaults and breaches on loans payable

- 11.47 For **loans payable** recognised at the reporting date for which there is a breach of terms or a default of principal, interest, sinking fund or redemption terms that have not been remedied by the reporting date, an entity shall disclose the following:
- (a) details of that breach or default;
 - (b) the carrying amount of the related loans payable at the reporting date; and
 - (c) whether the breach or default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were authorised for issue.

Items of income, expense, gains or losses

- 11.48 An entity shall disclose the following items of income, expense, **gains** or losses:
- (a) income, expense, gains or losses, including changes in fair value, recognised on:
 - (i) financial assets measured at fair value through profit or loss;
 - (ii) financial liabilities measured at fair value through profit or loss;
 - (iii) financial assets measured at amortised cost; and

- (iv) financial liabilities measured at amortised cost.
- (b) total interest income and total interest expense (calculated using the effective interest method) for financial assets or financial liabilities that are not measured at fair value through profit or loss; and
- (c) the amount of any impairment loss for each class of financial asset.

Section 12 *Other Financial Instrument Issues*

Scope of Sections 11 and 12

- 12.1 Section 11 *Basic Financial Instruments* and Section 12 together deal with recognising, derecognising, measuring and disclosing **financial instruments** (**financial assets** and **financial liabilities**). Section 11 applies to basic financial instruments and is relevant to all entities. Section 12 applies to other, more complex financial instruments and transactions. If an entity enters into only basic financial instrument transactions then Section 12 is not applicable. However, even entities with only basic financial instruments shall consider the scope of Section 12 to ensure they are exempt.

Accounting policy choice

- 12.2 An entity shall choose to apply either:
- (a) the requirements of both Sections 11 and 12 in full; or
 - (b) the **recognition** and **measurement** requirements of IAS 39 *Financial Instruments: Recognition and Measurement* and the disclosure requirements of Sections 11 and 12

to account for all of its financial instruments. An entity's choice of (a) or (b) is an accounting policy choice. Paragraphs 10.8–10.14 contain requirements for determining when a change in accounting policy is appropriate, how such a change should be accounted for and what information should be disclosed about the change in accounting policy.

Scope of Section 12

- 12.3 Section 12 applies to all financial instruments except the following:
- (a) those covered by Section 11.
 - (b) investments in **subsidiaries**, **associates** and **joint ventures** that are accounted for in accordance with Section 9 *Consolidated and Separate Financial Statements*, Section 14 *Investments in Associates* or Section 15 *Investments in Joint Ventures*.
 - (c) employers' rights and obligations under **employee benefit** plans (see Section 28 *Employee Benefits*).
 - (d) rights under **insurance contracts** unless the insurance contract could result in a loss to either party as a result of contractual terms that are unrelated to:
 - (i) changes in the insured risk;
 - (ii) changes in foreign exchange rates; or
 - (iii) a default by one of the counterparties.

- (e) financial instruments that meet the definition of an entity's own equity, including the equity component of **compound financial instruments** issued by the entity (see Section 22 *Liabilities and Equity*).
 - (f) **leases** within the scope of Section 20 *Leases*. Consequently, Section 12 applies to leases that could result in a loss to the lessor or the lessee as a result of contractual terms that are unrelated to:
 - (i) changes in the price of the leased **asset**;
 - (ii) changes in foreign exchange rates;
 - (iii) changes in lease payments based on variable market interest rates; or
 - (iv) a default by one of the counterparties.
 - (g) contracts for contingent consideration in a **business combination** (see Section 19 *Business Combinations and Goodwill*). This exemption applies only to the acquirer.
 - (h) financial instruments, contracts and obligations under **share-based payment transactions** to which Section 26 *Share-based Payment* applies.
 - (i) reimbursement assets that are accounted for in accordance with Section 21 *Provisions and Contingencies* (see paragraph 21.9).
- 12.4 Most contracts to buy or sell a non-financial item such as a commodity, **inventory or property, plant and equipment** are excluded from this section because they are not financial instruments. However, this section applies to all contracts that impose risks on the buyer or seller that are not typical of contracts to buy or sell non-financial items. For example, this section applies to contracts that could result in a loss to the buyer or seller as a result of contractual terms that are unrelated to changes in the price of the non-financial item, changes in foreign exchange rates or a default by one of the counterparties.
- 12.5 In addition to the contracts described in paragraph 12.4, this section applies to contracts to buy or sell non-financial items if the contract can be settled net in **cash** or another financial instrument, or by exchanging financial instruments as if the contracts were financial instruments, with the following exception: contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements are not financial instruments for the purposes of this section.

Initial recognition of financial assets and liabilities

- 12.6 An entity shall recognise a financial asset or a financial liability only when the entity becomes a party to the contractual provisions of the instrument.

Initial measurement

- 12.7 When a financial asset or financial liability is recognised initially, an entity shall measure it at its **fair value**, which is normally the transaction price.

Subsequent measurement

- 12.8 At the end of each **reporting period**, an entity shall measure all financial instruments within the scope of Section 12 at fair value and recognise changes in fair value in **profit or loss**, except as follows:
- (a) some changes in the fair value of **hedging instruments** in a designated hedging relationship are required to be recognised in **other comprehensive income** by paragraph 12.23; and
 - (b) **equity** instruments that are not **publicly traded** and whose fair value cannot otherwise be measured reliably without undue cost or effort and contracts linked to such instruments that, if exercised, will result in delivery of such instruments, shall be measured at cost less impairment.
- 12.9 If a reliable measure of fair value is no longer available without undue cost or effort for an equity instrument, or a contract linked to such an instrument that if exercised will result in the delivery of such instruments, that is not publicly traded but is measured at fair value through profit or loss, its fair value at the last date that the instrument was reliably measurable without undue cost or effort is treated as the cost of the instrument. The entity shall measure the instrument at this cost amount less impairment until it is able to determine a reliable measure of fair value without undue cost or effort.

Fair value

- 12.10 An entity shall apply the guidance on fair value in paragraphs 11.27–11.32 to fair value measurements in accordance with this section as well as for fair value measurements in accordance with Section 11.
- 12.11 The fair value of a financial liability that is due on demand is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.
- 12.12 An entity shall not include **transaction costs** in the initial measurement of financial assets and liabilities that will be measured subsequently at fair value through profit or loss. If payment for an asset is deferred or is financed at a rate of interest that is not a market rate, the entity shall initially measure the asset at the **present value** of the future payments discounted at a market rate of interest.

Impairment of financial assets measured at cost or amortised cost

- 12.13 An entity shall apply the guidance on impairment in paragraphs 11.21–11.26 to financial assets measured at cost less impairment in accordance with this section.

Derecognition of a financial asset or financial liability

- 12.14 An entity shall apply the **derecognition** requirements in paragraphs 11.33–11.38 to financial assets and financial liabilities to which this section applies.

Hedge accounting

- 12.15 If specified criteria are met, an entity may designate a hedging relationship between a hedging instrument and a **hedged item** in such a way as to qualify for hedge accounting. Hedge accounting permits the **gain** or loss on the hedging instrument and on the hedged item to be recognised in profit or loss at the same time.
- 12.16 To qualify for hedge accounting, an entity shall comply with all of the following conditions:
- (a) the entity designates and documents the hedging relationship so that the risk being hedged, the hedged item and the hedging instrument are clearly identified and the risk in the hedged item is the risk being hedged with the hedging instrument.
 - (b) the hedged risk is one of the risks specified in paragraph 12.17.
 - (c) the hedging instrument is as specified in paragraph 12.18.
 - (d) the entity expects the hedging instrument to be highly effective in offsetting the designated hedged risk. The **effectiveness of a hedge** is the degree to which changes in the fair value or cash flows of the hedged item that are attributable to the hedged risk are offset by changes in the fair value or cash flows of the hedging instrument.
- 12.17 This Standard permits hedge accounting only for the following risks:
- (a) interest rate risk of a debt instrument measured at amortised cost;
 - (b) foreign exchange or interest rate risk in a **firm commitment** or a **highly probable forecast transaction**;
 - (c) price risk of a commodity that an entity holds or in a firm commitment or highly probable forecast transaction to purchase or sell a commodity; and
 - (d) foreign exchange risk in a net investment in a **foreign operation**.

Foreign exchange risk of a debt instrument measured at amortised cost is not in the list because hedge accounting would not have any significant effect on the **financial statements**. Basic accounts, notes and loans receivable and payable are normally measured at amortised cost (see paragraph 11.5(d)). This would include payables denominated in a foreign currency. Paragraph 30.10 requires any change in the **carrying amount** of the payable because of a change in the exchange rate to be recognised in profit or loss. Consequently, both the change in fair value of the hedging instrument (the cross-currency swap) and the change in the carrying amount of the payable relating to the change in the exchange rate would be recognised in profit or loss and should offset each other except to

the extent of the difference between the spot rate (at which the **liability** is measured) and the forward rate (at which the swap is measured).

- 12.18 This Standard permits hedge accounting only if the hedging instrument has all of the following terms and conditions:
- (a) it is an interest rate swap, a foreign currency swap, a foreign currency forward exchange contract or a commodity forward exchange contract that is expected to be highly effective in offsetting a risk identified in paragraph 12.17 that is designated as the hedged risk;
 - (b) it involves a party external to the reporting entity (ie external to the **group**, segment or individual entity being reported on);
 - (c) its **notional amount** is equal to the designated amount of the principal or notional amount of the hedged item;
 - (d) it has a specified maturity date not later than:
 - (i) the maturity of the financial instrument being hedged;
 - (ii) the expected settlement of the commodity purchase or sale commitment; or
 - (iii) the occurrence of the highly probable forecast foreign currency or commodity transaction being hedged.
 - (e) it has no prepayment, early termination or extension features.

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

- 12.19 If the conditions in paragraph 12.16 are met and the hedged risk is the exposure to a fixed interest rate risk of a debt instrument measured at amortised cost or the commodity price risk of a commodity that it holds, the entity shall:
- (a) recognise the hedging instrument as an asset or liability and the change in the fair value of the hedging instrument in profit or loss; and
 - (b) recognise the change in the fair value of the hedged item related to the hedged risk in profit or loss and as an adjustment to the carrying amount of the hedged item.
- 12.20 If the hedged risk is the fixed interest rate risk of a debt instrument measured at amortised cost, the entity shall recognise the periodic net cash settlements on the interest rate swap that is the hedging instrument in profit or loss in the period in which the net settlements accrue.
- 12.21 The entity shall discontinue the hedge accounting specified in paragraph 12.19 if:
- (a) the hedging instrument expires or is sold or terminated;
 - (b) the hedge no longer meets the conditions for hedge accounting specified in paragraph 12.16; or
 - (c) the entity revokes the designation.

- 12.22 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 method** over the remaining life of the hedged item.

Hedge of 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

- 12.23 If the conditions in paragraph 12.16 are met and the hedged risk is:
- (a) the variable interest rate risk in a debt instrument measured at amortised cost;
 - (b) the foreign exchange risk in a firm commitment or a highly probable forecast transaction;
 - (c) the commodity price risk in a firm commitment or highly probable forecast transaction; or
 - (d) the foreign exchange risk in a net investment in a foreign operation,
- the entity shall recognise in other comprehensive income the portion of the change in the 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. The entity shall recognise in profit or loss in each period any excess (in absolute amount) of the cumulative change in the fair value of the hedging instrument over the cumulative change in the fair value of the expected cash flows of the hedged item since inception of the hedge (sometimes called hedge ineffectiveness). The hedging gain or loss recognised in other comprehensive income shall be reclassified to profit or loss when the hedged item is recognised in profit or loss, subject to the requirements in paragraph 12.25. However, the cumulative amount of any exchange differences that relate to a hedge of a net investment in a foreign operation recognised in other comprehensive income shall not be reclassified to profit or loss on disposal or partial disposal of the foreign operation.
- 12.24 If the hedged risk is the variable interest rate risk in a debt instrument measured at amortised cost, the entity shall subsequently recognise 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.
- 12.25 The entity shall discontinue prospectively the hedge accounting specified in paragraph 12.23 if:
- (a) the hedging instrument expires or is sold or terminated;
 - (b) the hedge no longer meets the criteria for hedge accounting in paragraph 12.16;
 - (c) in a hedge of a forecast transaction, the forecast transaction is no longer highly probable; or

- (d) the entity revokes the designation.

If the forecast transaction is no longer expected to take place or if the hedged debt instrument measured at amortised cost is derecognised, any gain or loss on the hedging instrument that was recognised in other comprehensive income shall be reclassified to profit or loss.

Disclosures

- 12.26 An entity applying this section shall make all of the disclosures required in Section 11 incorporating in those disclosures financial instruments that are within the scope of this section as well as those within the scope of Section 11. In addition, if the entity uses hedge accounting, it shall make the additional disclosures in paragraphs 12.27–12.29.
- 12.27 An entity shall disclose the following separately for hedges of each of the four types of risks described in paragraph 12.17:
- (a) a description of the hedge;
 - (b) a description of the financial instruments designated as hedging instruments and their fair values at the **reporting date**; and
 - (c) the nature of the risks being hedged, including a description of the hedged item.
- 12.28 If an entity uses hedge accounting for a hedge of fixed interest rate risk or commodity price risk of a commodity held (paragraphs 12.19–12.22) it shall disclose the following:
- (a) the amount of the change in fair value of the hedging instrument recognised in profit or loss for the period; and
 - (b) the amount of the change in fair value of the hedged item recognised in profit or loss for the period.
- 12.29 If an entity uses hedge accounting for a hedge of 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 (paragraphs 12.23–12.25), it shall disclose the following:
- (a) the periods when the cash flows are expected to occur and when they are expected to affect profit or loss;
 - (b) a description of any forecast transaction for which hedge accounting had previously been used, but which is no longer expected to occur;
 - (c) the amount of the change in fair value of the hedging instrument that was recognised in other comprehensive income during the period (paragraph 12.23);
 - (d) the amount that was reclassified to profit or loss for the period (paragraphs 12.23 and 12.25); and

- (e) the amount of any excess of the cumulative change in fair value of the hedging instrument over the cumulative change in the fair value of the expected cash flows that was recognised in profit or loss for the period (paragraph 12.23).

Section 13 *Inventories*

Scope of this section

- 13.1 This section sets out the principles for recognising and measuring **inventories**. Inventories are **assets**:
- (a) held for sale in the ordinary course of business;
 - (b) in the process of production for such sale; or
 - (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.
- 13.2 This section applies to all inventories, except:
- (a) work in progress arising under **construction contracts**, including directly related service contracts (see Section 23 *Revenue*);
 - (b) **financial instruments** (see Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instrument Issues*); and
 - (c) **biological assets** related to **agricultural activity** and **agricultural produce** at the point of harvest (see Section 34 *Specialised Activities*).
- 13.3 This section does not apply to the **measurement** of inventories held by:
- (a) 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**; or
 - (b) commodity brokers and dealers that measure their inventories at fair value less costs to sell through profit or loss.

Measurement of inventories

- 13.4 An entity shall measure inventories at the lower of cost and estimated selling price less costs to complete and sell.

Cost of inventories

- 13.5 An entity shall include in the cost of inventories all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Costs of purchase

- 13.6 The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities) and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

- 13.7 An entity may purchase inventories on deferred settlement terms. In some cases, the arrangement effectively contains an unstated financing element, for example, a difference between the purchase price for normal credit terms and the deferred settlement amount. In these cases, the difference is recognised as interest **expense** over the period of the financing and is not added to the cost of the inventories.

Costs of conversion

- 13.8 The costs of conversion of inventories include costs directly related to the units of production, such as direct labour. They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. Fixed production overheads are those indirect costs of production that remain relatively constant regardless of the volume of production, such as **depreciation** and maintenance of factory buildings and equipment, and the cost of factory management and administration. Variable production overheads are those indirect costs of production that vary directly, or nearly directly, with the volume of production, such as indirect materials and indirect labour.

Allocation of production overheads

- 13.9 An entity shall allocate fixed production overheads to the costs of conversion on the basis of the normal capacity of the production facilities. Normal capacity is the production expected to be achieved on average over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance. The actual level of production may be used if it approximates normal capacity. The amount of fixed overhead allocated to each unit of production is not increased as a consequence of low production or idle plant. Unallocated overheads are recognised as an expense in the period in which they are incurred. In periods of abnormally high production, the amount of fixed overhead allocated to each unit of production is decreased so that inventories are not measured above cost. Variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities.

Joint products and by-products

- 13.10 A production process may result in more than one product being produced simultaneously. This is the case, for example, when joint products are produced or when there is a main product and a by-product. When the costs of raw materials or conversion of each product are not separately identifiable, an entity shall allocate them between the products on a rational and consistent basis. The allocation may be based, for example, on the relative sales value of each product either at the stage in the production process when the products become separately identifiable or at the completion of production. Most by-products, by their nature, are immaterial. When this is the case, the entity shall measure them at selling price less costs to complete and sell and deduct this amount

from the cost of the main product. As a result, the **carrying amount** of the main product is not **materially** different from its cost.

Other costs included in inventories

- 13.11 An entity shall include other costs in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition.
- 13.12 Paragraph 12.19(b) provides that, in some circumstances, the change in the **fair value** of the **hedging instrument** in a hedge of fixed interest rate risk or commodity price risk of a commodity held adjusts the carrying amount of the commodity.

Costs excluded from inventories

- 13.13 Examples of costs excluded from the cost of inventories and recognised as expenses in the period in which they are incurred are:
- (a) abnormal amounts of wasted materials, labour or other production costs;
 - (b) storage costs, unless those costs are necessary during the production process before a further production stage;
 - (c) administrative overheads that do not contribute to bringing inventories to their present location and condition; and
 - (d) selling costs.

Cost of inventories of a service provider

- 13.14 To the extent that service providers have inventories, they measure them at the costs of their production. These costs consist primarily of the labour and other costs of personnel directly engaged in providing the service, including supervisory personnel and attributable overheads. Labour and other costs relating to sales and general administrative personnel are not included but are recognised as expenses in the period in which they are incurred. The cost of inventories of a service provider does not include profit margins or non-attributable overheads that are often factored into prices charged by service providers.

Cost of agricultural produce harvested from biological assets

- 13.15 Section 34 requires that inventories comprising agricultural produce that an entity has harvested from its biological assets shall be measured on initial **recognition** at their fair value less estimated costs to sell at the point of harvest. This becomes the cost of the inventories at that date for application of this section.

Techniques for measuring cost, such as standard costing, retail method and most recent purchase price

- 13.16 An entity may use techniques such as the standard cost method, the retail method or most recent purchase price for measuring the cost of inventories if the result approximates cost. Standard costs take into account normal levels of materials and supplies, labour, efficiency and capacity utilisation. They are regularly reviewed and, if necessary, revised in the light of current conditions. The retail method measures cost by reducing the sales value of the inventory by the appropriate percentage gross margin.

Cost formulas

- 13.17 An entity shall measure the cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects by using specific identification of their individual costs.
- 13.18 An entity shall measure the cost of inventories, other than those dealt with in paragraph 13.17, by using the first-in, first-out (FIFO) or weighted average cost formula. An entity shall use the same cost formula for all inventories having a similar nature and use to the entity. For inventories with a different nature or use, different cost formulas may be justified. The last-in, first-out method (LIFO) is not permitted by this Standard.

Impairment of inventories

- 13.19 Paragraphs 27.2–27.4 require an entity to assess at the end of each **reporting period** whether any inventories are impaired, ie the carrying amount is not fully recoverable (for example, because of damage, obsolescence or declining selling prices). If an item (or group of items) of inventory is impaired, those paragraphs require the entity to measure the inventory at its selling price less costs to complete and sell and to recognise an **impairment loss**. Those paragraphs also require a reversal of a prior impairment in some circumstances.

Recognition as an expense

- 13.20 When inventories are sold, the entity shall recognise the carrying amount of those inventories as an expense in the period in which the related **revenue** is recognised.
- 13.21 Some inventories may be allocated to other asset accounts, for example, inventory used as a component of self-constructed property, plant or equipment. Inventories allocated to another asset in this way are accounted for subsequently in accordance with the section of this Standard relevant to that type of asset.

Disclosures

- 13.22 An entity shall disclose the following:

- (a) the **accounting policies** adopted in measuring inventories, including the cost formula used;
- (b) the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;
- (c) the amount of inventories recognised as an expense during the period;
- (d) impairment losses recognised or reversed in profit or loss in accordance with Section 27 *Impairment of Assets*; and
- (e) the total carrying amount of inventories pledged as security for **liabilities**.

Section 14

Investments in Associates

Scope of this section

- 14.1 This section applies to accounting for **associates** in **consolidated financial statements** and in the **financial statements** of an investor that is not a **parent** but that has an investment in one or more associates. Paragraph 9.26 establishes the requirements for accounting for associates in **separate financial statements**.

Associates defined

- 14.2 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**.
- 14.3 Significant influence is the power to participate in the financial and operating policy decisions of the associate but is not **control** or **joint control** over those policies:
- (a) if an investor holds, directly or indirectly (for example, through subsidiaries), 20 per cent or more of the voting power of the associate, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case;
 - (b) conversely, if the investor holds, directly or indirectly (for example, through subsidiaries), less than 20 per cent of the voting power of the associate, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated; and
 - (c) a substantial or majority ownership by another investor does not preclude an investor from having significant influence.

Measurement—accounting policy election

- 14.4 An investor shall account for all of its investments in associates using one of the following:
- (a) the cost model in paragraph 14.5;
 - (b) the equity method in paragraph 14.8; or
 - (c) the **fair value** model in paragraph 14.9.

Cost model

- 14.5 An investor shall measure its investments in associates, other than those for which there is a published price quotation (see paragraph 14.7) at cost less any accumulated **impairment losses** recognised in accordance with Section 27 *Impairment of Assets*.

- 14.6 The investor shall recognise dividends and other distributions received from the investment as **income** without regard to whether the distributions are from accumulated profits of the associate arising before or after the date of acquisition.
- 14.7 An investor shall measure its investments in associates for which there is a published price quotation using the fair value model (see paragraph 14.9).

Equity method

- 14.8 Under the equity method of accounting, an equity 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:
- (a) *distributions and other adjustments to carrying amount.* Distributions received from the associate reduce the **carrying amount** of the investment. Adjustments to the carrying amount may also be required as a consequence of changes in the associate's equity arising from items of other comprehensive income.
 - (b) *potential voting rights.* Although potential voting rights are considered in deciding whether significant influence exists, an investor shall measure its share of profit or loss and other comprehensive income of the associate and its share of changes in the associate's equity on the basis of present ownership interests. Those measurements shall not reflect the possible exercise or conversion of potential voting rights.
 - (c) *implicit goodwill and fair value adjustments.* On acquisition of the investment in an associate, an investor shall account for any difference (whether positive or negative) between the cost of acquisition and the investor's share of the fair values of the net identifiable **assets** of the associate in accordance with paragraphs 19.22–19.24. An investor shall adjust its share of the associate's profits or losses after acquisition to account for additional **depreciation** or **amortisation** of the associate's depreciable or amortisable assets (including **goodwill**) on the basis of the excess of their fair values over their carrying amounts at the time the investment was acquired.
 - (d) *impairment.* If there is an indication that an investment in an associate may be impaired, an investor shall test the entire carrying amount of the investment for impairment in accordance with Section 27 as a single asset. Any goodwill included as part of the carrying amount of the investment in the associate is not tested separately for impairment but, instead, as part of the test for impairment of the investment as a whole.
 - (e) *investor's transactions with associates.* The investor shall eliminate unrealised profits and losses resulting from upstream (associate to investor) and downstream (investor to associate) transactions to the extent of the investor's interest in the associate. Unrealised losses on such transactions may provide evidence of an impairment of the asset transferred.

- (f) *date of associate's financial statements.* In applying the equity method, the investor shall use the financial statements of the associate as of the same date as the financial statements of the investor unless it is **impracticable** to do so. If it is impracticable, the investor shall use the most recent available financial statements of the associate, with adjustments made for the effects of any significant transactions or events occurring between the accounting period ends.
- (g) *associate's accounting policies.* If the associate uses **accounting policies** that differ from those of the investor, the investor shall adjust the associate's financial statements to reflect the investor's accounting policies for the purpose of applying the equity method unless it is impracticable to do so.
- (h) *losses in excess of investment.* If an investor's share of losses of an associate equals or exceeds the carrying amount of its investment in the associate, the investor shall discontinue recognising its share of further losses. After the investor's interest is reduced to zero, the investor shall recognise additional losses by a **provision** (see Section 21 *Provisions and Contingencies*) only to the extent that the investor has incurred legal or **constructive obligations** or has made payments on behalf of the associate. If the associate subsequently reports profits, the investor shall resume recognising its share of those profits only after its share of the profits equals the share of losses not recognised.
- (i) *discontinuing the equity method.* An investor shall cease using the equity method from the date that significant influence ceases:
- (i) if the associate becomes a subsidiary or joint venture, the investor shall remeasure its previously held equity interest to fair value and recognise the resulting **gain** or loss, if any, in profit or loss.
 - (ii) if an investor loses significant influence over an associate as a result of a full or partial disposal, it shall derecognise that associate and recognise in profit or loss the difference between, on the one hand, the sum of the proceeds received plus the fair value of any retained interest and, on the other hand, the carrying amount of the investment in the associate at the date significant influence is lost. Thereafter, the investor shall account for any retained interest using Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instrument Issues*, as appropriate.
 - (iii) if an investor loses significant influence for reasons other than a partial disposal of its investment, the investor shall regard the carrying amount of the investment at that date as a new cost basis and shall account for the investment using Sections 11 and 12, as appropriate.

Fair value model

- 14.9 When an investment in an associate is recognised initially, an investor shall measure it at the transaction price. Transaction price excludes transaction costs.
- 14.10 At each **reporting date**, an investor shall measure its investments in associates at fair value, with changes in fair value recognised in profit or loss, using the fair value measurement guidance in paragraphs 11.27–11.32. An investor using the fair value model shall use the cost model for any investment in an associate for which fair value cannot be measured reliably without undue cost or effort.

Financial statement presentation

- 14.11 An investor shall classify investments in associates as non-current assets.

Disclosures

- 14.12 An entity shall disclose the following:
- (a) its **accounting policy** for investments in associates;
 - (b) the carrying amount of investments in associates (see paragraph 4.2(j)); and
 - (c) the fair value of investments in associates accounted for using the equity method for which there are published price quotations.
- 14.13 For investments in associates accounted for by the cost model, an investor shall disclose the amount of dividends and other distributions recognised as income.
- 14.14 For investments in associates accounted for by the equity method, an investor shall disclose separately its share of the profit or loss of such associates and its share of any **discontinued operations** of such associates.
- 14.15 For investments in associates accounted for by the fair value model, an investor shall make the disclosures required by paragraphs 11.41–11.44. If an investor applies the undue cost or effort exemption in paragraph 14.10 for any associates it shall disclose that fact, the reasons why fair value measurement would involve undue cost or effort and the carrying amount of investments in associates accounted for under the cost model.

Section 15

Investments in Joint Ventures

Scope of this section

- 15.1 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. Paragraph 9.26 establishes the requirements for accounting for a venturer's interest in a joint venture in **separate financial statements**.

Joint ventures defined

- 15.2 **Joint control** is 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).
- 15.3 A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint ventures can take the form of jointly controlled operations, jointly controlled **assets** or **jointly controlled entities**.

Jointly controlled operations

- 15.4 The operation of some joint ventures involves the use of the assets and other resources of the venturers instead of the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the venturers themselves. Each venturer uses its own **property, plant and equipment** and carries its own **inventories**. It also incurs its own **expenses** and **liabilities** and raises its own finance, which represent its own obligations. The joint venture activities may be carried out by the venturer's employees alongside the venturer's similar activities. The joint venture agreement usually provides a means by which the **revenue** from the sale of the joint product and any expenses incurred in common are shared among the venturers.
- 15.5 In respect of its interests in jointly controlled operations, a venturer shall recognise in its financial statements:
- (a) the assets that it controls and the liabilities that it incurs; and
 - (b) the expenses that it incurs and its share of the **income** that it earns from the sale of goods or services by the joint venture.

Jointly controlled assets

- 15.6 Some joint ventures involve the joint control, and often the joint ownership, by the venturers of one or more assets contributed to, or acquired for the purpose of, the joint venture and dedicated to the purposes of the joint venture.
- 15.7 In respect of its interest in a jointly controlled asset, a venturer shall recognise in its financial statements:

- (a) its share of the jointly controlled assets, classified according to the nature of the assets;
- (b) any liabilities that it has incurred;
- (c) its share of any liabilities incurred jointly with the other venturers in relation to the joint venture;
- (d) any income from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture; and
- (e) any expenses that it has incurred in respect of its interest in the joint venture.

Jointly controlled entities

- 15.8 A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity.

Measurement—accounting policy election

- 15.9 A venturer shall account for all of its interests in jointly controlled entities using one of the following:
- (a) the cost model in paragraph 15.10;
 - (b) the equity method in paragraph 15.13; or
 - (c) the **fair value** model in paragraph 15.14.

Cost model

- 15.10 A venturer shall measure its investments in jointly controlled entities, other than those for which there is a published price quotation (see paragraph 15.12) at cost less any accumulated **impairment losses** recognised in accordance with Section 27 *Impairment of Assets*.
- 15.11 The venturer shall recognise distributions received from the investment as income without regard to whether the distributions are from accumulated profits of the jointly controlled entity arising before or after the date of acquisition.
- 15.12 A venturer shall measure its investments in jointly controlled entities for which there is a published price quotation using the fair value model (see paragraph 15.14).

Equity method

- 15.13 A venturer shall measure its investments in jointly controlled entities by the equity method using the procedures in paragraph 14.8 (substituting 'joint control' where that paragraph refers to 'significant influence').

Fair value model

- 15.14 When an investment in a jointly controlled entity is recognised initially, a venturer shall measure it at transaction price. Transaction price excludes **transaction costs**.
- 15.15 At each **reporting date**, a venturer shall measure its investments in jointly controlled entities at fair value, with changes in fair value recognised in **profit or loss**, using the fair value **measurement** guidance in paragraphs 11.27–11.32. A venturer using the fair value model shall use the cost model for any investment in a jointly controlled entity for which fair value cannot be measured reliably without undue cost or effort.

Transactions between a venturer and a joint venture

- 15.16 When a venturer contributes or sells assets to a joint venture, **recognition** of any portion of a **gain** or loss from the transaction shall reflect the substance of the transaction. While the assets are retained by the joint venture, and provided the venturer has transferred the significant risks and rewards of ownership, the venturer shall recognise only that portion of the gain or loss that is attributable to the interests of the other venturers. The venturer shall recognise the full amount of any loss when the contribution or sale provides evidence of an impairment loss.
- 15.17 When a venturer purchases assets from a joint venture, the venturer shall not recognise its share of the profits of the joint venture from the transaction until it resells the assets to an independent party. A venturer shall recognise its share of the losses resulting from these transactions in the same way as profits except that losses shall be recognised immediately when they represent an impairment loss.

If investor does not have joint control

- 15.18 An investor in a joint venture that does not have joint control shall account for that investment in accordance with Section 11 *Basic Financial Instruments*, Section 12 *Other Financial Instrument Issues* or, if it has significant influence in the joint venture, Section 14 *Investments in Associates*.

Disclosures

- 15.19 An entity shall disclose the following:
- (a) the **accounting policy** it uses for recognising its interests in jointly controlled entities;
 - (b) the **carrying amount** of investments in jointly controlled entities (see paragraph 4.2(k));
 - (c) the fair value of investments in jointly controlled entities accounted for using the equity method for which there are published price quotations; and

- (d) the aggregate amount of its commitments relating to joint ventures, including its share in the capital commitments that have been incurred jointly with other venturers, as well as its share of the capital commitments of the joint ventures themselves.
- 15.20 For jointly controlled entities accounted for in accordance with the equity method, the venturer shall also make the disclosures required by paragraph 14.14 for equity method investments.
- 15.21 For jointly controlled entities accounted for in accordance with the fair value model, the venturer shall make the disclosures required by paragraphs 11.41–11.44. If a venturer applies the undue cost or effort exemption in paragraph 15.15 for any jointly controlled entity it shall disclose that fact, the reasons why fair value measurement would involve undue cost or effort and the carrying amount of investments in jointly controlled entities accounted for under the cost model.

Section 16 *Investment Property*

Scope of this section

- 16.1 This section applies to accounting for investments in land or buildings that meet the definition of **investment property** in paragraph 16.2 and some property interests held by a lessee under an **operating lease** (see paragraph 16.3) that are treated like investment property. Only investment property whose **fair value** can be measured reliably without undue cost or effort on an ongoing basis is accounted for in accordance with this section at fair value through **profit or loss**. All other investment property is accounted for using the cost model in Section 17 *Property, Plant and Equipment* and remains within the scope of Section 17 unless a reliable measure of fair value becomes available and it is expected that fair value will be reliably measurable on an ongoing basis.

Definition and initial recognition of investment property

- 16.2 Investment property is property (land or a building, or part of a building, or both) held by the owner or by the lessee under a **finance lease** to earn rentals or for capital appreciation or both, instead of for:
- (a) use in the production or supply of goods or services or for administrative purposes; or
 - (b) sale in the ordinary course of business.
- 16.3 A property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property using this section if, and only if, the property would otherwise meet the definition of an investment property and the lessee can measure the fair value of the property interest without undue cost or effort on an ongoing basis. This classification alternative is available on a property-by-property basis.
- 16.4 Mixed use property shall be separated between investment property and **property, plant and equipment**. However, if the fair value of the investment property component cannot be measured reliably without undue cost or effort, the entire property shall be accounted for as property, plant and equipment in accordance with Section 17.

Measurement at initial recognition

- 16.5 An entity shall measure investment property at its cost at initial **recognition**. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure such as legal and brokerage fees, property transfer taxes and other **transaction costs**. If payment is deferred beyond normal credit terms, the cost is the **present value** of all future payments. An entity shall determine the cost of a self-constructed investment property in accordance with paragraphs 17.10–17.14.
- 16.6 The initial cost of a property interest held under a **lease** and classified as an investment property shall be as prescribed for a finance lease by paragraph 20.9,

even if the lease would otherwise be classified as an operating lease if it was in the scope of Section 20 *Leases*. In other words, the **asset** is recognised at the lower of the fair value of the property and the present value of the **minimum lease payments**. An equivalent amount is recognised as a **liability** in accordance with paragraph 20.9.

Measurement after recognition

- 16.7 Investment property whose fair value can be measured reliably without undue cost or effort shall be measured at fair value at each **reporting date** with changes in fair value recognised in profit or loss. If a property interest held under a lease is classified as investment property, the item accounted for at fair value is that interest and not the underlying property. Paragraphs 11.27–11.32 provide guidance on determining fair value. An entity shall account for all other investment property using the cost model in Section 17.

Transfers

- 16.8 If a reliable measure of fair value is no longer available without undue cost or effort for an item of investment property measured using the fair value model, the entity shall thereafter account for that item in accordance with Section 17 until a reliable measure of fair value becomes available. The **carrying amount** of the investment property on that date becomes its cost under Section 17. Paragraph 16.10(e)(iii) requires disclosure of this change. It is a change of circumstances and not a change in accounting policy.
- 16.9 Other than as required by paragraph 16.8, an entity shall transfer a property to, or from, investment property only when the property first meets, or ceases to meet, the definition of investment property.

Disclosures

- 16.10 An entity shall disclose the following for all investment property accounted for at fair value through profit or loss (paragraph 16.7):
- (a) the methods and significant assumptions applied in determining the fair value of investment property.
 - (b) 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. If there has been no such valuation, that fact shall be disclosed.
 - (c) the existence and amounts of restrictions on the realisability of investment property or the remittance of **income** and proceeds of disposal.
 - (d) contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

- (e) a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing separately:
 - (i) additions, disclosing separately those additions resulting from acquisitions through **business combinations**;
 - (ii) net **gains** or losses from fair value adjustments;
 - (iii) transfers to and from investment property carried at cost less accumulated **depreciation** and **impairment** (see paragraph 16.8);
 - (iv) transfers to and from **inventories** and owner-occupied property; and
 - (v) other changes.

This reconciliation need not be presented for prior periods.

- 16.11 In accordance with Section 20, the owner of an investment property provides lessors' disclosures about leases into which it has entered. An entity that holds an investment property under a finance lease or operating lease provides lessees' disclosures for finance leases and lessors' disclosures for any operating leases into which it has entered.

Section 17 *Property, Plant and Equipment*

Scope of this section

- 17.1 This section applies to accounting for **property, plant and equipment** and accounting for **investment property** whose **fair value** cannot be measured reliably without undue cost or effort on an ongoing basis. Section 16 *Investment Property* applies to investment property whose fair value can be measured reliably without undue cost or effort.
- 17.2 Property, plant and equipment are tangible **assets** that:
- (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
 - (b) are expected to be used during more than one period.
- 17.3 Property, plant and equipment does not include:
- (a) **biological assets** related to **agricultural activity** (see Section 34 *Specialised Activities*); or
 - (b) mineral rights and mineral reserves, such as oil, natural gas and similar non-regenerative resources.

Recognition

- 17.4 An entity shall apply the **recognition** criteria in paragraph 2.27 in determining whether to recognise an item of property, plant or equipment. Consequently, the entity shall recognise the cost of an item of property, plant and equipment as an asset if, and only if:
- (a) it is **probable** that future economic benefits associated with the item will flow to the entity; and
 - (b) the cost of the item can be measured reliably.
- 17.5 Items such as spare parts, stand-by equipment and servicing equipment are recognised in accordance with this section when they meet the definition of property, plant and equipment. Otherwise, such items are classified as **inventory**.
- 17.6 Parts of some items of property, plant and equipment may require replacement at regular intervals (for example, the roof of a building). An entity shall add to the **carrying amount** of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the replacement part is expected to provide incremental future benefits to the entity. The carrying amount of those parts that are replaced is **derecognised** in accordance with paragraphs 17.27–17.30 regardless of whether the replaced parts had been depreciated separately. If it is not practicable for an entity to determine the carrying amount of the replaced part, the entity may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed. Paragraph 17.16 provides that if the major

components of an item of property, plant and equipment have significantly different patterns of consumption of economic benefits, an entity shall allocate the initial cost of the asset to its major components and **depreciate** each such component separately over its **useful life**.

- 17.7 A condition of continuing to operate an item of property, plant and equipment (for example, a bus) may be performing regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognised in the carrying amount of the item of property, plant and equipment as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous major inspection (as distinct from physical parts) is derecognised. This is done regardless of whether the cost of the previous major inspection was identified in the transaction in which the item was acquired or constructed. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired or constructed.
- 17.8 Land and buildings are separable assets and an entity shall account for them separately, even when they are acquired together.

Measurement at recognition

- 17.9 An entity shall measure an item of property, plant and equipment at initial recognition at its cost.

Elements of cost

- 17.10 The cost of an item of property, plant and equipment comprises all of the following:
- (a) its purchase price, including legal and brokerage fees, import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
 - (b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. These can include the costs of site preparation, initial delivery and handling, installation and assembly and testing of functionality.
 - (c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.
- 17.11 The following costs are not costs of an item of property, plant and equipment and an entity shall recognise them as an **expense** when they are incurred:
- (a) costs of opening a new facility;
 - (b) costs of introducing a new product or service (including costs of advertising and promotional activities);

- (c) costs of conducting business in a new location or with a new class of customer (including costs of staff training);
 - (d) administration and other general overhead costs; and
 - (e) **borrowing costs** (see Section 25 *Borrowing Costs*).
- 17.12 The **income** and related expenses of incidental operations during construction or development of an item of property, plant and equipment are recognised in **profit or loss** if those operations are not necessary to bring the item to its intended location and operating condition.

Measurement of cost

- 17.13 The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the cost is the **present value** of all future payments.

Exchanges of assets

- 17.14 An item of property, plant or equipment may be acquired in exchange for a non-monetary asset, or assets, or a combination of monetary and non-monetary assets. An entity shall measure the cost of the acquired asset at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. In that case, the asset's cost is measured at the carrying amount of the asset given up.

Measurement after initial recognition

- 17.15 An entity shall choose either the cost model in paragraph 17.15A or the revaluation model in paragraph 17.15B as its accounting policy and shall apply that policy to an entire class of property, plant and equipment. An entity shall apply the cost model to investment property whose fair value cannot be measured reliably without undue cost or effort. An entity shall recognise the costs of day-to-day servicing of an item of property, plant and equipment in profit or loss in the period in which the costs are incurred.

Cost-model

- 17.15A An entity shall measure an item of property, plant and equipment after initial recognition at cost less any accumulated **depreciation** and any accumulated **impairment losses**.

Revaluation model

- 17.15B An entity shall measure an item of property, plant and equipment whose fair value can be measured reliably at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ **materially** from that which would be determined using fair value at the end of the **reporting period**. Paragraphs 11.27–11.32 provide guidance on

determining fair value. If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.

- 17.15C If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in **other comprehensive income** and accumulated in **equity** under the heading of revaluation surplus. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.
- 17.15D If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall be recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.

Depreciation

- 17.16 If the major components of an item of property, plant and equipment have significantly different patterns of consumption of economic benefits, an entity shall allocate the initial cost of the asset to its major components and depreciate each such component separately over its useful life. Other assets shall be depreciated over their useful lives as a single asset. With some exceptions, such as quarries and sites used for landfill, land has an unlimited useful life and therefore is not depreciated.
- 17.17 The depreciation charge for each period shall be recognised in profit or loss unless another section of this Standard requires the cost to be recognised as part of the cost of an asset. For example, the depreciation of manufacturing property, plant and equipment is included in the costs of inventories (see Section 13 *Inventories*).

Depreciable amount and depreciation period

- 17.18 An entity shall allocate the **depreciable amount** of an asset on a systematic basis over its useful life.
- 17.19 Factors such as a change in how an asset is used, significant unexpected wear and tear, technological advancement and changes in market prices may indicate that the **residual value** or useful life of an asset has changed since the most recent annual **reporting date**. If such indicators are present, an entity shall review its previous estimates and, if current expectations differ, amend the residual value, depreciation method or useful life. The entity shall account for the change in residual value, depreciation method or useful life as a change in an **accounting estimate** in accordance with paragraphs 10.15–10.18.
- 17.20 Depreciation of an asset begins when it is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases when the asset is derecognised. Depreciation does not cease when the asset becomes idle or is

retired from active use unless the asset is fully depreciated. However, under usage methods of depreciation the depreciation charge can be zero while there is no production.

- 17.21 An entity shall consider all the following factors in determining the useful life of an asset:
- (a) the expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output.
 - (b) expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance programme, and the care and maintenance of the asset while idle.
 - (c) technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset.
 - (d) legal or similar limits on the use of the asset, such as the expiry dates of related **leases**.

Depreciation method

- 17.22 An entity shall select a depreciation method that reflects the pattern in which it expects to consume the asset's future economic benefits. The possible depreciation methods include the straight-line method, the diminishing balance method and a method based on usage such as the units of production method.
- 17.23 If there is an indication that there has been a significant change since the last annual reporting date in the pattern by which an entity expects to consume an asset's future economic benefits, the entity shall review its present depreciation method and, if current expectations differ, change the depreciation method to reflect the new pattern. The entity shall account for the change as a change in an accounting estimate in accordance with paragraphs 10.15–10.18.

Impairment

Recognition and measurement of impairment

- 17.24 At each reporting date, an entity shall apply Section 27 *Impairment of Assets* to determine whether an item or group of items of property, plant and equipment is impaired and, if so, how to recognise and measure the impairment loss. That section explains when and how an entity reviews the carrying amount of its assets, how it determines the **recoverable amount** of an asset, and when it recognises or reverses an impairment loss.

Compensation for impairment

- 17.25 An entity shall include in profit or loss compensation from third parties for items of property, plant and equipment that were impaired, lost or given up only when the compensation becomes receivable.

Property, plant and equipment held for sale

- 17.26 Paragraph 27.9(f) states that 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.

Derecognition

- 17.27 An entity shall derecognise an item of property, plant and equipment:
- (a) on disposal; or
 - (b) when no future economic benefits are expected from its use or disposal.
- 17.28 An entity shall recognise the **gain** or loss on the **derecognition** of an item of property, plant and equipment in profit or loss when the item is derecognised (unless Section 20 *Leases* requires otherwise on a sale and leaseback). The entity shall not classify such gains as **revenue**.
- 17.29 In determining the date of disposal of an item, an entity shall apply the criteria in Section 23 *Revenue* for recognising revenue from the sale of goods. Section 20 applies to disposal by a sale and leaseback.
- 17.30 An entity shall determine the gain or loss arising from the derecognition of an item of property, plant and equipment as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Disclosures

- 17.31 An entity shall disclose the following for each class of property, plant and equipment determined in accordance with paragraph 4.11(a) and separately for investment property carried at cost less accumulated depreciation and impairment:
- (a) the **measurement** bases used for determining the gross carrying amount;
 - (b) the depreciation methods used;
 - (c) the useful lives or the depreciation rates used;
 - (d) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the reporting period; and
 - (e) a reconciliation of the carrying amount at the beginning and end of the reporting period showing separately:
 - (i) additions;
 - (ii) disposals;
 - (iii) acquisitions through **business combinations**;

- (iv) increases or decreases resulting from revaluations under paragraphs 17.15B–17.15D and from impairment losses recognised or reversed in other comprehensive income in accordance with Section 27;
- (v) transfers to and from investment property carried at fair value through profit or loss (see paragraph 16.8);
- (vi) impairment losses recognised or reversed in profit or loss in accordance with Section 27;
- (vii) depreciation; and
- (viii) other changes.

This reconciliation need not be presented for prior periods.

- 17.32 An entity shall also disclose the following:
- (a) the existence and carrying amounts of property, plant and equipment to which the entity has restricted title or that is pledged as security for **liabilities**;
 - (b) the amount of contractual commitments for the acquisition of property, plant and equipment; and
 - (c) if an entity has investment property whose fair value cannot be measured reliably without undue cost or effort it shall disclose that fact and the reasons why fair value measurement would involve undue cost or effort for those items of investment property.
- 17.33 If items of property, plant and equipment are stated at revalued amounts, an entity shall disclose the following:
- (a) the effective date of the revaluation;
 - (b) whether an independent valuer was involved;
 - (c) the methods and significant assumptions applied in estimating the items' fair values;
 - (d) for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model; and
 - (e) the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders.

Section 18

Intangible Assets other than Goodwill

Scope of this section

- 18.1 This section applies to accounting for all **intangible assets** other than **goodwill** (see Section 19 *Business Combinations and Goodwill*) and intangible assets held by an entity for sale in the ordinary course of business (see Section 13 *Inventories* and Section 23 *Revenue*).
- 18.2 An intangible asset is an identifiable non-monetary **asset** without physical substance. Such an asset is identifiable when:
- (a) it is separable, ie capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or **liability**; or
 - (b) it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.
- 18.3 This section does not apply to the following:
- (a) **financial assets**; or
 - (b) mineral rights and mineral reserves, such as oil, natural gas and similar non-regenerative resources.

Recognition

General principle for recognising intangible assets

- 18.4 An entity shall apply the **recognition** criteria in paragraph 2.27 in determining whether to recognise an intangible asset. Consequently, the entity shall recognise an intangible asset as an asset if, and only if:
- (a) it is **probable** that the expected future economic benefits that are attributable to the asset will flow to the entity;
 - (b) the cost or value of the asset can be measured reliably; and
 - (c) the asset does not result from expenditure incurred internally on an intangible item.
- 18.5 An entity shall assess the probability of expected future economic benefits using reasonable and supportable assumptions that represent management's best estimate of the economic conditions that will exist over the **useful life** of the asset.
- 18.6 An entity uses judgement to assess the degree of certainty attached to the flow of future economic benefits that are attributable to the use of the asset on the basis of the evidence available at the time of initial recognition, giving greater weight to external evidence.
- 18.7 The probability recognition criterion in paragraph 18.4(a) is always considered satisfied for intangible assets that are separately acquired.

Acquisition as part of a business combination

- 18.8 An intangible asset acquired in a **business combination** shall be recognised unless its **fair value** cannot be measured reliably without undue cost or effort at the acquisition date.

Initial measurement

- 18.9 An entity shall measure an intangible asset initially at cost.

Separate acquisition

- 18.10 The cost of a separately acquired intangible asset comprises:
- (a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
 - (b) any directly attributable cost of preparing the asset for its intended use.

Acquisition as part of a business combination

- 18.11 If an intangible asset is acquired in a business combination, the cost of that intangible asset is its fair value at the acquisition date.

Acquisition by way of a government grant

- 18.12 If an intangible asset is acquired by way of a **government grant**, the cost of that intangible asset is its fair value at the date the grant is received or receivable in accordance with Section 24 *Government Grants*.

Exchanges of assets

- 18.13 An intangible asset may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. An entity shall measure the cost of such an intangible asset at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. In that case, the asset's cost is measured at the **carrying amount** of the asset given up.

Internally generated intangible assets

- 18.14 An entity shall recognise expenditure incurred internally on an intangible item, including all expenditure for both **research** and **development** activities, as an **expense** when it is incurred unless it forms part of the cost of another asset that meets the recognition criteria in this Standard.
- 18.15 As examples of applying the preceding paragraph, an entity shall recognise expenditure on the following items as an expense and shall not recognise such expenditure as intangible assets:
- (a) internally generated brands, logos, publishing titles, customer lists and items similar in substance;

- (b) start-up activities (ie start-up costs), which include establishment costs such as legal and secretarial costs incurred in establishing a legal entity, expenditure to open a new facility or business (ie pre-opening costs) and expenditure for starting new operations or launching new products or processes (ie pre-operating costs);
 - (c) training activities;
 - (d) advertising and promotional activities;
 - (e) relocating or reorganising part or all of an entity; and
 - (f) internally generated goodwill.
- 18.16 Paragraph 18.15 does 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.

Past expenses not to be recognised as an asset

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

Measurement after recognition

- 18.18 An entity shall measure intangible assets at cost less any accumulated **amortisation** and any accumulated **impairment losses**. The requirements for amortisation are set out in this section. The requirements for recognition of impairment are set out in Section 27 *Impairment of Assets*.

Useful life

- 18.19 For the purpose of this Standard, all intangible assets shall be considered to have a finite useful life. The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights, but may be shorter depending on the period over which the entity expects to use the asset. If the contractual or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost.
- 18.20 If the useful life of an intangible asset cannot be established reliably, the life shall be determined based on management's best estimate but shall not exceed ten years.

Amortisation period and amortisation method

- 18.21 An entity shall allocate the **depreciable amount** of an intangible asset on a systematic basis over its useful life. The amortisation charge for each period shall be recognised as an expense, unless another section of this Standard requires the cost to be recognised as part of the cost of an asset such as **inventories** or **property, plant and equipment**.

- 18.22 Amortisation begins when the intangible asset is available for use, ie when it is in the location and condition necessary for it to be usable in the manner intended by management. Amortisation ceases when the asset is derecognised. The entity shall choose an amortisation method that reflects the pattern in which it expects to consume the asset's future economic benefits. If the entity cannot determine that pattern reliably, it shall use the straight-line method.

Residual value

- 18.23 An entity shall assume that the **residual value** of an intangible asset is zero unless:
- (a) there is a commitment by a third party to purchase the asset at the end of its useful life; or
 - (b) there is an **active market** for the asset and:
 - (i) residual value can be determined by reference to that market; and
 - (ii) it is probable that such a market will exist at the end of the asset's useful life.

Review of amortisation period and amortisation method

- 18.24 Factors such as a change in how an intangible asset is used, technological advancement; and changes in market prices may indicate that the residual value or useful life of an intangible asset has changed since the most recent annual **reporting date**. If such indicators are present, an entity shall review its previous estimates and, if current expectations differ, amend the residual value, amortisation method or useful life. The entity shall account for the change in residual value, amortisation method or useful life as a **change in an accounting estimate** in accordance with paragraphs 10.15–10.18.

Recoverability of the carrying amount—impairment losses

- 18.25 To determine whether an intangible asset is impaired, an entity shall apply Section 27. That section explains when and how an entity reviews the carrying amount of its assets, how it determines the **recoverable amount**, of an asset and when it recognises or reverses an impairment loss.

Retirements and disposals

- 18.26 An entity shall derecognise an intangible asset, and shall recognise a **gain** or loss in **profit or loss**:
- (a) on disposal; or
 - (b) when no future economic benefits are expected from its use or disposal.

Disclosures

- 18.27 An entity shall disclose the following for each class of intangible assets:
- (a) the useful lives or the amortisation rates used;

- (b) the amortisation methods used;
- (c) the gross carrying amount and any accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the **reporting period**;
- (d) the line item(s) in the **statement of comprehensive income** (and in the **income statement**, if presented) in which any amortisation of intangible assets is included; and
- (e) a reconciliation of the carrying amount at the beginning and end of the reporting period showing separately:
 - (i) additions;
 - (ii) disposals;
 - (iii) acquisitions through business combinations;
 - (iv) amortisation;
 - (v) impairment losses; and
 - (vi) other changes.

This reconciliation need not be presented for prior periods.

18.28 An entity shall also disclose:

- (a) a description, the carrying amount and remaining amortisation period of any individual intangible asset that is **material** to the entity's **financial statements**;
- (b) for intangible assets acquired by way of a government grant and initially recognised at fair value (see paragraph 18.12):
 - (i) the fair value initially recognised for these assets; and
 - (ii) their carrying amounts.
- (c) the existence and carrying amounts of intangible assets to which the entity has restricted title or that are pledged as security for liabilities; and
- (d) the amount of contractual commitments for the acquisition of intangible assets.

18.29 An entity shall disclose the aggregate amount of research and development expenditure recognised as an expense during the period (ie the amount of expenditure incurred internally on research and development that has not been capitalised as part of the cost of another asset that meets the recognition criteria in this Standard).

Section 19 *Business Combinations and Goodwill*

Scope of this section

- 19.1 This section applies to accounting for **business combinations**. It provides guidance on identifying the acquirer, measuring the cost of the business combination and allocating that cost to the **assets** acquired and **liabilities** and **provisions** for **contingent liabilities** assumed. It also addresses accounting for **goodwill** both at the time of a business combination and subsequently.
- 19.2 This section specifies the accounting for all business combinations except:
- (a) combinations of entities or **businesses** under common **control**. Common control means that all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.
 - (b) the formation of a **joint venture**.
 - (c) acquisition of a group of assets that do not constitute a business.

Business combinations defined

- 19.3 A business combination is the bringing together of separate entities or businesses into one reporting entity. The result of nearly all business combinations is that one entity, the acquirer, obtains control of one or more other businesses, the acquiree. The acquisition date is the date on which the acquirer obtains control of the acquiree.
- 19.4 A business combination may be structured in a variety of ways for legal, taxation or other reasons. It may involve the purchase by an entity of the **equity** of another entity, the purchase of all the net assets of another entity, the assumption of the liabilities of another entity, or the purchase of some of the net assets of another entity that together form one or more businesses.
- 19.5 A business combination may be effected by the issue of equity instruments, the transfer of **cash, cash equivalents** or other assets, or a mixture of these. The transaction may be between the shareholders of the combining entities or between one entity and the shareholders of another entity. It may involve the establishment of a new entity to control the combining entities or net assets transferred, or the restructuring of one or more of the combining entities.

Accounting

- 19.6 All business combinations shall be accounted for by applying the purchase method.
- 19.7 Applying the purchase method involves the following steps:
- (a) identifying an acquirer;
 - (b) measuring the cost of the business combination; and

- (c) allocating, at the acquisition date, the cost of the business combination to the assets acquired and liabilities and provisions for contingent liabilities assumed.

Identifying the acquirer

- 19.8 An acquirer shall be identified for all business combinations. The acquirer is the combining entity that obtains control of the other combining entities or businesses.
- 19.9 Control is the power to govern the financial and operating policies of an entity or business so as to obtain benefits from its activities. Control of one entity by another is described in Section 9 *Consolidated and Separate Financial Statements*.
- 19.10 Although it may sometimes be difficult to identify an acquirer, there are usually indications that one exists. For example:
- (a) if the **fair value** of one of the combining entities is significantly greater than that of the other combining entity, the entity with the greater fair value is likely to be the acquirer;
 - (b) if the business combination is effected through an exchange of voting ordinary equity instruments for cash or other assets, the entity giving up cash or other assets is likely to be the acquirer; and
 - (c) if the business combination results in the management of one of the combining entities being able to dominate the selection of the management team of the resulting combined entity, the entity whose management is able so to dominate is likely to be the acquirer.

Cost of a business combination

- 19.11 The acquirer shall measure the cost of a business combination as the aggregate of:
- (a) the fair values, at the date of acquisition, of assets given, liabilities incurred or assumed and equity instruments issued by the acquirer, in exchange for control of the acquiree; plus
 - (b) any costs directly attributable to the business combination.

Adjustments to the cost of a business combination contingent on future events

- 19.12 When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events, the acquirer shall include the estimated amount of that adjustment in the cost of the combination at the acquisition date if the adjustment is **probable** and can be measured reliably.
- 19.13 However, if the potential adjustment is not recognised at the acquisition date but subsequently becomes probable and can be measured reliably, the additional consideration shall be treated as an adjustment to the cost of the combination.

Allocating the cost of a business combination to the assets acquired and liabilities and contingent liabilities assumed

- 19.14 The acquirer shall, at the acquisition date, allocate the cost of a business combination by recognising the acquiree's identifiable assets and liabilities and a provision for those contingent liabilities that satisfy the **recognition** criteria in paragraph 19.15 at their fair values at that date except as follows:
- (a) a **deferred tax asset** or **deferred tax liability** arising from the assets acquired and liabilities assumed in a business combination shall be recognised and measured in accordance with Section 29 *Income Tax*; and
 - (b) a liability (or asset, if any) related to the acquiree's **employee benefit** arrangements shall be recognised and measured in accordance with Section 28 *Employee Benefits*.
- Any difference between the cost of the business combination and the acquirer's interest in the net fair value of the identifiable assets, liabilities and provisions for contingent liabilities so recognised shall be accounted for in accordance with paragraphs 19.22–19.24 (as goodwill or so-called 'negative goodwill'). Any **non-controlling interest** in the acquiree is measured at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.
- 19.15 The acquirer shall recognise separately the acquiree's identifiable assets, liabilities and contingent liabilities at the acquisition date only if they satisfy the following criteria at that date:
- (a) in the case of an asset other than an **intangible asset**, it is probable that any associated future economic benefits will flow to the acquirer and its fair value can be measured reliably;
 - (b) in the case of a liability other than a contingent liability, it is probable that an outflow of resources will be required to settle the obligation and its fair value can be measured reliably;
 - (c) in the case of an intangible asset, its fair value can be measured reliably without undue cost or effort; and
 - (d) in the case of a contingent liability, its fair value can be measured reliably.
- 19.16 The acquirer's **statement of comprehensive income** shall incorporate the acquiree's profits and losses after the acquisition date by including the acquiree's **income** and **expenses** based on the cost of the business combination to the acquirer. For example, **depreciation** expense included after the acquisition date in the acquirer's statement of comprehensive income that relates to the acquiree's depreciable assets shall be based on the fair values of those depreciable assets at the acquisition date, ie their cost to the acquirer.
- 19.17 Application of the purchase method starts from the acquisition date, which is the date on which the acquirer obtains control of the acquiree. Because control is the power to govern the financial and operating policies of an entity or business so as to obtain benefits from its activities, it is not necessary for a

transaction to be closed or finalised at law before the acquirer obtains control. All pertinent facts and circumstances surrounding a business combination shall be considered in assessing when the acquirer has obtained control.

- 19.18 In accordance with paragraph 19.14, the acquirer recognises separately only the identifiable assets, liabilities and contingent liabilities of the acquiree that existed at the acquisition date and that satisfy the recognition criteria in paragraph 19.15. Consequently:
- (a) the acquirer shall recognise liabilities for terminating or reducing the activities of the acquiree as part of allocating the cost of the combination only when the acquiree has, at the acquisition date, an existing liability for restructuring recognised in accordance with Section 21 *Provisions and Contingencies*; and
 - (b) the acquirer, when allocating the cost of the combination, shall not recognise liabilities for future losses or other costs expected to be incurred as a result of the business combination.
- 19.19 If the initial accounting for a business combination is incomplete by the end of the **reporting period** in which the combination occurs, the acquirer shall recognise in its **financial statements** provisional amounts for the items for which the accounting is incomplete. Within twelve months after the acquisition date, the acquirer shall retrospectively adjust the provisional amounts recognised as assets and liabilities at the acquisition date (ie account for them as if they were made at the acquisition date) to reflect new information obtained. Beyond twelve months after the acquisition date, adjustments to the initial accounting for a business combination shall be recognised only to correct an **error** in accordance with Section 10 *Accounting Policies, Estimates and Errors*.

Contingent liabilities

- 19.20 Paragraph 19.15 specifies that the acquirer recognises separately a provision for a contingent liability of the acquiree only if its fair value can be measured reliably. If its fair value cannot be measured reliably:
- (a) there is a resulting effect on the amount recognised as goodwill or accounted for in accordance with paragraph 19.24; and
 - (b) the acquirer shall disclose the information about that contingent liability as required by Section 21.
- 19.21 After their initial recognition, the acquirer shall measure contingent liabilities that are recognised separately in accordance with paragraph 19.15 at the higher of:
- (a) the amount that would be recognised in accordance with Section 21; and
 - (b) the amount initially recognised less amounts previously recognised as **revenue** in accordance with Section 23 *Revenue*.

Goodwill

- 19.22 The acquirer shall, at the acquisition date:
- (a) recognise goodwill acquired in a business combination as an asset; and

- (b) initially measure 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 recognised in accordance with paragraph 19.14.
- 19.23 After initial recognition, the acquirer shall measure goodwill acquired in a business combination at cost less accumulated **amortisation** and accumulated **impairment losses**:
- (a) an entity shall follow the principles in paragraphs 18.19–18.24 for amortisation of goodwill. If the **useful life** of goodwill cannot be established reliably, the life shall be determined based on management's best estimate but shall not exceed ten years.
- (b) an entity shall follow Section 27 *Impairment of Assets* for recognising and measuring the impairment of goodwill.

Excess over cost of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities

- 19.24 If the acquirer's interest in the net fair value of the identifiable assets, liabilities and provisions for contingent liabilities recognised in accordance with paragraph 19.14 exceeds the cost of the business combination (sometimes referred to as 'negative goodwill'), the acquirer shall:
- (a) reassess the identification and **measurement** of the acquiree's assets, liabilities and provisions for contingent liabilities and the measurement of the cost of the combination; and
- (b) recognise immediately in **profit or loss** any excess remaining after that reassessment.

Disclosures

For business combination(s) during the reporting period

- 19.25 For each business combination during the period, the acquirer shall disclose the following:
- (a) the names and descriptions of the combining entities or businesses;
- (b) the acquisition date;
- (c) the percentage of voting equity instruments acquired;
- (d) the cost of the combination and a description of the components of that cost (such as cash, equity instruments and debt instruments);
- (e) the amounts recognised at the acquisition date for each class of the acquiree's assets, liabilities and contingent liabilities, including goodwill;
- (f) the amount of any excess recognised in profit or loss in accordance with paragraph 19.24 and the line item in the statement of comprehensive income (and in the **income statement**, if presented) in which the excess is recognised; and

- (g) a qualitative description of the factors that make up the goodwill recognised, such as expected synergies from combining operations of the acquiree and the acquirer, or intangible assets or other items not recognised in accordance with paragraph 19.15.

For all business combinations

19.26 An acquirer shall disclose the useful lives used for goodwill and a reconciliation of the **carrying amount** of goodwill at the beginning and end of the reporting period, showing separately:

- (a) changes arising from new business combinations;
- (b) impairment losses;
- (c) disposals of previously acquired businesses; and
- (d) other changes.

This reconciliation need not be presented for prior periods.

Section 20 Leases

Scope of this section

- 20.1 This section covers accounting for all **leases** other than:
- (a) leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources (see Section 34 *Specialised Activities*);
 - (b) licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights (see Section 18 *Intangible Assets other than Goodwill*);
 - (c) **measurement** of property held by lessees that is accounted for as **investment property** and measurement of investment property provided by lessors under **operating leases** (see Section 16 *Investment Property*);
 - (d) measurement of **biological assets** held by lessees under **finance leases** and biological assets provided by lessors under operating leases (see Section 34);
 - (e) leases that could lead to 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, changes in lease payments based on variable market interest rates, or a default by one of the counterparties (see paragraph 12.3(f)); and
 - (f) operating leases that are onerous.
- 20.2 This section applies to agreements that transfer the right to use assets even though substantial services by the lessor may be called for in connection with the operation or maintenance of such assets. This section does not apply to agreements that are contracts for services that do not transfer the right to use assets from one contracting party to the other.
- 20.3 Some arrangements, such as some outsourcing arrangements, telecommunication contracts that provide rights to capacity and take-or-pay contracts, do not take the legal form of a lease but convey rights to use assets in return for payments. Such arrangements are in substance leases of assets and they shall be accounted for under this section.

Classification of leases

- 20.4 A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.
- 20.5 Whether a lease is a finance lease or an operating lease depends on the substance of the transaction instead of the form of the contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

- (a) the lease transfers ownership of the asset to the lessee by the end of the lease term;
 - (b) the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the **fair value** at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
 - (c) the lease term is for the major part of the economic life of the asset even if title is not transferred;
 - (d) at the inception of the lease the **present value** of the **minimum lease payments** amounts to at least substantially all of the fair value of the leased asset; and
 - (e) the leased assets are of such a specialised nature that only the lessee can use them without major modifications.
- 20.6 Indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease are:
- (a) if the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;
 - (b) **gains** or losses from the fluctuation in the **residual value** of the leased asset accrue to the lessee (for example, in the form of a rent rebate equalling most of the sales proceeds at the end of the lease); and
 - (c) the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.
- 20.7 The examples and indicators in paragraphs 20.5 and 20.6 are not always conclusive. If it is clear from other features that the lease does not transfer substantially all risks and rewards incidental to ownership, the lease is classified as an operating lease. For example, this may be the case if ownership of the asset is transferred to the lessee at the end of the lease for a variable payment equal to the asset's then fair value, or if there are contingent rents, as a result of which the lessee does not have substantially all risks and rewards incidental to ownership.
- 20.8 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 shall be re-evaluated.

Financial statements of lessees—finance leases

Initial recognition

- 20.9 At the commencement of the lease term, a lessee shall recognise its rights of use and obligations under finance leases as assets and **liabilities** in its **statement of financial position** at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, determined at the

inception of the lease. Any initial direct costs of the lessee (incremental costs that are directly attributable to negotiating and arranging a lease) are added to the amount recognised as an asset.

- 20.10 The present value of the minimum lease payments shall be calculated using the **interest rate implicit in the lease**. If this cannot be determined, the **lessee's incremental borrowing rate** shall be used.

Subsequent measurement

- 20.11 A lessee shall apportion minimum lease payments between the finance charge and the reduction of the outstanding liability using the **effective interest method** (see paragraphs 11.15–11.20). The lessee shall allocate the finance charge to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. A lessee shall charge contingent rents as **expenses** in the periods in which they are incurred.
- 20.12 A lessee shall depreciate an asset leased under a finance lease in accordance with the relevant section of this Standard for that type of asset, for example, Section 17 *Property, Plant and Equipment*, Section 18 or Section 19 *Business Combinations and Goodwill*. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its **useful life**. A lessee shall also assess at each **reporting date** whether an asset leased under a finance lease is impaired (see Section 27 *Impairment of Assets*).

Disclosures

- 20.13 A lessee shall make the following disclosures for finance leases:
- (a) for each **class of asset**, the net **carrying amount** at the end of the **reporting period**;
 - (b) the total of future minimum lease payments at the end of the reporting period, for each of the following periods:
 - (i) not later than one year;
 - (ii) later than one year and not later than five years; and
 - (iii) later than five years.
 - (c) a general description of the lessee's significant leasing arrangements including, for example, information about contingent rent, renewal or purchase options and escalation clauses, subleases and restrictions imposed by lease arrangements.
- 20.14 In addition, the requirements for disclosure about assets in accordance with Sections 17, 18, 27 and 34 apply to lessees for assets leased under finance leases.

Financial statements of lessees—operating leases

Recognition and measurement

20.15 A lessee shall recognise lease payments under operating leases (excluding costs for services such as insurance and maintenance) as an expense over the lease term on a straight-line basis unless either:

- (a) another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on that basis; or
- (b) the payments to the lessor are structured to increase in line with expected general inflation (based on published indexes or statistics) to compensate for the lessor's expected inflationary cost increases.

If payments to the lessor vary because of factors other than general inflation, then the condition (b) is not met.

Example of applying paragraph 20.15(b):

X operates in a jurisdiction in which the consensus forecast by local banks is that the general price level index, as published by the government, will increase by an average of 10 per cent annually over the next five years. X leases some office space from Y for five years under an operating lease. The lease payments are structured to reflect the expected 10 per cent annual general inflation over the five-year term of the lease as follows

Year 1	CU100,000
Year 2	CU110,000
Year 3	CU121,000
Year 4	CU133,000
Year 5	CU146,000

X recognises annual rent expense equal to the amounts owed to the lessor. If the escalating payments are not clearly structured to compensate the lessor for expected inflationary cost increases based on published indexes or statistics, then X recognises annual rent expense on a straight-line basis: CU122,000 each year (sum of the amounts payable under the lease divided by five years).

Disclosures

20.16 A lessee shall make the following disclosures for operating leases:

- (a) the total of future minimum lease payments under non-cancellable operating leases for each of the following periods:
 - (i) not later than one year;
 - (ii) later than one year and not later than five years; and
 - (iii) later than five years.
- (b) lease payments recognised as an expense; and

- (c) a general description of the lessee's significant leasing arrangements including, for example, information about contingent rent, renewal or purchase options and escalation clauses, subleases, and restrictions imposed by lease arrangements.

Financial statements of lessors—finance leases

Initial recognition and measurement

20.17 A lessor shall recognise assets held under a finance lease in its statement of financial position and present them as a receivable at an amount equal to the **net investment in the lease**. The net investment in a lease is the lessor's **gross investment in the lease** discounted at the interest rate implicit in the lease. The gross investment in the lease is the aggregate of:

- (a) the minimum lease payments receivable by the lessor under a finance lease; and
- (b) any unguaranteed residual value accruing to the lessor.

20.18 For finance leases other than those involving manufacturer or dealer lessors, initial direct costs (costs that are incremental and directly attributable to negotiating and arranging a lease) are included in the initial measurement of the finance lease receivable and reduce the amount of **income** recognised over the lease term.

Subsequent measurement

20.19 The **recognition** of finance income shall be based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease. Lease payments relating to the period, excluding costs for services, are applied against the gross investment in the lease to reduce both the principal and the unearned finance income. If there is an indication that the estimated unguaranteed residual value used in computing the lessor's gross investment in the lease has changed significantly, the income allocation over the lease term is revised, and any reduction in respect of amounts accrued is recognised immediately in **profit or loss**.

Manufacturer or dealer lessors

20.20 Manufacturers or dealers often offer to customers the choice of either buying or leasing an asset. A finance lease of an asset by a manufacturer or dealer lessor gives rise to two types of income:

- (a) profit or loss equivalent to the profit or loss resulting from an outright sale of the asset being leased, at normal selling prices, reflecting any applicable volume or trade discounts; and
- (b) finance income over the lease term.

20.21 The sales **revenue** recognised at the commencement of the lease term by a manufacturer or dealer lessor is the fair value of the asset or, if lower, the present value of the minimum lease payments accruing to the lessor, computed at a market rate of interest. The cost of sale recognised at the commencement of the lease term is the cost, or carrying amount if different, of the leased asset less

the present value of the unguaranteed residual value. The difference between the sales revenue and the cost of sale is the selling profit, which is recognised in accordance with the entity's policy for outright sales.

- 20.22 If artificially low rates of interest are quoted, selling profit shall be restricted to that which would apply if a market rate of interest were charged. Costs incurred by manufacturer or dealer lessors in connection with negotiating and arranging a lease shall be recognised as an expense when the selling profit is recognised.

Disclosures

- 20.23 A lessor shall make the following disclosures for finance leases:
- (a) a reconciliation between the gross investment in the lease at the end of the reporting period and the present value of minimum lease payments receivable at the end of the reporting period. In addition, a lessor shall disclose the gross investment in the lease and the present value of minimum lease payments receivable at the end of the reporting period, for each of the following periods:
 - (i) not later than one year;
 - (ii) later than one year and not later than five years; and
 - (iii) later than five years.
 - (b) unearned finance income.
 - (c) the unguaranteed residual values accruing to the benefit of the lessor.
 - (d) the accumulated allowance for uncollectable minimum lease payments receivable.
 - (e) contingent rents recognised as income in the period.
 - (f) a general description of the lessor's significant leasing arrangements, including, for example, information about contingent rent, renewal or purchase options and escalation clauses, subleases, and restrictions imposed by lease arrangements.

Financial statements of lessors—operating leases

Recognition and measurement

- 20.24 A lessor shall present assets subject to operating leases in its **statement of financial position** according to the nature of the asset.
- 20.25 A lessor shall recognise lease income from operating leases (excluding amounts for services such as insurance and maintenance) in profit or loss on a straight-line basis over the lease term, unless either:
- (a) another systematic basis is representative of the time pattern of the lessee's benefit from the leased asset, even if the receipt of payments is not on that basis; or
 - (b) the payments to the lessor are structured to increase in line with expected general inflation (based on published indexes or statistics) to compensate for the lessor's expected inflationary cost increases.

If payments to the lessor vary according to factors other than inflation, then condition (b) is not met.

- 20.26 A lessor shall recognise as an expense costs, including **depreciation**, incurred in earning the lease income. The depreciation policy for depreciable leased assets shall be consistent with the lessor's normal depreciation policy for similar assets.
- 20.27 A lessor shall add to the carrying amount of the leased asset any initial direct costs it incurs in negotiating and arranging an operating lease and shall recognise such costs as an expense over the lease term on the same basis as the lease income.
- 20.28 To determine whether a leased asset has become impaired, a lessor shall apply Section 27.
- 20.29 A manufacturer or dealer lessor does not recognise any selling profit on entering into an operating lease because it is not the equivalent of a sale.

Disclosures

- 20.30 A lessor shall disclose the following for operating leases:
- (a) the future minimum lease payments under non-cancellable operating leases for each of the following periods:
 - (i) not later than one year;
 - (ii) later than one year and not later than five years; and
 - (iii) later than five years.
 - (b) total contingent rents recognised as income; and
 - (c) a general description of the lessor's significant leasing arrangements, including, for example, information about contingent rent, renewal or purchase options and escalation clauses and restrictions imposed by lease arrangements.
- 20.31 In addition, the requirements for disclosure about assets in accordance with Sections 17, 18, 27 and 34 apply to lessors for assets provided under operating leases.

Sale and leaseback transactions

- 20.32 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.

Sale and leaseback transaction results in a finance lease

- 20.33 If a sale and leaseback transaction results in a finance lease, the seller-lessee shall not recognise immediately, as income, any excess of sales proceeds over the carrying amount. Instead, the seller-lessee shall defer such excess and amortise it over the lease term.

Sale and leaseback transaction results in an operating lease

- 20.34 If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, the seller-lessee shall recognise any profit or loss immediately. If the sale price is below fair value, the seller-lessee shall recognise any profit or loss immediately unless the loss is compensated for by future lease payments at below market price. In that case the seller-lessee shall defer and amortise such loss in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the seller-lessee shall defer the excess over fair value and amortise it over the period for which the asset is expected to be used.

Disclosures

- 20.35 Disclosure requirements for lessees and lessors apply equally to sale and leaseback transactions. The required description of significant leasing arrangements includes description of unique or unusual provisions of the agreement or terms of the sale and leaseback transactions.

Section 21 *Provisions and Contingencies*

Scope of this section

- 21.1 This section applies to all **provisions** (ie **liabilities** of uncertain timing or amount), **contingent liabilities** and **contingent assets** except those provisions covered by other sections of this Standard. These include provisions relating to:
- (a) **leases** (Section 20 *Leases*). However, this section deals with **operating leases** that have become onerous.
 - (b) **construction contracts** (Section 23 *Revenue*). However this section deals with construction contracts that have become onerous.
 - (c) **employee benefit** obligations (Section 28 *Employee Benefits*).
 - (d) **income tax** (Section 29 *Income Tax*).
- 21.2 The requirements in this section do not apply to executory contracts unless they are **onerous contracts**. Executory contracts are contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent.
- 21.3 The word ‘provision’ is sometimes used in the context of such items as **depreciation**, impairment of **assets** and uncollectable receivables. Those are adjustments of the **carrying amounts** of assets, instead of **recognition** of liabilities, and therefore are not covered by this section.

Initial recognition

- 21.4 An entity shall recognise a provision only when:
- (a) the entity has an obligation at the **reporting date** as a result of a past event;
 - (b) it is **probable** (ie more likely than not) that the entity will be required to transfer economic benefits in settlement; and
 - (c) the amount of the obligation can be estimated reliably.
- 21.5 The entity shall recognise the provision as a liability in the **statement of financial position** and shall recognise the amount of the provision as an **expense**, unless another section of this Standard requires the cost to be recognised as part of the cost of an asset such as **inventories** or **property, plant and equipment**.
- 21.6 The condition in paragraph 21.4(a) (obligation at the reporting date as a result of a past event) means that the entity has no realistic alternative to settling the obligation. This can happen when the entity has a legal obligation that can be enforced by law or when the entity has a **constructive obligation** because the past event (which may be an action of the entity) has created valid expectations in other parties that the entity will discharge the obligation. Obligations that will arise from the entity’s future actions (ie the future conduct of its business) do not satisfy the condition in paragraph 21.4(a), no matter how likely they are

to occur and even if they are contractual. To illustrate, because of commercial pressures or legal requirements, an entity may intend or need to carry out expenditure to operate in a particular way in the future (for example, by fitting smoke filters in a particular type of factory). Because the entity can avoid the future expenditure by its future actions, for example by changing its method of operation or selling the factory, it has no present obligation for that future expenditure and no provision is recognised.

Initial measurement

21.7 An entity shall measure a provision at the best estimate of the amount required to settle the obligation at the reporting date. The best estimate is the amount an entity would rationally pay to settle the obligation at the end of the **reporting period** or to transfer it to a third party at that time:

- (a) when the provision involves a large population of items, the estimate of the amount reflects the weighting of all possible outcomes by their associated probabilities. Where there is a continuous range of possible outcomes, and each point in that range is as likely as any other, the mid-point of the range is used.
- (b) when the provision arises from a single obligation, the individual most likely outcome may be the best estimate of the amount required to settle the obligation. However, even in such a case, the entity considers other possible outcomes. When other possible outcomes are either mostly higher or mostly lower than the most likely outcome, the best estimate will be a higher or lower amount than the most likely outcome.

When the effect of the time value of money is **material**, the amount of a provision shall be the **present value** of the amount expected to be required to settle the obligation. The discount rate (or rates) shall be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money. The risks specific to the liability shall be reflected either in the discount rate or in the estimation of the amounts required to settle the obligation, but not both.

21.8 An entity shall exclude **gains** from the expected disposal of assets from the **measurement** of a provision.

21.9 When some or all of the amount required to settle a provision may be reimbursed by another party (for example, through an insurance claim), the entity shall recognise the reimbursement as a separate asset only when it is virtually certain that the entity will receive the reimbursement on settlement of the obligation. The amount recognised for the reimbursement shall not exceed the amount of the provision. The reimbursement receivable shall be presented in the statement of financial position as an asset and shall not be offset against the provision. In the **statement of comprehensive income**, the entity may offset any reimbursement from another party against the expense relating to the provision.

Subsequent measurement

- 21.10 An entity shall charge against a provision only those expenditures for which the provision was originally recognised.
- 21.11 An entity shall review provisions at each reporting date and adjust them to reflect the current best estimate of the amount that would be required to settle the obligation at that reporting date. Any adjustments to the amounts previously recognised shall be recognised in **profit or loss** unless the provision was originally recognised as part of the cost of an asset (see paragraph 21.5). When a provision is measured at the present value of the amount expected to be required to settle the obligation, the unwinding of the discount shall be recognised as a finance cost in profit or loss in the period it arises.

Contingent liabilities

- 21.12 A contingent liability is either a possible but uncertain obligation or a present obligation that is not recognised because it fails to meet one or both of the conditions (b) and (c) in paragraph 21.4. An entity shall not recognise a contingent liability as a liability, except for provisions for contingent liabilities of an acquiree in a **business combination** (see paragraphs 19.20 and 19.21). Disclosure of a contingent liability is required by paragraph 21.15 unless the possibility of an outflow of resources is remote. When an entity is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability.

Contingent assets

- 21.13 An entity shall not recognise a contingent asset as an asset. Disclosure of a contingent asset is required by paragraph 21.16 when an inflow of economic benefits is probable. However, when the flow of future economic benefits to the entity is virtually certain, then the related asset is not a contingent asset, and its recognition is appropriate.

Disclosures

Disclosures about provisions

- 21.14 For each class of provision, an entity shall disclose all of the following:
- (a) a reconciliation showing:
 - (i) the carrying amount at the beginning and end of the period;
 - (ii) additions during the period, including adjustments that result from changes in measuring the discounted amount;
 - (iii) amounts charged against the provision during the period; and
 - (iv) unused amounts reversed during the period.
 - (b) a brief description of the nature of the obligation and the expected amount and timing of any resulting payments;

- (c) an indication of the uncertainties about the amount or timing of those outflows; and
- (d) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

Comparative information for prior periods is not required.

Disclosures about contingent liabilities

21.15 Unless the possibility of any outflow of resources in settlement is remote, an entity shall disclose, for each class of contingent liability at the reporting date, a brief description of the nature of the contingent liability and, when practicable:

- (a) an estimate of its financial effect, measured in accordance with paragraphs 21.7–21.11;
- (b) an indication of the uncertainties relating to the amount or timing of any outflow; and
- (c) the possibility of any reimbursement.

If it is **impracticable** to make one or more of these disclosures, that fact shall be stated.

Disclosures about contingent assets

21.16 If an inflow of economic benefits is probable (more likely than not) but not virtually certain, an entity shall disclose a description of the nature of the contingent assets at the end of the reporting period and, unless it would involve undue cost or effort, an estimate of their financial effect, measured using the principles set out in paragraphs 21.7–21.11. If such an estimate would involve undue cost or effort, the entity shall disclose that fact and the reasons why estimating the financial effect would involve undue cost or effort.

Prejudicial disclosures

21.17 In extremely rare cases, disclosure of some or all of the information required by paragraphs 21.14–21.16 can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, an entity need not disclose the information, but shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.

Appendix to Section 21

Guidance on recognising and measuring provisions

This Appendix accompanies, but is not part of, Section 21. It provides guidance for applying the requirements of Section 21 in recognising and measuring provisions.

All of the entities in the examples in this Appendix have 31 December as their reporting date. In all cases, it is assumed that a reliable estimate can be made of any outflows expected. In some examples the circumstances described may have resulted in impairment of the assets; this aspect is not dealt with in the examples. References to 'best estimate' are to the present value amount, when the effect of the time value of money is material.

Example 1 Future operating losses

21A.1 An entity determines that it is probable that a segment of its operations will incur future operating losses for several years.

Present obligation as a result of a past obligating event—there is no past event that obliges the entity to pay out resources.

Conclusion—the entity does not recognise a provision for future operating losses. Expected future losses do not meet the definition of a liability. The expectation of future operating losses may be an indicator that one or more assets are impaired—see Section 27 *Impairment of Assets*.

Example 2 Onerous contracts

21A.2 An onerous contract is one in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. For example, an entity may be contractually required under an operating lease to make payments to lease an asset for which it no longer has any use.

Present obligation as a result of a past obligating event—the entity is contractually required to pay out resources for which it will not receive commensurate benefits.

Conclusion—if an entity has a contract that is onerous, the entity recognises and measures the present obligation under the contract as a provision.

Example 3 Restructurings

21A.3 A restructuring is a programme that is planned and controlled by management and materially changes either the scope of a business undertaken by an entity or the manner in which that business is conducted.

Present obligation as a result of a past obligating event—a constructive obligation to restructure arises only when an entity:

- (a) has a detailed formal plan for the restructuring identifying at least:
 - (i) the business or part of a business concerned;
 - (ii) the principal locations affected;

- (iii) the location, function and approximate number of employees who will be compensated for terminating their services;
 - (iv) the expenditures that will be undertaken; and
 - (v) when the plan will be implemented; and
- (b) has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Conclusion—an entity recognises a provision for restructuring costs only when it has a legal or constructive obligation at the reporting date to carry out the restructuring.

Example 4 Warranties

21A.4 A manufacturer gives warranties at the time of sale to purchasers of its product. Under the terms of the contract for sale, the manufacturer undertakes to make good, by repair or replacement, manufacturing defects that become apparent within three years from the date of sale. On the basis of experience, it is probable (ie more likely than not) that there will be some claims under the warranties.

Present obligation as a result of a past obligating event—the obligating event is the sale of the product with a warranty, which gives rise to a legal obligation.

An outflow of resources embodying economic benefits in settlement—probable for the warranties as a whole.

Conclusion—the entity recognises a provision for the best estimate of the costs of making good under the warranty products sold before the reporting date.

Illustration of calculations:

In 20X0, goods are sold for CU1,000,000. Experience indicates that 90 per cent of products sold require no warranty repairs; 6 per cent of products sold require minor repairs costing 30 per cent of the sale price; and 4 per cent of products sold require major repairs or replacement costing 70 per cent of sale price. Consequently, estimated warranty costs are:

CU1,000,000 × 90% × 0	= CU0
CU1,000,000 × 6% × 30%	= CU18,000
CU1,000,000 × 4% × 70%	= CU28,000
Total	= CU46,000

The expenditures for warranty repairs and replacements for products sold in 20X0 are expected to be made 60 per cent in 20X1, 30 per cent in 20X2 and 10 per cent in 20X3, in each case at the end of the period. Because the estimated cash flows already reflect the probabilities of the cash outflows, and assuming there are no other risks or uncertainties that must be reflected, to determine the present value of those cash flows the entity uses a 'risk-free' discount rate based on government bonds with the same term as the expected cash outflows (6 per cent for one-year bonds and 7 per cent for two-year and three-year bonds).

Calculation of the present value, at the end of 20X0, of the estimated cash flows related to the warranties for products sold in 20X0 is as follows:

Year		Expected cash payments (CU)	Discount rate	Discount factor	Present value (CU)
1	60% × CU46,000	27,600	6%	0.9434 (at 6% for 1 year)	26,038
2	30% × CU46,000	13,800	7%	0.8734 (at 7% for 2 years)	12,053
3	10% × CU46,000	4,600	7%	0.8163 (at 7% for 3 years)	3,755
Total					41,846

The entity will recognise a warranty obligation of CU41,846 at the end of 20X0 for products sold in 20X0.

Example 5 Refunds policy

21A.5 A retail store has a policy of refunding purchases by dissatisfied customers, even though it is under no legal obligation to do so. Its policy of making refunds is generally known.

Present obligation as a result of a past obligating event—the obligating event is the sale of the product, which gives rise to a constructive obligation because the conduct of the store has created a valid expectation on the part of its customers that the store will refund purchases.

An outflow of resources embodying economic benefits in settlement—probable that a proportion of goods will be returned for refund.

Conclusion—the entity recognises a provision for the best estimate of the amount required to settle the refunds.

Example 6 Closure of a division—no implementation before end of reporting period

21A.6 On 12 December 20X0 the board of an entity decided to close down a division. Before the end of the reporting period (31 December 20X0) the decision was not communicated to any of those affected and no other steps were taken to implement the decision.

Present obligation as a result of a past obligating event—there has been no obligating event, and so there is no obligation.

Conclusion—the entity does not recognise a provision.

Example 7 Closure of a division—communication and implementation before end of reporting period

- 21A.7 On 12 December 20X0 the board of an entity decided to close a division making a particular product. On 20 December 20X0 a detailed plan for closing the division was agreed by the board, letters were sent to customers warning them to seek an alternative source of supply and redundancy notices were sent to the staff of the division.

Present obligation as a result of a past obligating event—the obligating event is the communication of the decision to the customers and employees, which gives rise to a constructive obligation from that date, because it creates a valid expectation that the division will be closed.

An outflow of resources embodying economic benefits in settlement—probable.

Conclusion—the entity recognises a provision at 31 December 20X0 for the best estimate of the costs that would be incurred to close the division at the reporting date.

Example 8 Staff retraining as a result of changes in the income tax system

- 21A.8 The government introduces changes to the income tax system. As a result of those changes, an entity in the financial services sector will need to retrain a large proportion of its administrative and sales workforce in order to ensure continued compliance with tax regulations. At the end of the reporting period, no retraining of staff has taken place.

Present obligation as a result of a past obligating event—the tax law change does not impose an obligation on an entity to do any retraining. An obligating event for recognising a provision (the retraining itself) has not taken place.

Conclusion—the entity does not recognise a provision.

Example 9 A court case

- 21A.9 A customer has sued Entity X, seeking damages for injury the customer allegedly sustained from using a product sold by Entity X. Entity X disputes liability on grounds that the customer did not follow directions in using the product. Up to the date the board authorised the financial statements for the year to 31 December 20X1 for issue, the entity's lawyers advise that it is probable that the entity will not be found liable. However, when the entity prepares the financial statements for the year to 31 December 20X2, its lawyers advise that, owing to developments in the case, it is now probable that the entity will be found liable:

- (a) at 31 December 20X1

Present obligation as a result of a past obligating event—on the basis of the evidence available when the financial statements were approved, there is no obligation as a result of past events.

Conclusion—no provision is recognised. The matter is disclosed as a contingent liability unless the probability of any outflow is regarded as remote.

(b) at 31 December 20X2

Present obligation as a result of a past obligating event—on the basis of the evidence available, there is a present obligation. The obligating event is the sale of the product to the customer.

An outflow of resources embodying economic benefits in settlement—probable.

Conclusion—a provision is recognised at the best estimate of the amount to settle the obligation at 31 December 20X2, and the expense is recognised in profit or loss. It is not a correction of an error in 20X1 because, on the basis of the evidence available when the 20X1 financial statements were approved, a provision should not have been recognised at that time.

Section 22

Liabilities and Equity

Scope of this section

- 22.1 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 (ie in their capacity as **owners**). Section 26 *Share-based Payment* addresses accounting for a transaction in which the entity receives goods or services (including employee services) as consideration for its equity instruments (including shares or share options) from employees and other vendors acting in their capacity as vendors of goods and services.
- 22.2 This section shall be applied when classifying all types of financial instruments except:
- (a) those interests in **subsidiaries, associates and joint ventures** that are accounted for in accordance with Section 9 *Consolidated and Separate Financial Statements*, Section 14 *Investments in Associates* or Section 15 *Interests in Joint Ventures*.
 - (b) employers' rights and obligations under **employee benefit** plans, to which Section 28 *Employee Benefits* applies.
 - (c) contracts for contingent consideration in a **business combination** (see Section 19 *Business Combinations and Goodwill*). This exemption applies only to the acquirer.
 - (d) financial instruments, contracts and obligations under **share-based payment transactions** to which Section 26 applies, except that paragraphs 22.3–22.6 shall be applied to **treasury shares** purchased, sold, issued or cancelled in connection with employee share option plans, employee share purchase plans and all other **share-based payment arrangements**.

Classification of a financial instrument as liability or equity

- 22.3 Equity is the residual interest in the **assets** of an entity after deducting all its liabilities. A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits. Equity includes investments by the owners of the entity, plus additions to those investments earned through profitable operations and retained for use in the entity's operations, minus reductions to owners' investments as a result of unprofitable operations and distributions to owners.
- 22.3A An entity shall classify a financial instrument as a **financial liability** or as equity in accordance with the substance of the contractual arrangement, not merely its legal form, and in accordance with the definitions of a financial liability and an equity instrument. Unless an entity has an unconditional right to avoid delivering **cash** or another **financial asset** to settle a contractual

obligation, the obligation meets the definition of a financial liability, and is classified as such, except for those instruments classified as equity instruments in accordance with paragraph 22.4.

22.4 Some financial instruments that meet the definition of a liability are classified as equity because they represent the residual interest in the net assets of the entity:

- (a) a puttable instrument is a financial instrument that gives the holder the right to sell that instrument back to the issuer for cash or another financial asset or is automatically redeemed or repurchased by the issuer on the occurrence of an uncertain future event or the death or retirement of the instrument holder. A puttable instrument that has all of the following features is classified as an equity instrument:
 - (i) it entitles the holder to a pro rata share of the entity's net assets in the event of the entity's liquidation. The entity's net assets are those assets that remain after deducting all other claims on its assets.
 - (ii) the instrument is in the class of instruments that is subordinate to all other classes of instruments.
 - (iii) all financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features.
 - (iv) apart from the contractual obligation for the issuer to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity, and it is not a contract that will or may be settled in the entity's own equity instruments.
 - (v) the total expected cash flows attributable to the instrument over the life of the instrument are based substantially on the **profit or loss**, the change in the recognised net assets or the change in the **fair value** of the recognised and unrecognised net assets of the entity over the life of the instrument (excluding any effects of the instrument).
- (b) instruments, or components of instruments, that are subordinate to all other classes of instruments are classified as equity if they impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation.

22.5 The following are examples of instruments that are classified as liabilities instead of equity:

- (a) an instrument is classified as a liability if the distribution of net assets on liquidation is subject to a maximum amount (a ceiling). For example, if on liquidation the holders of the instrument receive a pro rata share of the net assets, but this amount is limited to a ceiling and the excess net

assets are distributed to a charity organisation or the government, the instrument is not classified as equity.

- (b) a puttable instrument is classified as equity if, when the put option is exercised, the holder receives a pro rata share of the net assets of the entity measured in accordance with this Standard. However, if the holder is entitled to an amount measured on some other basis (such as local GAAP), the instrument is classified as a liability.
- (c) an instrument is classified as a liability if it obliges the entity to make payments to the holder before liquidation, such as a mandatory dividend.
- (d) a puttable instrument that is classified as equity in a subsidiary's **financial statements** is classified as a liability in its parent entity's consolidated financial statements.
- (e) a preference share that provides for mandatory redemption by the issuer for a fixed or determinable amount at a fixed or determinable future date, or gives the holder the right to require the issuer to redeem the instrument at or after a particular date for a fixed or determinable amount, is a financial liability.

22.6 Members' shares in co-operative entities and similar instruments are equity if:

- (a) the entity has an unconditional right to refuse redemption of the members' shares; or
- (b) redemption is unconditionally prohibited by local law, regulation or the entity's governing charter.

Original issue of shares or other equity instruments

22.7 An entity shall recognise the issue of shares or other equity instruments as equity when it issues those instruments and another party is obliged to provide cash or other resources to the entity in exchange for the instruments:

- (a) if the equity instruments are issued before the entity receives the cash or other resources, the entity shall present the amount receivable as an offset to equity in its **statement of financial position**, not as an asset;
- (b) if the entity receives the cash or other resources before the equity instruments are issued, and the entity cannot be required to repay the cash or other resources received, the entity shall recognise the corresponding increase in equity to the extent of consideration received; and
- (c) to the extent that the equity instruments have been subscribed for but not issued, and the entity has not yet received the cash or other resources, the entity shall not recognise an increase in equity.

22.8 An entity shall measure equity instruments, other than those issued as part of a business combination or those accounted for in accordance with paragraphs 22.15A–22.15B, at the fair value of the cash or other resources received or

receivable, net of **transaction costs**. If payment is deferred and the time value of money is **material**, the initial **measurement** shall be on a **present value** basis.

- 22.9 An entity shall account for the transaction costs of an equity transaction as a deduction from equity. **Income tax** relating to the transaction costs shall be accounted for in accordance with Section 29 *Income Tax*.
- 22.10 How the increase in equity arising on the issue of shares or other equity instruments is presented in the statement of financial position is determined by applicable laws. For example, the par value (or other nominal value) of shares and the amount paid in excess of par value may be required to be presented separately.

Sale of options, rights and warrants

- 22.11 An entity shall apply the principles in paragraphs 22.7–22.10 to equity issued by means of sales of options, rights, warrants and similar equity instruments.

Capitalisation or bonus issues of shares and share splits

- 22.12 A capitalisation or bonus issue (sometimes referred to as a stock dividend) is the issue of new shares to shareholders in proportion to their existing holdings. For example, an entity may give its shareholders one dividend or bonus share for every five shares held. A share split (sometimes referred to as a stock split) is the dividing of an entity's existing shares into multiple shares. For example, in a share split, each shareholder may receive one additional share for each share held. In some cases, the previously outstanding shares are cancelled and replaced by new shares. Capitalisation and bonus issues and share splits do not change total equity. An entity shall reclassify amounts within equity as required by applicable laws.

Convertible debt or similar compound financial instruments

- 22.13 On issuing convertible debt or similar **compound financial instruments** that contain both a liability and an equity component, an entity shall allocate the proceeds between the liability component and the equity component. To make the allocation, the entity shall first determine the amount of the liability component as the fair value of a similar liability that does not have a conversion feature or similar associated equity component. The entity shall allocate the residual amount as the equity component. Transaction costs shall be allocated between the debt component and the equity component on the basis of their relative fair values.
- 22.14 The entity shall not revise the allocation in a subsequent period.
- 22.15 In periods after the instruments were issued, the entity shall account for the liability component as follows:
- (a) in accordance with Section 11 *Basic Financial Instruments* if the liability component meets the conditions in paragraph 11.9. In these cases, the entity shall systematically recognise any difference between the liability

component and the principal amount payable at maturity as additional interest **expense** using the **effective interest method** (see paragraphs 11.15–11.20).

- (b) in accordance with Section 12 *Other Financial Instrument Issues* if the liability component does not meet the conditions in paragraph 11.9.

Extinguishing financial liabilities with equity instruments

- 22.15A An entity may renegotiate the terms of a financial liability with a creditor of the entity with the result that the entity extinguishes the liability fully or partially by issuing equity instruments to the creditor. Issuing equity instruments constitutes consideration paid in accordance with paragraph 11.38. An entity shall measure the equity instruments issued at their fair value. However, if the fair value of the equity instruments issued cannot be measured reliably without undue cost or effort, the equity instruments shall be measured at the fair value of the financial liability extinguished. An entity shall derecognise the financial liability, or part of the financial liability, in accordance with paragraphs 11.36–11.38.
- 22.15B If part of the consideration paid relates to a modification of the terms of the remaining part of the liability, the entity shall allocate the consideration paid between the part of the liability extinguished and the part that remains outstanding. This allocation should be made on a reasonable basis. If the remaining liability has been substantially modified, the entity shall account for the modification as the extinguishment of the original liability and the **recognition** of a new liability as required by paragraph 11.37.
- 22.15C An entity shall not apply paragraphs 22.15A–22.15B to transactions in situations in which:
- (a) the creditor is also a direct or indirect shareholder and is acting in its capacity as a direct or indirect existing shareholder;
 - (b) the creditor and the entity are controlled by the same party or parties before and after the transaction and the substance of the transaction includes an equity distribution by, or contribution to, the entity; or
 - (c) extinguishing the financial liability by issuing equity instruments is in accordance with the original terms of the financial liability (see paragraphs 22.13–22.15).

Treasury shares

- 22.16 Treasury shares are the equity instruments of an entity that have been issued and subsequently reacquired by the entity. An entity shall deduct from equity the fair value of the consideration given for the treasury shares. The entity shall not recognise a **gain** or loss in profit or loss on the purchase, sale, issue or cancellation of treasury shares.

Distributions to owners

- 22.17 An entity shall reduce equity for the amount of distributions to its owners (holders of its equity instruments). Income tax relating to distributions to owners shall be accounted for in accordance with Section 29.
- 22.18 Sometimes an entity distributes assets other than cash to its owners ('non-cash distributions'). When an entity declares such a distribution and has an obligation to distribute non-cash assets to its owners, it shall recognise a liability. It shall measure the liability at the fair value of the assets to be distributed unless it meets the conditions in paragraph 22.18A. At the end of each **reporting period** and at the date of settlement, the entity shall review and adjust the **carrying amount** of the dividend payable to reflect changes in the fair value of the assets to be distributed, with any changes recognised in equity as adjustments to the amount of the distribution. When an entity settles the dividend payable, it shall recognise in profit or loss any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable.
- 22.18A If the fair value of the assets to be distributed cannot be measured reliably without undue cost or effort, the liability shall be measured at the carrying amount of the assets to be distributed. If prior to settlement the fair value of the assets to be distributed can be measured reliably without undue cost or effort, the liability is remeasured at fair value with a corresponding adjustment made to the amount of the distribution and accounted for in accordance with paragraph 22.18.
- 22.18B Paragraphs 22.18–22.18A do not apply to the distribution of a non-cash asset that is ultimately controlled by the same party or parties before and after the distribution. This exclusion applies to the separate, individual and **consolidated financial statements** of an entity that makes the distribution.

Non-controlling interest and transactions in shares of a consolidated subsidiary

- 22.19 In consolidated financial statements, a **non-controlling interest** in the net assets of a subsidiary is included in equity. An entity shall treat changes in a **parent's** controlling interest in a subsidiary that do not result in a loss of **control** as transactions with owners in their capacity as owners. Accordingly, the carrying amount of the non-controlling interest shall be adjusted to reflect the change in the parent's interest in the subsidiary's net assets. Any difference between the amount by which the non-controlling interest is so adjusted and the fair value of the consideration paid or received, if any, shall be recognised directly in equity and attributed to owners of the parent. An entity shall not recognise gain or loss on these changes. Also, an entity shall not recognise any change in the carrying amounts of assets (including **goodwill**) or liabilities as a result of such transactions.

Disclosures

- 22.20 If the fair value of the assets to be distributed as described in paragraphs 22.18–22.18A cannot be measured reliably without undue cost or effort, the entity shall disclose that fact and the reasons why a reliable fair value measurement would involve undue cost or effort.

Appendix to Section 22

Example of the issuer's accounting for convertible debt

The Appendix accompanies, but is not part of, Section 22. It provides guidance for applying the requirements of paragraphs 22.13–22.15.

On 1 January 20X5 an entity issues 500 convertible bonds. The bonds are issued at par with a face value of CU100 per bond and are for a five-year term, with no transaction costs. The total proceeds from the issue are CU50,000. Interest is payable annually in arrears at an annual interest rate of 4 per cent. Each bond is convertible, at the holder's discretion, into 25 ordinary shares at any time up to maturity. At the time the bonds are issued, the market interest rate for similar debt that does not have the conversion option is 6 per cent.

When the instrument is issued, the liability component must be valued first, and the difference between the total proceeds on issue (which is the fair value of the instrument in its entirety) and the fair value of the liability component is assigned to the equity component. The fair value of the liability component is calculated by determining its present value using the discount rate of 6 per cent. These calculations and journal entries are illustrated:

	CU
Proceeds from the bond issue (A)	50,000
Present value of principal at the end of five years (see calculations)	37,363
Present value of interest payable annually in arrears for five years	8,425
Present value of liability, which is the fair value of liability component (B)	45,788
Residual, which is the fair value of the equity component (A) – (B)	4,212

The issuer of the bonds makes the following journal entry at issue on 1 January 20X5:

Dr Cash	CU50,000	
Cr Financial Liability – Convertible bond		CU45,788
Cr Equity		CU4,212

The CU4,212 represents a discount on issue of the bonds, so the entry could also be shown 'gross':

Dr Cash	CU50,000	
Dr Bond discount	CU4,212	
Cr Financial Liability – Convertible bond		CU50,000
Cr Equity		CU4,212

After issue, the issuer will amortise the bond discount according to the following table:

	(a) Interest payment (CU)	(b) Total interest expense (CU) = 6% × (e)	(c) Amortisation of bond discount (CU) = (b) – (a)	(d) Bond discount (CU) = (d) – (c)	(e) Net liability (CU) = 50,000 – (d)
1/1/20X5				4,212	45,788
31/12/20X5	2,000	2,747	747	3,465	46,535
31/12/20X6	2,000	2,792	792	2,673	47,327
31/12/20X7	2,000	2,840	840	1,833	48,167
31/12/20X8	2,000	2,890	890	943	49,057
31/12/20X9	2,000	2,943	943	0	50,000
Totals	10,000	14,212	4,212		

At the end of 20X5, the issuer would make the following journal entry:

Dr Interest expense	CU2,747	
Cr Bond discount		CU747
Cr Cash		CU2,000

Calculations

Present value of principal of CU50,000 at 6 per cent

$$CU50,000 / (1.06)^5 = CU37,363$$

Present value of the interest annuity of CU2,000 (= CU50,000 × 4 per cent) payable at the end of each of five years

The CU2,000 annual interest payments are an annuity—a cash flow stream with a limited number (n) of periodic payments (C), receivable at dates 1 to n. To calculate the present value of this annuity, future payments are discounted by the periodic rate of interest (i) using the following formula:

$$PV = \frac{C}{i} \times \left[1 - \frac{1}{(1+i)^n} \right]$$

Therefore, the present value of the CU2,000 interest payments is

$$(2,000 / .06) \times [1 - (1 / (1.06)^5)] = CU8,425$$

This is equivalent to the sum of the present values of the five individual CU2,000 payments, as follows:

	CU
Present value of interest payment at 31 December 20X5 = $2,000/1.06$	1,887
Present value of interest payment at 31 December 20X6 = $2,000/1.06^2$	1,780
Present value of interest payment at 31 December 20X7 = $2,000/1.06^3$	1,679
Present value of interest payment at 31 December 20X8 = $2,000/1.06^4$	1,584
Present value of interest payment at 31 December 20X9 = $2,000/1.06^5$	1,495
Total	8,425

Yet another way to calculate this is to use a table of present value of an ordinary annuity in arrears, five periods, interest rate of 6 per cent per period. (Such tables are easily found on the Internet.) The present value factor is 4.2124. Multiplying this by the annuity payment of CU2,000 determines the present value of CU8,425.

Section 23 Revenue

Scope of this section

- 23.1 This section shall be applied in accounting for **revenue** arising from the following transactions and events:
- (a) the sale of goods (whether produced by the entity for the purpose of sale or purchased for resale);
 - (b) the rendering of services;
 - (c) **construction contracts** in which the entity is the contractor; and
 - (d) the use by others of entity **assets** yielding interest, royalties or dividends.
- 23.2 Revenue or other **income** arising from some transactions and events is dealt with in other sections of this Standard:
- (a) **lease** agreements (see Section 20 *Leases*);
 - (b) dividends and other income arising from investments that are accounted for using the equity method (see Section 14 *Investments in Associates* and Section 15 *Investments in Joint Ventures*);
 - (c) changes in the **fair value** of **financial assets** and **financial liabilities** or their disposal (see Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instrument Issues*);
 - (d) changes in the fair value of **investment property** (see Section 16 *Investment Property*);
 - (e) initial **recognition** and changes in the fair value of **biological assets** related to **agricultural activity** (see Section 34 *Specialised Activities*); and
 - (f) initial recognition of **agricultural produce** (see Section 34).

Measurement of revenue

- 23.3 An entity shall measure revenue at the fair value of the consideration received or receivable. The fair value of the consideration received or receivable takes into account the amount of any trade discounts, prompt settlement discounts and volume rebates allowed by the entity.
- 23.4 An entity shall include in revenue only the gross inflows of economic benefits received and receivable by the entity on its own account. An entity shall exclude from revenue all amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes. In an agency relationship, an entity (the agent) shall include in revenue only the amount of its commission. The amounts collected on behalf of the principal are not revenue of the entity.

Deferred payment

- 23.5 When the inflow of **cash** or **cash equivalents** is deferred, and the arrangement constitutes in effect a financing transaction, the fair value of the consideration is the **present value** of all future receipts determined using an **imputed rate of**

interest. A financing transaction arises when, for example, an entity provides interest-free credit to the buyer or accepts a note receivable bearing a below-market interest rate from the buyer as consideration for the sale of goods. The imputed rate of interest is the more clearly determinable of either:

- (a) the prevailing rate for a similar instrument of an issuer with a similar credit rating; or
- (b) a rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

An entity shall recognise the difference between the present value of all future receipts and the nominal amount of the consideration as interest revenue in accordance with paragraphs 23.28 and 23.29 and Section 11.

Exchanges of goods or services

- 23.6 An entity shall not recognise revenue:
- (a) when goods or services are exchanged for goods or services that are of a similar nature and value; or
 - (b) when goods or services are exchanged for dissimilar goods or services but the transaction lacks commercial substance.
- 23.7 An entity shall recognise revenue when goods are sold or services are exchanged for dissimilar goods or services in a transaction that has commercial substance. In that case, the entity shall measure the transaction:
- (a) at the fair value of the goods or services received adjusted by the amount of any cash or cash equivalents transferred;
 - (b) if the amount under (a) cannot be measured reliably, then at the fair value of the goods or services given up adjusted by the amount of any cash or cash equivalents transferred; or
 - (c) if the fair value of neither the goods or services received nor the goods or services given up can be measured reliably, then at the **carrying amount** of the goods or services given up adjusted by the amount of any cash or cash equivalents transferred.

Identification of the revenue transaction

- 23.8 An entity usually applies the revenue recognition criteria in this section separately to each transaction. However, an entity applies the recognition criteria to the separately identifiable components of a single transaction when necessary to reflect the substance of the transaction. For example, an entity applies the recognition criteria to the separately identifiable components of a single transaction when the selling price of a product includes an identifiable amount for subsequent servicing. Conversely, an entity applies the recognition criteria to two or more transactions together when they are linked in such a way that the commercial effect cannot be understood without reference to the series of transactions as a whole. For example, an entity applies the recognition criteria to two or more transactions together when it sells goods and, at the

same time, enters into a separate agreement to repurchase the goods at a later date, thus negating the substantive effect of the transaction.

- 23.9 Sometimes, as part of a sales transaction, an entity grants its customer a loyalty award that the customer may redeem in the future for free or discounted goods or services. In this case, in accordance with paragraph 23.8, the entity shall account for the award credits as a separately identifiable component of the initial sales transaction. The entity shall allocate the fair value of the consideration received or receivable in respect of the initial sale between the award credits and the other components of the sale. The consideration allocated to the award credits shall be measured by reference to their fair value, ie the amount for which the award credits could be sold separately.

Sale of goods

- 23.10 An entity shall recognise revenue from the sale of goods when all the following conditions are satisfied:
- (a) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods;
 - (b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
 - (c) the amount of revenue can be measured reliably;
 - (d) it is **probable** that the economic benefits associated with the transaction will flow to the entity; and
 - (e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.
- 23.11 The assessment of when an entity has transferred the significant risks and rewards of ownership to the buyer requires an examination of the circumstances of the transaction. In most cases, the transfer of the risks and rewards of ownership coincides with the transfer of the legal title or the passing of possession to the buyer. This is the case for most retail sales. In other cases, the transfer of risks and rewards of ownership occurs at a time different from the transfer of legal title or the passing of possession.
- 23.12 An entity does not recognise revenue if it retains significant risks and rewards of ownership. Examples of situations in which the entity may retain the significant risks and rewards of ownership are:
- (a) when the entity retains an obligation for unsatisfactory performance not covered by normal warranties;
 - (b) when the receipt of the revenue from a particular sale is contingent on the buyer selling the goods;
 - (c) when the goods are shipped subject to installation and the installation is a significant part of the contract that has not yet been completed; and

- (d) when the buyer has the right to rescind the purchase for a reason specified in the sales contract, or at the buyer's sole discretion without any reason, and the entity is uncertain about the probability of return.

23.13 If an entity retains only an insignificant risk of ownership, the transaction is a sale and the entity recognises the revenue. For example, a seller recognises revenue when it retains the legal title to the goods solely to protect the collectability of the amount due. Similarly an entity recognises revenue when it offers a refund if the customer finds the goods faulty or is not satisfied for other reasons and the entity can estimate the returns reliably. In such cases, the entity recognises a **provision** for returns in accordance with Section 21 *Provisions and Contingencies*.

Rendering of services

23.14 When the outcome of a transaction involving the rendering of services can be estimated reliably, an entity shall recognise revenue associated with the transaction by reference to the stage of completion of the transaction at the end of the **reporting period** (sometimes referred to as the percentage of completion method). The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- (a) the amount of revenue can be measured reliably;
- (b) it is probable that the economic benefits associated with the transaction will flow to the entity;
- (c) the stage of completion of the transaction at the end of the reporting period can be measured reliably; and
- (d) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Paragraphs 23.21–23.27 provide guidance for applying the percentage of completion method.

23.15 When services are performed by an indeterminate number of acts over a specified period of time, an entity recognises revenue on a straight-line basis over the specified period unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other act, the entity postpones recognition of revenue until the significant act is executed.

23.16 When the outcome of the transaction involving the rendering of services cannot be estimated reliably, an entity shall recognise revenue only to the extent of the **expenses** recognised that are recoverable.

Construction contracts

23.17 When the outcome of a construction contract can be estimated reliably, an entity shall recognise contract revenue and contract costs associated with the construction contract as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of the reporting period

(often referred to as the percentage of completion method). Reliable estimation of the outcome requires reliable estimates of the stage of completion, future costs and collectability of billings. Paragraphs 23.21–23.27 provide guidance for applying the percentage of completion method.

- 23.18 The requirements of this section are usually applied separately to each construction contract. However, in some circumstances, it is necessary to apply this section to the separately identifiable components of a single contract or to a group of contracts together in order to reflect the substance of a contract or a group of contracts.
- 23.19 When a contract covers a number of assets, the construction of each asset shall be treated as a separate construction contract when:
- (a) separate proposals have been submitted for each asset;
 - (b) each asset has been subject to separate negotiation, and the contractor and customer are able to accept or reject that part of the contract relating to each asset; and
 - (c) the costs and revenues of each asset can be identified.
- 23.20 A group of contracts, whether with a single customer or with several customers, shall be treated as a single construction contract when:
- (a) the group of contracts is negotiated as a single package;
 - (b) the contracts are so closely interrelated that they are, in effect, part of a single project with an overall profit margin; and
 - (c) the contracts are performed concurrently or in a continuous sequence.

Percentage of completion method

- 23.21 This method is used to recognise revenue from rendering services (see paragraphs 23.14–23.16) and from construction contracts (see paragraphs 23.17–23.20). An entity shall review and, when necessary, revise the estimates of revenue and costs as the service transaction or construction contract progresses.
- 23.22 An entity shall determine the stage of completion of a transaction or contract using the method that measures most reliably the work performed. Possible methods include:
- (a) the proportion that costs incurred for work performed to date bear to the estimated total costs. Costs incurred for work performed to date do not include costs relating to future activity, such as for materials or prepayments.
 - (b) surveys of work performed.
 - (c) completion of a physical proportion of the service transaction or contract work.

Progress payments and advances received from customers often do not reflect the work performed.

- 23.23 An entity shall recognise costs that relate to future activity on the transaction or contract, such as for materials or prepayments, as an asset if it is probable that the costs will be recovered.
- 23.24 An entity shall recognise as an expense immediately any costs whose recovery is not probable.
- 23.25 When the outcome of a contract cannot be estimated reliably:
- (a) an entity shall recognise revenue only to the extent of contract costs incurred that it is probable will be recoverable; and
 - (b) the entity shall recognise contract costs as an expense in the period in which they are incurred.
- 23.26 When it is probable that total contract costs will exceed total contract revenue on a contract, the expected loss shall be recognised as an expense immediately, with a corresponding provision for an **onerous contract** (see Section 21).
- 23.27 If the collectability of an amount already recognised as contract revenue is no longer probable, the entity shall recognise the uncollectable amount as an expense instead of as an adjustment of the amount of contract revenue.

Interest, royalties and dividends

- 23.28 An entity shall recognise revenue arising from the use by others of entity assets yielding interest, royalties and dividends on the bases set out in paragraph 23.29 when:
- (a) it is probable that the economic benefits associated with the transaction will flow to the entity; and
 - (b) the amount of the revenue can be measured reliably.
- 23.29 An entity shall recognise revenue on the following bases:
- (a) interest shall be recognised using the **effective interest method** as described in paragraphs 11.15–11.20;
 - (b) royalties shall be recognised on an accrual basis in accordance with the substance of the relevant agreement; and
 - (c) dividends shall be recognised when the shareholder's right to receive payment is established.

Disclosures

General disclosures about revenue

- 23.30 An entity shall disclose:
- (a) the **accounting policies** adopted for the recognition of revenue, including the methods adopted to determine the stage of completion of transactions involving the rendering of services; and
 - (b) the amount of each category of revenue recognised during the period, showing separately, at a minimum, revenue arising from:

- (i) the sale of goods;
- (ii) the rendering of services;
- (iii) interest;
- (iv) royalties;
- (v) dividends;
- (vi) commissions;
- (vii) **government grants**; and
- (viii) any other significant types of revenue.

Disclosures relating to revenue from construction contracts

- 23.31 An entity shall disclose the following:
- (a) the amount of contract revenue recognised as revenue in the period;
 - (b) the methods used to determine the contract revenue recognised in the period; and
 - (c) the methods used to determine the stage of completion of contracts in progress.
- 23.32 An entity shall present:
- (a) the gross amount due from customers for contract work, as an asset; and
 - (b) the gross amount due to customers for contract work, as a **liability**.

Appendix to Section 23

Examples of revenue recognition under the principles in Section 23

This Appendix accompanies, but is not part of, Section 23. It provides guidance for applying the requirements of Section 23 in recognising revenue.

23A.1 The following examples focus on particular aspects of a transaction and are not a comprehensive discussion of all the relevant factors that might influence the recognition of revenue. The examples generally assume that the amount of revenue can be measured reliably; it is probable that the economic benefits will flow to the entity and the costs incurred or to be incurred can be measured reliably.

Sale of goods

23A.2 The law in different countries may cause the recognition criteria in Section 23 to be met at different times. In particular, the law may determine the point in time at which the entity transfers the significant risks and rewards of ownership. Consequently, the examples in this appendix need to be read in the context of the laws relating to the sale of goods in the country in which the transaction takes place.

Example 1 ‘Bill and hold’ sales, in which delivery is delayed at the buyer’s request but the buyer takes title and accepts billing

23A.3 The seller recognises revenue when the buyer takes title, provided:

- (a) it is probable that delivery will be made;
- (b) the item is on hand, identified and ready for delivery to the buyer at the time the sale is recognised;
- (c) the buyer specifically acknowledges the deferred delivery instructions; and
- (d) the usual payment terms apply.

Revenue is not recognised when there is simply an intention to acquire or manufacture the goods in time for delivery.

Example 2 Goods shipped subject to conditions: installation and inspection

23A.4 The seller normally recognises revenue when the buyer accepts delivery, and installation and inspection are complete. However, revenue is recognised immediately upon the buyer’s acceptance of delivery when:

- (a) the installation process is simple, for example the installation of a factory-tested television receiver that requires only unpacking and connection of power and antennae; or
- (b) the inspection is performed only for the purposes of final determination of contract prices, for example, shipments of iron ore, sugar or soya beans.

Example 3 Goods shipped subject to conditions: on approval when the buyer has negotiated a limited right of return

- 23A.5 If there is uncertainty about the possibility of return, the seller recognises revenue when the shipment has been formally accepted by the buyer or the goods have been delivered and the time period for rejection has elapsed.

Example 4 Goods shipped subject to conditions: consignment sales under which the recipient (buyer) undertakes to sell the goods on behalf of the shipper (seller)

- 23A.6 The shipper recognises revenue when the goods are sold by the recipient to a third party.

Example 5 Goods shipped subject to conditions: cash on delivery sales

- 23A.7 The seller recognises revenue when delivery is made and cash is received by the seller or its agent.

Example 6 Layaway sales under which the goods are delivered only when the buyer makes the final payment in a series of instalments

- 23A.8 The seller recognises revenue from such sales when the goods are delivered. However, when experience indicates that most such sales are consummated, revenue may be recognised when a significant deposit is received, provided the goods are on hand, identified and ready for delivery to the buyer.

Example 7 Orders when payment (or partial payment) is received in advance of delivery for goods not currently held in inventory, for example, the goods are still to be manufactured or will be delivered direct to the buyer from a third party

- 23A.9 The seller recognises revenue when the goods are delivered to the buyer.

Example 8 Sale and repurchase agreements (other than swap transactions) under which the seller concurrently agrees to repurchase the same goods at a later date, or when the seller has a call option to repurchase or the buyer has a put option to require the repurchase, by the seller, of the goods

- 23A.10 For a sale and repurchase agreement on an asset other than a financial asset, the seller must analyse the terms of the agreement to ascertain whether, in substance, the risks and rewards of ownership have been transferred to the buyer. If they have been transferred, the seller recognises revenue. When the seller has retained the risks and rewards of ownership, even though legal title has been transferred, the transaction is a financing arrangement and does not give rise to revenue. For a sale and repurchase agreement on a financial asset, the derecognition provisions of Section 11 apply.

Example 9 Sales to intermediate parties, such as distributors, dealers or others for resale

- 23A.11 The seller generally recognises revenue from such sales when the risks and rewards of ownership have been transferred. However, when the buyer is acting, in substance, as an agent, the sale is treated as a consignment sale.

Example 10 Subscriptions to publications and similar items

- 23A.12 When the items involved are of similar value in each time period, the seller recognises revenue on a straight-line basis over the period in which the items are dispatched. When the items vary in value from period to period, the seller recognises revenue on the basis of the sales value of the item dispatched in relation to the total estimated sales value of all items covered by the subscription.

Example 11 Instalment sales, under which the consideration is receivable in instalments

- 23A.13 The seller recognises revenue attributable to the sales price, exclusive of interest, at the date of sale. The sale price is the present value of the consideration, determined by discounting the instalments receivable at the imputed rate of interest. The seller recognises the interest element as revenue using the effective interest method.

Example 12 Agreements for the construction of real estate

- 23A.14 An entity that undertakes the construction of real estate, directly or through subcontractors, and enters into an agreement with one or more buyers before construction is complete, shall account for the agreement as a sale of services, using the percentage of completion method, only if:
- (a) the buyer is able to specify the major structural elements of the design of the real estate before construction begins and/or specify major structural changes once construction is in progress (whether it exercises that ability or not); or
 - (b) the buyer acquires and supplies construction materials and the entity provides only construction services.
- 23A.15 If the entity is required to provide services together with construction materials in order to perform its contractual obligation to deliver real estate to the buyer, the agreement shall be accounted for as the sale of goods. In this case, the buyer does not obtain control or the significant risks and rewards of ownership of the work in progress in its current state as construction progresses. Instead, the transfer occurs only on delivery of the completed real estate to the buyer.

Example 13 Sale with customer loyalty award

- 23A.16 An entity sells product A for CU100. Purchasers of product A get an award credit enabling them to buy product B for CU10. The normal selling price of product B is CU18. The entity estimates that 40 per cent of the purchasers of product A will use their award to buy product B at CU10. The normal selling price of

product A, after taking into account discounts that are usually offered but that are not available during this promotion, is CU95.

23A.17 The fair value of the award credit is $40\% \times [\text{CU}18 - \text{CU}10] = \text{CU}3.20$. The entity allocates the total revenue of CU100 between product A and the award credit by reference to their relative fair values of CU95 and CU3.20 respectively. Consequently:

(a) revenue for product A is $\text{CU}100 \times [\text{CU}95 \div (\text{CU}95 + \text{CU}3.20)] = \text{CU}96.74$;
and

(b) revenue for product B is $\text{CU}100 \times [\text{CU}3.20 \div (\text{CU}95 + \text{CU}3.20)] = \text{CU}3.26$.

Rendering of services

Example 14 Installation fees

23A.18 The seller recognises installation fees as revenue by reference to the stage of completion of the installation, unless they are incidental to the sale of a product, in which case they are recognised when the goods are sold.

Example 15 Servicing fees included in the price of the product

23A.19 When the selling price of a product includes an identifiable amount for subsequent servicing (for example, after sales support and product enhancement on the sale of software), the seller defers that amount and recognises it as revenue over the period during which the service is performed. The amount deferred is that which will cover the expected costs of the services under the agreement, together with a reasonable profit on those services.

Example 16 Advertising commissions

23A.20 Media commissions are recognised when the related advertisement or commercial appears before the public. Production commissions are recognised by reference to the stage of completion of the project.

Example 17 Insurance agency commissions

23A.21 Insurance agency commissions received or receivable that do not require the agent to render further service are recognised as revenue by the agent on the effective commencement or renewal dates of the related policies. However, when it is probable that the agent will be required to render further services during the life of the policy, the agent defers the commission, or part of it, and recognises it as revenue over the period during which the policy is in force.

Example 18 Admission fees

23A.22 The seller recognises revenue from artistic performances, banquets and other special events when the event takes place. When a subscription to a number of events is sold, the seller allocates the fee to each event on a basis that reflects the extent to which services are performed at each event.

Example 19 Tuition fees

23A.23 The seller recognises revenue over the period of instruction.

Example 20 Initiation, entrance and membership fees

- 23A.24 Revenue recognition depends on the nature of the services provided. If the fee permits only membership, and all other services or products are paid for separately, or if there is a separate annual subscription, the fee is recognised as revenue when no significant uncertainty about its collectability exists. If the fee entitles the member to services or publications to be provided during the membership period, or to purchase goods or services at prices lower than those charged to non-members, it is recognised on a basis that reflects the timing, nature and value of the benefits provided.

Franchise fees

- 23A.25 Franchise fees may cover the supply of initial and subsequent services, equipment and other tangible assets and know how. Accordingly, franchise fees are recognised as revenue on a basis that reflects the purpose for which the fees were charged. The following methods of franchise fee recognition are appropriate.

Example 21 Franchise fees: Supplies of equipment and other tangible assets

- 23A.26 The franchisor recognises the fair value of the assets sold as revenue when the items are delivered or title passes.

Example 22 Franchise fees: Supplies of initial and subsequent services

- 23A.27 The franchisor recognises fees for the provision of continuing services, whether part of the initial fee or a separate fee, as revenue as the services are rendered. When the separate fee does not cover the cost of continuing services together with a reasonable profit, part of the initial fee, sufficient to cover the costs of continuing services and to provide a reasonable profit on those services, is deferred and recognised as revenue as the services are rendered.
- 23A.28 The franchise agreement may provide for the franchisor to supply equipment, inventories or other tangible assets at a price lower than that charged to others or a price that does not provide a reasonable profit on those sales. In these circumstances, part of the initial fee, sufficient to cover estimated costs in excess of that price and to provide a reasonable profit on those sales, is deferred and recognised over the period the goods are likely to be sold to the franchisee. The balance of an initial fee is recognised as revenue when performance of all the initial services and other obligations required of the franchisor (such as assistance with site selection, staff training, financing and advertising) has been substantially accomplished.
- 23A.29 The initial services and other obligations under an area franchise agreement may depend on the number of individual outlets established in the area. In this case, the fees attributable to the initial services are recognised as revenue in proportion to the number of outlets for which the initial services have been substantially completed.

- 23A.30 If the initial fee is collectable over an extended period and there is a significant uncertainty that it will be collected in full, the fee is recognised as cash instalments are received.

Example 23 Franchise fees: Continuing franchise fees

- 23A.31 Fees charged for the use of continuing rights granted by the agreement, or for other services provided during the period of the agreement, are recognised as revenue as the services are provided or the rights used.

Example 24 Franchise fees: Agency transactions

- 23A.32 Transactions may take place between the franchisor and the franchisee that, in substance, involve the franchisor acting as agent for the franchisee. For example, the franchisor may order supplies and arrange for their delivery to the franchisee at no profit. Such transactions do not give rise to revenue.

Example 25 Fees from the development of customised software

- 23A.33 The software developer recognises fees from the development of customised software as revenue by reference to the stage of completion of the development, including completion of services provided for post-delivery service support.

Interest, royalties and dividends

Example 26 Licence fees and royalties

- 23A.34 The licensor recognises fees and royalties paid for the use of an entity's assets (such as trademarks, patents, software, music copyright, record masters and motion picture films) in accordance with the substance of the agreement. As a practical matter, this may be on a straight-line basis over the life of the agreement, for example, when a licensee has the right to use specified technology for a specified period of time.
- 23A.35 An assignment of rights for a fixed fee or non-refundable guarantee under a non-cancellable contract that permits the licensee to exploit those rights freely and the licensor has no remaining obligations to perform is, in substance, a sale. An example is a licensing agreement for the use of software when the licensor has no obligations after delivery. Another example is the granting of rights to exhibit a motion picture film in markets in which the licensor has no control over the distributor and expects to receive no further revenues from the box office receipts. In such cases, revenue is recognised at the time of sale.
- 23A.36 In some cases, whether or not a licence fee or royalty will be received is contingent on the occurrence of a future event. In such cases, revenue is recognised only when it is probable that the fee or royalty will be received, which is normally when the event has occurred.

Section 24 Government Grants

Scope of this section

- 24.1 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 certain conditions relating to the operating activities of the entity.
- 24.2 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.
- 24.3 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

- 24.4 An entity shall recognise 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; and
 - (c) grants received before the **revenue recognition** criteria are satisfied are recognised as a **liability**.
- 24.5 An entity shall measure grants at the **fair value** of the **asset** received or receivable.

Disclosures

- 24.6 An entity shall disclose the following:
- (a) the nature and amounts of government grants recognised in the **financial statements**;
 - (b) unfulfilled conditions and other contingencies attaching to government grants that have not been recognised in income; and
 - (c) an indication of other forms of government assistance from which the entity has directly benefited.
- 24.7 For the purpose of the disclosure required by paragraph 24.6(c), government assistance is action by government designed to provide an economic benefit

specific to an entity or range of entities qualifying under specified criteria. Examples include free technical or marketing advice, the provision of guarantees and loans at nil or low interest rates.

Section 25 *Borrowing Costs*

Scope of this section

- 25.1 This section specifies the accounting for **borrowing costs**. Borrowing costs are interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs include:
- (a) interest **expense** calculated using the **effective interest method** as described in Section 11 *Basic Financial Instruments*;
 - (b) finance charges in respect of **finance leases** recognised in accordance with Section 20 *Leases*; and
 - (c) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Recognition

- 25.2 An entity shall recognise all borrowing costs as an expense in **profit or loss** in the period in which they are incurred.

Disclosures

- 25.3 Paragraph 5.5(b) requires disclosure of finance costs. Paragraph 11.48(b) requires disclosure of total interest expense (using the effective interest method) for **financial liabilities** that are not at **fair value** through profit or loss. This section does not require any additional disclosure.

Section 26

Share-based Payment

Scope of this section

- 26.1 This section specifies the accounting for all **share-based payment transactions** including those that are equity- or cash-settled or those in which the terms of the arrangement provide a choice of whether the entity settles the transaction in **cash** (or other **assets**) or by issuing **equity** instruments.
- 26.1A A share-based payment transaction may be settled by another group entity (or a shareholder of any **group** entity) on behalf of the entity receiving the goods or services. This section also applies to an entity that:
- (a) receives goods or services when another entity in the same group (or a shareholder of any group entity) has the obligation to settle the share-based payment transaction; or
 - (b) has an obligation to settle a share-based payment transaction when another entity in the same group receives the goods or services
- unless the transaction is clearly for a purpose other than the payment for goods or services supplied to the entity receiving them.
- 26.1B In the absence of specifically identifiable goods or services, other circumstances may indicate that goods or services have been (or will be) received, in which case this section applies (see paragraph 26.17).
- 26.2 **Cash-settled share-based payment transactions** include share appreciation rights. For example, an entity might grant share appreciation rights to employees as part of their remuneration package, whereby the employees will become entitled to a future cash payment (instead of an equity instrument), based on the increase in the entity's share price from a specified level over a specified period of time. Or an entity might grant to its employees a right to receive a future cash payment by granting to them a right to shares (including shares to be issued upon the exercise of share options) that are redeemable, either mandatorily (for example, upon cessation of employment) or at the employee's option.

Recognition

- 26.3 An entity shall recognise the goods or services received or acquired in a share-based payment transaction when it obtains the goods or as the services are received. The entity shall recognise a corresponding increase in equity if the goods or services were received in an **equity-settled share-based payment transaction** or a **liability** if the goods or services were acquired in a cash-settled share-based payment transaction.
- 26.4 When the goods or services received or acquired in a share-based payment transaction do not qualify for **recognition** as assets, the entity shall recognise them as **expenses**.

Recognition when there are vesting conditions

- 26.5 If the share-based payments granted to employees vest immediately, the employee is not required to complete a specified period of service before becoming unconditionally entitled to those share-based payments. In the absence of evidence to the contrary, the entity shall presume that services rendered by the employee as consideration for the share-based payments have been received. In this case, on the **grant date** the entity shall recognise the services received in full, with a corresponding increase in equity or liabilities.
- 26.6 If the share-based payments do not vest until the employee completes a specified period of service, the entity shall presume that the services to be rendered by the counterparty as consideration for those share-based payments will be received in the future, during the **vesting period**. The entity shall account for those services as they are rendered by the employee during the vesting period, with a corresponding increase in equity or liabilities.

Measurement of equity-settled share-based payment transactions

Measurement principle

- 26.7 For equity-settled share-based payment transactions, an entity shall measure the goods or services received, and the corresponding increase in equity, at the **fair value** of the goods or services received, unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goods or services received, the entity shall measure their value, and the corresponding increase in equity, by reference to the fair value of the equity instruments granted. To apply this requirement to transactions with employees and others providing similar services, the entity shall measure the fair value of the services received by reference to the fair value of the equity instruments granted, because typically it is not possible to estimate reliably the fair value of the services received.
- 26.8 For transactions with employees (including others providing similar services), the fair value of the equity instruments shall be measured at the grant date. For transactions with parties other than employees, the **measurement** date is the date when the entity obtains the goods or the counterparty renders service.
- 26.9 A grant of equity instruments might be conditional on employees satisfying specified **vesting conditions** related to service or performance. An example of a vesting condition relating to service is when a grant of shares or share options to an employee is conditional on the employee remaining in the entity's employ for a specified period of time. Examples of vesting conditions relating to performance are when a grant of shares or share options is conditional on a specified period of service and on the entity achieving a specified growth in profit (a non-market vesting condition) or a specified increase in the entity's share price (a **market vesting condition**). Vesting conditions are accounted for as follows:

- (a) all vesting conditions related to employee service or to a non-market performance condition shall be taken into account when estimating the number of equity instruments expected to vest. Subsequently, the entity shall revise that estimate if new information indicates that the number of equity instruments expected to vest differs from previous estimates. On the vesting date, the entity shall revise the estimate to equal the number of equity instruments that ultimately vested. Vesting conditions related to employee service or to a non-market performance condition shall not be taken into account when estimating the fair value of the shares, share options or other equity instruments at the measurement date.
- (b) all market vesting conditions and non-vesting conditions shall be taken into account when estimating the fair value of the shares, share options or other equity instruments at the measurement date, with no subsequent adjustment to the estimated fair value, irrespective of the outcome of the market or non-vesting condition, provided that all other vesting conditions are satisfied.

Shares

26.10 An entity shall measure the fair value of shares (and the related goods or services received) using the following three-tier measurement hierarchy:

- (a) if an observable market price is available for the equity instruments granted, use that price.
- (b) if an observable market price is not available, measure the fair value of equity instruments granted using entity-specific observable market data such as:
 - (i) a recent transaction in the entity's shares; or
 - (ii) a recent independent fair valuation of the entity or its principal assets.
- (c) if an observable market price is not available and obtaining a reliable measurement of fair value under (b) is **impracticable**, indirectly measure the fair value of the shares using a valuation method that uses market data to the greatest extent practicable to estimate what the price of those equity instruments would be on the grant date in an arm's length transaction between knowledgeable, willing parties. The entity's directors should use their judgement to apply the most appropriate valuation method to determine fair value. Any valuation method used shall be consistent with generally accepted valuation methodologies for valuing equity instruments.

Share options and equity-settled share appreciation rights

26.11 An entity shall measure the fair value of share options and equity-settled share appreciation rights (and the related goods or services received) using the following three-tier measurement hierarchy:

- (a) if an observable market price is available for the equity instruments granted, use that price.
- (b) if an observable market price is not available, measure the fair value of share options and share appreciation rights granted using entity-specific observable market data such as (a) for a recent transaction in the share options.
- (c) if an observable market price is not available and obtaining a reliable measurement of fair value under (b) is impracticable, indirectly measure the fair value of share options or share appreciation rights using an option pricing model. The inputs for the model (such as the weighted average share price, exercise price, expected volatility, option life, expected dividends and the risk-free interest rate) shall use market data to the greatest extent possible. Paragraph 26.10 provides guidance on determining the fair value of the shares used in determining the weighted average share price. The entity shall derive an estimate of expected volatility consistent with the valuation methodology used to determine the fair value of the shares.

Modifications to the terms and conditions on which equity instruments were granted

26.12 An entity might modify the terms and conditions on which equity instruments are granted in a manner that is beneficial to the employee, for example, by reducing the exercise price of an option or reducing the vesting period or by modifying or eliminating a performance condition. Alternatively an entity might modify the terms and conditions in a manner that is not beneficial to the employee, for example, by increasing the vesting period or adding a performance condition. The entity shall take the modified vesting conditions into account in accounting for the share-based payment transaction, as follows:

- (a) if the modification increases the fair value of the equity instruments granted (or increases the number of equity instruments granted) measured immediately before and after the modification, the entity shall include the incremental fair value granted in the measurement of the amount recognised for services received as consideration for the equity instruments granted. The incremental fair value granted is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification. If the modification occurs during the vesting period, the incremental fair value granted is included in the measurement of the amount recognised for services received over the period from the modification date until the date when the modified equity instruments vest, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognised over the remainder of the original vesting period.
- (b) if the modification reduces the total fair value of the **share-based payment arrangement**, or apparently is not otherwise beneficial to the employee, the entity shall nevertheless continue to account for the

services received as consideration for the equity instruments granted as if that modification had not occurred.

The requirements in this paragraph are expressed in the context of share-based payment transactions with employees. The requirements also apply to share-based payment transactions with parties other than employees if these transactions are measured by reference to the fair value of the equity instruments granted, but reference to the grant date refers to the date that the entity obtains the goods or the counterparty renders service.

Cancellations and settlements

- 26.13 An entity shall account for a cancellation or settlement of an equity-settled share-based payment award as an acceleration of vesting, and therefore shall recognise immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period.

Cash-settled share-based payment transactions

- 26.14 For cash-settled share-based payment transactions, an entity shall measure the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the entity shall remeasure the fair value of the liability at each **reporting date** and at the date of settlement, with any changes in fair value recognised in **profit or loss** for the period.

Share-based payment transactions with cash alternatives

- 26.15 Some share-based payment transactions give either the entity or the counterparty a choice of settling the transaction in cash (or other assets) or by transfer of equity instruments. In such a case, the entity shall account for the transaction as a cash-settled share-based payment transaction unless either:
- (a) the entity has a past practice of settling by issuing equity instruments; or
 - (b) 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.

In circumstances (a) and (b), the entity shall account for the transaction as an equity-settled share-based payment transaction in accordance with paragraphs 26.7–26.13.

Group plans

- 26.16 If a share-based payment award is granted by an entity to the employees of one or more group entities, and the group presents **consolidated financial statements** using either the *IFRS for SMEs* or **full IFRS**, the group entities are permitted, as an alternative to the treatment set out in paragraphs 26.3–26.15, to measure the share-based payment expense on the basis of a reasonable allocation of the expense for the group.

Unidentifiable goods or services

- 26.17 If the identifiable consideration received appears to be less than the fair value of the equity instruments granted or the liability incurred, this situation typically indicates that other consideration (ie unidentifiable goods or services) has been (or will be) received. For example, some jurisdictions have programmes by which **owners** (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). 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. For cash-settled transactions, the liability shall be remeasured at the end of each **reporting period** until it is settled in accordance with paragraph 26.14.

Disclosures

- 26.18 An entity shall disclose the following information about the nature and extent of share-based payment arrangements that existed during the period:
- (a) a description of each type of share-based payment arrangement that existed at any time during the period, including the general terms and conditions of each arrangement, such as vesting requirements, the maximum term of options granted, and the method of settlement (for example, whether in cash or equity). An entity with substantially similar types of share-based payment arrangements may aggregate this information.
 - (b) the number and weighted average exercise prices of share options for each of the following groups of options:
 - (i) outstanding at the beginning of the period;
 - (ii) granted during the period;
 - (iii) forfeited during the period;
 - (iv) exercised during the period;
 - (v) expired during the period;
 - (vi) outstanding at the end of the period; and
 - (vii) exercisable at the end of the period.
- 26.19 For equity-settled share-based payment arrangements, an entity shall disclose information about how it measured the fair value of goods or services received or the value of the equity instruments granted. If a valuation methodology was used, the entity shall disclose the method and its reason for choosing it.
- 26.20 For cash-settled share-based payment arrangements, an entity shall disclose information about how the liability was measured.

- 26.21 For share-based payment arrangements that were modified during the period, an entity shall disclose an explanation of those modifications.
- 26.22 If the entity is part of a group share-based payment plan, and it measures its share-based payment expense on the basis of a reasonable allocation of the expense recognised for the group, it shall disclose that fact and the basis for the allocation (see paragraph 26.16).
- 26.23 An entity shall disclose the following information about the effect of share-based payment transactions on the entity's profit or loss for the period and on its **financial position**:
- (a) the total expense recognised in profit or loss for the period; and
 - (b) the total **carrying amount** at the end of the period for liabilities arising from share-based payment transactions.

Section 27 Impairment of Assets

Objective and scope

- 27.1 An **impairment loss** occurs when the **carrying amount** of an **asset** exceeds its **recoverable amount**. This section shall be applied in accounting for the impairment of all assets other than the following, for which other sections of this Standard establish impairment requirements:
- (a) **deferred tax assets** (see Section 29 *Income Tax*);
 - (b) assets arising from **employee benefits** (see Section 28 *Employee Benefits*);
 - (c) **financial assets** within the scope of Section 11 *Basic Financial Instruments* or Section 12 *Other Financial Instrument Issues*;
 - (d) **investment property** measured at **fair value** (see Section 16 *Investment Property*);
 - (e) **biological assets** related to **agricultural activity** measured at fair value less estimated costs to sell (see Section 34 *Specialised Activities*); and
 - (f) assets arising from **construction contracts** (see Section 23 *Revenue*).

Impairment of inventories

Selling price less costs to complete and sell

- 27.2 An entity shall assess at each **reporting date** whether any **inventories** are impaired. The entity shall make the assessment by comparing the carrying amount of each item of inventory (or group of similar items—see paragraph 27.3) with its selling price less costs to complete and sell. If an item of inventory (or group of similar items) is impaired, the entity shall reduce the carrying amount of the inventory (or the group) to its selling price less costs to complete and sell. That reduction is an impairment loss and it is recognised immediately in **profit or loss**.
- 27.3 If it is **impracticable** to determine the selling price less costs to complete and sell for inventories item by item, the entity may group items of inventory relating to the same product line that have similar purposes or end uses and are produced and marketed in the same geographical area for the purpose of assessing impairment.

Reversal of impairment

- 27.4 An entity shall make a new assessment of selling price less costs to complete and sell at each subsequent reporting date. When the circumstances that previously caused inventories to be impaired no longer exist or when there is clear evidence of an increase in selling price less costs to complete and sell because of changed economic circumstances, the entity shall reverse the amount of the impairment (ie the reversal is limited to the amount of the original impairment loss) so that the new carrying amount is the lower of the cost and the revised selling price less costs to complete and sell.

Impairment of assets other than inventories

General principles

- 27.5 If, and only if, the recoverable amount of an asset is less than its carrying amount, the entity shall reduce the carrying amount of the asset to its recoverable amount. That reduction is an impairment loss. Paragraphs 27.11–27.20 provide guidance on measuring recoverable amount.
- 27.6 An entity shall recognise an impairment loss immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with the revaluation model in Section 17 *Property, Plant and Equipment*. Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with paragraph 17.15D.

Indicators of impairment

- 27.7 An entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset. If there is no indication of impairment, it is not necessary to estimate the recoverable amount.
- 27.8 If it is not possible to estimate the recoverable amount of the individual asset, an entity shall estimate the recoverable amount of the **cash-generating unit** to which the asset belongs. This may be the case because measuring recoverable amount requires forecasting cash flows and sometimes individual assets do not generate cash flows by themselves. An asset's cash-generating unit is the smallest identifiable group of assets that includes the asset and generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.
- 27.9 In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

External sources of information

- (a) during the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.
- (b) significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.
- (c) market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect **materially** the discount rate used in calculating an asset's **value in use** and decrease the asset's **fair value less costs to sell**.
- (d) the carrying amount of the net assets of the entity is more than the estimated fair value of the entity as a whole (such an estimate may have been made, for example, in relation to the potential sale of part or all of the entity).

Internal sources of information

- (e) evidence is available of obsolescence or physical damage of an asset.
- (f) significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs and plans to dispose of an asset before the previously expected date.
- (g) evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected. In this context economic performance includes operating results and cash flows.

- 27.10 If there is an indication that an asset may be impaired, this may indicate that the entity should review the remaining **useful life**, the **depreciation (amortisation)** method or the **residual value** for the asset and adjust it in accordance with the section of this Standard applicable to the asset (for example, Section 17 and Section 18 Intangible Assets other than Goodwill), even if no impairment loss is recognised for the asset.

Measuring recoverable amount

- 27.11 The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. If it is not possible to estimate the recoverable amount of an individual asset, references in paragraphs 27.12–27.20 to an asset should be read as references also to an asset’s cash-generating unit.
- 27.12 It is not always necessary to determine both an asset’s fair value less costs to sell and its value in use. If either of these amounts exceeds the asset’s carrying amount, the asset is not impaired and it is not necessary to estimate the other amount.
- 27.13 If there is no reason to believe that an asset’s value in use materially exceeds its fair value less costs to sell, the asset’s fair value less costs to sell may be used as its recoverable amount. This will often be the case for an asset that is held for disposal.

Fair value less costs to sell

- 27.14 Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal (paragraphs 11.27–11.32 provide guidance on fair value measurement).

Value in use

- 27.15 Value in use is the **present value** of the future cash flows expected to be derived from an asset. This present value calculation involves the following steps:
- (a) estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal; and
 - (b) applying the appropriate discount rate to those future cash flows.

- 27.16 The following elements shall be reflected in the calculation of an asset's value in use:
- (a) an estimate of the future cash flows the entity expects to derive from the asset;
 - (b) expectations about possible variations in the amount or timing of those future cash flows;
 - (c) the time value of money, represented by the current market risk-free rate of interest;
 - (d) the price for bearing the uncertainty inherent in the asset; and
 - (e) other factors, such as illiquidity, that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset.
- 27.17 In measuring value in use, estimates of future cash flows shall include:
- (a) projections of cash inflows from the continuing use of the asset;
 - (b) projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
 - (c) net cash flows, if any, expected to be received (or paid) for the disposal of the asset at the end of its useful life in an arm's length transaction between knowledgeable, willing parties.
- The entity may wish to use any recent financial budgets or forecasts to estimate the cash flows, if available. To estimate cash flow projections beyond the period covered by the most recent budgets or forecasts an entity may wish to extrapolate the projections based on the budgets or forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified.
- 27.18 Estimates of future cash flows shall not include:
- (a) cash inflows or outflows from financing activities; or
 - (b) **income tax** receipts or payments.
- 27.19 Future cash flows shall be estimated for the asset in its current condition. Estimates of future cash flows shall not include estimated future cash inflows or outflows that are expected to arise from:
- (a) a future restructuring to which an entity is not yet committed; or
 - (b) improving or enhancing the asset's performance.
- 27.20 The discount rate (rates) used in the present value calculation shall be a pre-tax rate (rates) that reflect(s) current market assessments of:
- (a) the time value of money; and
 - (b) the risks specific to the asset for which the future cash flow estimates have not been adjusted.

The discount rate (rates) used to measure an asset's value in use shall not reflect risks for which the future cash flow estimates have been adjusted, to avoid double-counting.

Recognising and measuring an impairment loss for a cash-generating unit

- 27.21 An impairment loss shall be recognised for a cash-generating unit if, and only if, the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss shall be allocated to reduce the carrying amount of the assets of the unit in the following order:
- (a) first, to reduce the carrying amount of any **goodwill** allocated to the cash-generating unit; and
 - (b) then, to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the cash-generating unit.
- 27.22 However, an entity shall not reduce the carrying amount of any asset in the cash-generating unit below the highest of:
- (a) its fair value less costs to sell (if determinable);
 - (b) its value in use (if determinable); and
 - (c) zero.
- 27.23 Any excess amount of the impairment loss that cannot be allocated to an asset because of the restriction in paragraph 27.22 shall be allocated to the other assets of the unit pro rata on the basis of the carrying amount of those other assets.

Additional requirements for impairment of goodwill

- 27.24 Goodwill, by itself, cannot be sold. Nor does it generate cash flows to an entity that are independent of the cash flows of other assets. As a consequence, the fair value of goodwill cannot be measured directly. Consequently, the fair value of goodwill must be derived from measurement of the fair value of the cash-generating unit(s) of which the goodwill is a part.
- 27.25 For the purpose of impairment testing, goodwill acquired in a **business combination** shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units that is expected to benefit from the synergies of the combination, irrespective of whether other assets or **liabilities** of the acquiree are assigned to those units.
- 27.26 Part of the recoverable amount of a cash-generating unit is attributable to the **non-controlling interest** in goodwill. For the purpose of impairment testing a non-wholly-owned cash-generating unit with goodwill, the carrying amount of that unit is notionally adjusted, before being compared with its recoverable amount, by grossing up the carrying amount of goodwill allocated to the unit to include the goodwill attributable to the non-controlling interest. This notionally adjusted carrying amount is then compared with the recoverable amount of the unit to determine whether the cash-generating unit is impaired.

27.27 If goodwill cannot be allocated to individual cash-generating units (or groups of cash-generating units) on a non-arbitrary basis, then for the purposes of testing goodwill the entity shall test the impairment of goodwill by determining the recoverable amount of either:

- (a) the acquired entity in its entirety, if the goodwill relates to an acquired entity that has not been integrated (integrated means the acquired business has been restructured or dissolved into the reporting entity or other **subsidiaries**); or
- (b) the entire group of entities, excluding any entities that have not been integrated, if the goodwill relates to an entity that has been integrated.

In applying this paragraph, an entity will need to separate goodwill into goodwill relating to entities that have been integrated and goodwill relating to entities that have not been integrated. Also the entity shall follow the requirements for cash-generating units in this section when calculating the recoverable amount of, and allocating impairment losses and reversals to assets belonging to, the acquired entity or group of entities.

Reversal of an impairment loss

27.28 An impairment loss recognised for goodwill shall not be reversed in a subsequent period.

27.29 For all assets other than goodwill, an entity shall assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased. Indications that an impairment loss may have decreased or may no longer exist are generally the opposite of those set out in paragraph 27.9. If any such indication exists, the entity shall determine whether all or part of the prior impairment loss should be reversed. The procedure for making that determination will depend on whether the prior impairment loss on the asset was based on:

- (a) the recoverable amount of that individual asset (see paragraph 27.30); or
- (b) the recoverable amount of the cash-generating unit to which the asset belongs (see paragraph 27.31).

Reversal where recoverable amount was estimated for an individual impaired asset

27.30 When the prior impairment loss was based on the recoverable amount of the individual impaired asset, the following requirements apply:

- (a) the entity shall estimate the recoverable amount of the asset at the current reporting date.
- (b) if the estimated recoverable amount of the asset exceeds its carrying amount, the entity shall increase the carrying amount to recoverable amount, subject to the limitation described in (c). That increase is a reversal of an impairment loss. The entity shall recognise the reversal immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with the revaluation model in paragraph 17.15B.

Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with paragraph 17.15C.

- (c) the reversal of an impairment loss shall not increase the carrying amount of the asset above the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.
- (d) after a reversal of an impairment loss is recognised, the entity shall adjust the depreciation (amortisation) charge for the asset in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal when recoverable amount was estimated for a cash-generating unit

27.31 When the original impairment loss was based on the recoverable amount of the cash-generating unit to which the asset belongs, the following requirements apply:

- (a) the entity shall estimate the recoverable amount of that cash-generating unit at the current reporting date.
- (b) if the estimated recoverable amount of the cash-generating unit exceeds its carrying amount, that excess is a reversal of an impairment loss. The entity shall allocate the amount of that reversal to the assets of the unit, except for goodwill, pro rata with the carrying amounts of those assets, subject to the limitation described in (c). Those increases in carrying amounts shall be treated as reversals of impairment losses for individual assets and be recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with the revaluation model in paragraph 17.15B. Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with paragraph 17.15C.
- (c) in allocating a reversal of an impairment loss for a cash-generating unit, the reversal shall not increase the carrying amount of any asset above the lower of:
 - (i) its recoverable amount; and
 - (ii) the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.
- (d) any excess amount of the reversal of the impairment loss that cannot be allocated to an asset because of the restriction in (c) shall be allocated pro rata to the other assets of the cash-generating unit, except for goodwill.
- (e) after a reversal of an impairment loss is recognised, if applicable, the entity shall adjust the depreciation (amortisation) charge for each asset in the cash-generating unit in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Disclosures

- 27.32 An entity shall disclose the following for each **class of assets** indicated in paragraph 27.33:
- (a) the amount of impairment losses recognised in profit or loss during the period and the line item(s) in the **statement of comprehensive income** (and in the **income statement**, if presented) in which those impairment losses are included; and
 - (b) the amount of reversals of impairment losses recognised in profit or loss during the period and the line item(s) in the statement of comprehensive income (and in the income statement, if presented) in which those impairment losses are reversed.
- 27.33 An entity shall disclose the information required by paragraph 27.32 for each of the following classes of asset:
- (a) inventories;
 - (b) **property, plant and equipment** (including investment property accounted for by the cost method);
 - (c) goodwill;
 - (d) **intangible assets** other than goodwill;
 - (e) investments in **associates**; and
 - (f) investments in **joint ventures**.

Section 28 *Employee Benefits*

Scope of this section

- 28.1 **Employee benefits** are all forms of consideration given by an entity in exchange for service rendered by employees, including directors and management. This section applies to all employee benefits, except for **share-based payment transactions**, which are covered by Section 26 *Share-based Payment*. Employee benefits covered by this section will be one of the following four types:
- (a) short-term employee benefits, which are employee benefits (other than **termination benefits**) that are wholly due within twelve months after the end of the period in which the employees render the related service;
 - (b) **post-employment benefits**, which are employee benefits (other than termination benefits) that are payable after the completion of employment;
 - (c) other long-term employee benefits, which are employee benefits (other than post-employment benefits and termination benefits) that are not wholly due within twelve months after the end of the period in which the employees render the related service; and
 - (d) termination benefits, which are employee benefits payable as a result of either:
 - (i) an entity's decision to terminate an employee's employment before the normal retirement date; or
 - (ii) an employee's decision to accept voluntary redundancy in exchange for those benefits.
- 28.2 Employee benefits also include share-based payment transactions by which employees receive **equity** instruments (such as shares or share options) or **cash** or other **assets** of the entity in amounts that are based on the price of the entity's shares or other equity instruments of the entity. An entity shall apply Section 26 in accounting for share-based payment transactions.

General recognition principle for all employee benefits

- 28.3 An entity shall recognise the cost of all employee benefits to which its employees have become entitled as a result of service rendered to the entity during the **reporting period**:
- (a) as a **liability**, after deducting amounts that have been paid either directly to the employees or as a contribution to an employee benefit fund. If the amount paid exceeds the obligation arising from service before the **reporting date**, an entity shall recognise that excess as an asset to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

- (b) as an **expense**, unless another section of this Standard requires the cost to be recognised as part of the cost of an asset such as **inventories** or **property, plant and equipment**.

Short-term employee benefits

Examples

- 28.4 Short-term employee benefits generally include items such as:
- (a) wages, salaries and social security contributions;
 - (b) short-term compensated absences (such as paid annual leave and paid sick leave) when the absences are expected to occur within twelve months after the end of the period in which the employees render the related employee service;
 - (c) profit-sharing and bonuses payable within twelve months after the end of the period in which the employees render the related service; and
 - (d) non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees.

Measurement of short-term benefits generally

- 28.5 When an employee has rendered service to an entity during the reporting period, the entity shall measure the amounts recognised in accordance with paragraph 28.3 at the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

Recognition and measurement—short-term compensated absences

- 28.6 An entity may compensate employees for absence for various reasons including annual vacation leave and sick leave. Some short-term compensated absences accumulate—they can be carried forward and used in future periods if the employee does not use the current period's entitlement in full. Examples include annual vacation leave and sick leave. An entity shall recognise the expected cost of **accumulating compensated absences** when the employees render service that increases their entitlement to future compensated absences. The entity shall measure the expected cost of accumulating compensated absences at the undiscounted additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period. The entity shall present this amount as a current liability at the reporting date.
- 28.7 An entity shall recognise the cost of other (non-accumulating) compensated absences when the absences occur. The entity shall measure the cost of non-accumulating compensated absences at the undiscounted amount of salaries and wages paid or payable for the period of absence.

Recognition—profit-sharing and bonus plans

- 28.8 An entity shall recognise the expected cost of profit-sharing and bonus payments only when:

- (a) the entity has a present legal or constructive obligation to make such payments as a result of past events (this means that the entity has no realistic alternative but to make the payments); and
- (b) a reliable estimate of the obligation can be made.

Post-employment benefits: distinction between defined contribution plans and defined benefit plans

28.9 Post-employment benefits include, for example:

- (a) retirement benefits, such as pensions; and
- (b) other post-employment benefits, such as post-employment life insurance and post-employment medical care.

Arrangements whereby an entity provides post-employment benefits are **post-employment benefit plans**. An entity shall apply this section to all such arrangements whether or not they involve the establishment of a separate entity to receive contributions and to pay benefits. In some cases, these arrangements are imposed by law instead of by action of the entity. In some cases, these arrangements arise from actions of the entity even in the absence of a formal, documented plan.

28.10 Post-employment benefit plans are classified as either **defined contribution plans** or **defined benefit plans**, depending on their principal terms and conditions:

- (a) defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and has no legal or constructive obligation to pay further contributions or to make direct benefit payments to employees if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an entity (and perhaps also the employee) to a post-employment benefit plan or to an insurer, together with investment returns arising from the contributions.
- (b) defined benefit plans are post-employment benefit plans other than defined contribution plans. Under defined benefit plans, the entity's obligation is to provide the agreed benefits to current and former employees, and actuarial risk (that benefits will cost more or less than expected) and investment risk (that returns on assets set aside to fund the benefits will differ from expectations) are borne, in substance, by the entity. If actuarial or investment experience is worse than expected, the entity's obligation may be increased, and vice versa if actuarial or investment experience is better than expected.

Multi-employer plans and state plans

28.11 **Multi-employer plans** and state plans are classified as defined contribution plans or defined benefit plans on the basis of the terms of the plan, including any constructive obligation that goes beyond the formal terms. However, if

sufficient information is not available to use defined benefit accounting for a multi-employer plan that is a defined benefit plan, an entity shall account for the plan in accordance with paragraph 28.13 as if it was a defined contribution plan and make the disclosures required by paragraph 28.40.

Insured benefits

28.12 An entity may pay insurance premiums to fund a post-employment benefit plan. The entity shall treat such a plan as a defined contribution plan unless the entity has a legal or constructive obligation either:

- (a) to pay the employee benefits directly when they become due; or
- (b) to pay further amounts if the insurer does not pay all future employee benefits relating to employee service in the current and prior periods.

A constructive obligation could arise indirectly through the plan, through the mechanism for setting future premiums, or through a **related party** relationship with the insurer. If the entity retains such a legal or constructive obligation, the entity shall treat the plan as a defined benefit plan.

Post-employment benefits: defined contribution plans

Recognition and measurement

28.13 An entity shall recognise the contribution payable for a period:

- (a) as a liability, after deducting any amount already paid. If contribution payments exceed the contribution due for service before the reporting date, an entity shall recognise that excess as an asset.
- (b) as an expense, unless another section of this Standard requires the cost to be recognised as part of the cost of an asset such as inventories or property, plant and equipment.

Post-employment benefits: defined benefit plans

Recognition

28.14 In applying the general **recognition** principle in paragraph 28.3 to defined benefit plans, an entity shall recognise:

- (a) a liability for its obligations under defined benefit plans net of **plan assets**—its '**defined benefit liability**' (see paragraphs 28.15–28.23); and
- (b) recognises the net change in that liability during the period as the cost of its defined benefit plans during the period (see paragraphs 28.24–28.27).

Measurement of the defined benefit liability

28.15 An entity shall measure a defined benefit liability for its obligations under defined benefit plans at the net total of the following amounts:

- (a) the **present value** of its obligations under defined benefit plans (its **defined benefit obligation**) at the reporting date (paragraphs 28.16–28.22 provide guidance for measuring this obligation).

- (b) minus the **fair value** at the reporting date of plan assets (if any) out of which the obligations are to be settled directly. Paragraphs 11.27–11.32 provide guidance for determining the fair values of those plan assets.

Inclusion of both vested and unvested benefits

- 28.16 The present value of an entity's obligations under defined benefit plans at the reporting date shall reflect the estimated amount of benefit that employees have earned in return for their service in the current and prior periods, including benefits that are not yet **vested** (see paragraph 28.26) and including the effects of benefit formulas that give employees greater benefits for later years of service. This requires the entity to determine how much benefit is attributable to the current and prior periods on the basis of the plan's benefit formula and to make estimates (actuarial assumptions) about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries and medical costs) that influence the cost of the benefit. The actuarial assumptions shall be unbiased (neither imprudent nor excessively conservative), mutually compatible and selected to lead to the best estimate of the future cash flows that will arise under the plan.

Discounting

- 28.17 An entity shall measure its defined benefit obligation on a discounted present value basis. The entity shall determine the rate used to discount the future payments by reference to market yields at the reporting date on high quality corporate bonds. In countries with no deep market in such bonds, the entity shall use the market yields (at the reporting date) on government bonds. The currency and term of the corporate bonds or government bonds shall be consistent with the currency and estimated period of the future payments.

Actuarial valuation method

- 28.18 If an entity is able, without undue cost or effort, to use the **projected unit credit method** to measure its defined benefit obligation and the related expense, it shall do so. If defined benefits are based on future salaries, the projected unit credit method requires an entity to measure its defined benefit obligations on a basis that reflects estimated future salary increases. Additionally, the projected unit credit method requires an entity to make various actuarial assumptions in measuring the defined benefit obligation, including discount rates, the expected rates of return on plan assets, expected rates of salary increases, employee turnover, mortality, and (for defined benefit medical plans) medical cost trend rates.
- 28.19 If an entity is not able, without undue cost or effort, to use the projected unit credit method to measure its obligation and cost under defined benefit plans, the entity is permitted to make the following simplifications in measuring its defined benefit obligation with respect to current employees:
- (a) ignore estimated future salary increases (ie assume current salaries continue until current employees are expected to begin receiving post-employment benefits).

- (b) ignore future service of current employees (ie assume closure of the plan for existing as well as any new employees).
- (c) ignore possible in-service mortality of current employees between the reporting date and the date employees are expected to begin receiving post-employment benefits (ie assume all current employees will receive the post-employment benefits). However, mortality after service (ie life expectancy) will still need to be considered.

An entity that takes advantage of the foregoing **measurement** simplifications must nonetheless include both **vested benefits** and unvested benefits in measuring its defined benefit obligation.

- 28.20 This Standard does not require an entity to engage an independent actuary to perform the comprehensive actuarial valuation needed to calculate its defined benefit obligation. Nor does it require that a comprehensive actuarial valuation must be done annually. In the periods between comprehensive actuarial valuations, if the principal actuarial assumptions have not changed significantly the defined benefit obligation can be measured by adjusting the prior period measurement for changes in employee demographics such as number of employees and salary levels.

Plan introductions, changes, curtailments and settlements

- 28.21 If a defined benefit plan has been introduced or changed in the current period, the entity shall increase or decrease its defined benefit liability to reflect the change, and shall recognise the increase (decrease) as an expense (**income**) in measuring **profit or loss** in the current period. Conversely, if a plan has been curtailed (ie benefits or group of covered employees are reduced) or settled (the employer's obligation is completely discharged) in the current period, the defined benefit obligation shall be decreased or eliminated and the entity shall recognise the resulting **gain** or loss in profit or loss in the current period.

Defined benefit plan asset

- 28.22 If the present value of the defined benefit obligation at the reporting date is less than the fair value of plan assets at that date, the plan has a surplus. An entity shall recognise a plan surplus as a defined benefit plan asset only to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

Cost of a defined benefit plan

- 28.23 An entity shall recognise the net change in its defined benefit liability during the period, other than a change attributable to benefits paid to employees during the period or to contributions from the employer, as the cost of its defined benefit plans during the period. That cost is recognised either entirely in profit or loss as an expense or partly in profit or loss and partly as an item of **other comprehensive income** (see paragraph 28.24) unless another section of this Standard requires the cost to be recognised as part of the cost of an asset such as inventories or property, plant and equipment.

Recognition–accounting policy election

- 28.24 An entity is required to recognise all actuarial gains and losses in the period in which they occur. An entity shall:
- (a) recognise all actuarial gains and losses in profit or loss; or
 - (b) recognise all actuarial gains and losses in other comprehensive income.
- as an accounting policy election. The entity shall apply its chosen accounting policy consistently to all of its defined benefit plans and all of its actuarial gains and losses. Actuarial gains and losses recognised in other comprehensive income shall be presented in the **statement of comprehensive income**.
- 28.25 The net change in the defined benefit liability that is recognised as the cost of a defined benefit plan includes:
- (a) the change in the defined benefit liability arising from employee service rendered during the reporting period;
 - (b) interest on the defined benefit obligation during the reporting period;
 - (c) the returns on any plan assets and the net change in the fair value of recognised reimbursement rights (see paragraph 28.28) during the reporting period;
 - (d) actuarial gains and losses arising in the reporting period;
 - (e) increases or decreases in the defined benefit liability resulting from introducing a new plan or changing an existing plan in the reporting period (see paragraph 28.21); and
 - (f) decreases in the defined benefit liability resulting from curtailing or settling an existing plan in the reporting period (see paragraph 28.21).
- 28.26 Employee service gives rise to an obligation under a defined benefit plan even if the benefits are conditional on future employment (in other words, they are not yet vested). Employee service before the vesting date gives rise to a constructive obligation because, at each successive reporting date, the amount of future service that an employee will have to render before becoming entitled to the benefit is reduced. In measuring its defined benefit obligation, an entity considers the probability that some employees may not satisfy vesting requirements. Similarly, although some post-employment benefits (such as post-employment medical benefits) become payable only if a specified event occurs when an employee is no longer employed (such as an illness), an obligation is created when the employee renders service that will provide entitlement to the benefit if the specified event occurs. The probability that the specified event will occur affects the measurement of the obligation, but does not determine whether the obligation exists.
- 28.27 If defined benefits are reduced for amounts that will be paid to employees under government-sponsored plans, an entity shall measure its defined benefit obligations on a basis that reflects the benefits payable under the government plans, but only if:
- (a) those plans were enacted before the reporting date; or

- (b) past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Reimbursements

- 28.28 If an entity is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the entity shall recognise its right to reimbursement as a separate asset. The entity shall measure the asset at fair value. In the statement of comprehensive income (or in the **income statement**, if presented), the expense relating to a defined benefit plan may be presented net of the amount recognised for a reimbursement.

Other long-term employee benefits

- 28.29 Other long-term employee benefits generally include, for example:
- (a) long-term compensated absences such as long-service or sabbatical leave;
 - (b) long-service benefits;
 - (c) long-term disability benefits;
 - (d) profit-sharing and bonuses payable twelve months or more after the end of the period in which the employees render the related service; and
 - (e) deferred compensation paid twelve months or more after the end of the period in which it is earned.
- 28.30 An entity shall recognise a liability for other long-term employee benefits measured at the net total of the following amounts:
- (a) the present value of the benefit obligation at the reporting date; minus
 - (b) the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

An entity shall recognise the net change in the liability during the period, other than a change attributable to benefits paid to employees during the period or to contributions from the employer, as the cost of its other long-term employee benefits during the period. That cost is recognised entirely in profit or loss as an expense unless another section of this Standard requires it to be recognised as part of the cost of an asset, such as inventories or property, plant and equipment.

Termination benefits

- 28.31 An entity may be committed, by legislation, by contractual or other agreements with employees or their representatives or by a constructive obligation based on business practice, custom or a desire to act equitably, to make payments (or provide other benefits) to employees when it terminates their employment. Such payments are termination benefits.

Recognition

- 28.32 Because termination benefits do not provide an entity with future economic benefits, an entity shall recognise them as an expense in profit or loss immediately.
- 28.33 When an entity recognises termination benefits, the entity may also have to account for a curtailment of retirement benefits or other employee benefits.
- 28.34 An entity shall recognise termination benefits as a liability and an expense only when the entity is demonstrably committed either:
- (a) to terminate the employment of an employee or group of employees before the normal retirement date; or
 - (b) to provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.
- 28.35 An entity is demonstrably committed to a termination only when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal from the plan.

Measurement

- 28.36 An entity shall measure termination benefits at the best estimate of the expenditure that would be required to settle the obligation at the reporting date. In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.
- 28.37 When termination benefits are due more than twelve months after the end of the reporting period, they shall be measured at their discounted present value.

Group plans

- 28.38 If a **parent** entity provides benefits 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 IFRS**, such subsidiaries are permitted to recognise and measure employee benefit expense on the basis of a reasonable allocation of the expense recognised for the group.

Disclosures

Disclosures about short-term employee benefits

- 28.39 This section does not require specific disclosures about short-term employee benefits.

Disclosures about defined contribution plans

- 28.40 An entity shall disclose the amount recognised in profit or loss as an expense for defined contribution plans. If an entity treats a defined benefit multi-employer plan as a defined contribution plan because sufficient information is not available to use defined benefit accounting (see paragraph 28.11) it shall disclose the fact that it is a defined benefit plan and the reason why it is being accounted

for as a defined contribution plan, along with any available information about the plan's surplus or deficit and the implications, if any, for the entity.

Disclosures about defined benefit plans

- 28.41 An entity shall disclose the following information about defined benefit plans (except for any defined multi-employer benefit plans that are accounted for as a defined contribution plans in accordance with paragraph 28.11, for which the disclosures in paragraph 28.40 apply instead). If an entity has more than one defined benefit plan, these disclosures may be made in total, separately for each plan, or in such groupings as are considered to be the most useful:
- (a) a general description of the type of plan, including **funding** policy;
 - (b) the entity's accounting policy for recognising actuarial gains and losses (either in profit or loss or as an item of other comprehensive income) and the amount of actuarial gains and losses recognised during the period;
 - (c) if the entity uses any of the simplifications in paragraph 28.19 in measuring its defined benefit obligation, it shall disclose that fact and the reasons why using the projected unit credit method to measure its obligation and cost under defined benefit plans would involve undue cost or effort;
 - (d) the date of the most recent comprehensive actuarial valuation and, if it was not as of the reporting date, a description of the adjustments that were made to measure the defined benefit obligation at the reporting date;
 - (e) a reconciliation of opening and closing balances of the defined benefit obligation showing separately benefits paid and all other changes;
 - (f) a reconciliation of the opening and closing balances of the fair value of plan assets and of the opening and closing balances of any reimbursement right recognised as an asset, showing separately, if applicable:
 - (i) contributions;
 - (ii) benefits paid; and
 - (iii) other changes in plan assets.
 - (g) the total cost relating to defined benefit plans for the period, disclosing separately the amounts:
 - (i) recognised in profit or loss as an expense; and
 - (ii) included in the cost of an asset.
 - (h) for each major class of plan assets, which shall include, but is not limited to, equity instruments, debt instruments, property, and all other assets, the percentage or amount that each major class constitutes of the fair value of the total plan assets at the reporting date;
 - (i) the amounts included in the fair value of plan assets for:
 - (i) each class of the entity's own **financial instruments**; and

- (ii) any property occupied by, or other assets used by, the entity.
- (j) the actual return on plan assets; and
- (k) the principal actuarial assumptions used, including, when applicable:
 - (i) the discount rates;
 - (ii) the expected rates of return on any plan assets for the periods presented in the **financial statements**;
 - (iii) the expected rates of salary increases;
 - (iv) medical cost trend rates; and
 - (v) any other **material** actuarial assumptions used.

The reconciliations in (e) and (f) need not be presented for prior periods. A subsidiary that recognises and measures employee benefit expense on the basis of a reasonable allocation of the expense recognised for the group (see paragraph 28.38) shall, in its separate financial statements, describe its policy for making the allocation and shall make the disclosures in (a)–(k) for the plan as a whole.

Disclosures about other long-term benefits

- 28.42 For each category of other long-term benefits that an entity provides to its employees, the entity shall disclose the nature of the benefit, the amount of its obligation and the extent of funding at the reporting date.

Disclosures about termination benefits

- 28.43 For each category of termination benefits that an entity provides to its employees, the entity shall disclose the nature of the benefit, the amount of its obligation and the extent of funding at the reporting date.
- 28.44 When there is uncertainty about the number of employees who will accept an offer of termination benefits, a **contingent liability** exists. Section 21 *Provisions and Contingencies* requires an entity to disclose information about its contingent liabilities unless the possibility of an outflow in settlement is remote.

Section 29 Income Tax

Scope of this section

- 29.1 For the purpose of this Standard, **income tax** includes all domestic and foreign taxes that are based on **taxable profit**. Income tax also includes taxes, such as withholding taxes, that are payable by a **subsidiary, associate** or **joint venture** on distributions to the reporting entity.
- 29.2 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 income tax payable (recoverable) in respect of the taxable profit (tax loss) for the current period or past periods. Deferred tax is income 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 carryforward of currently unused tax losses and tax credits.
- 29.3 This section does not deal with the methods of accounting for **government grants** (see Section 24 *Government Grants*). However, this section does deal with the accounting for **temporary differences** that may arise from such grants.

Recognition and measurement of current tax

- 29.4 An entity shall recognise a current tax liability for tax payable on taxable profit for the current and past periods. If the amount paid for the current and past periods exceeds the amount payable for those periods, the entity shall recognise the excess as a current tax asset.
- 29.5 An entity shall recognise a current tax asset for the benefit of a tax loss that can be carried back to recover tax paid in a previous period.
- 29.6 An entity shall measure a current tax liability (asset) at the amount it expects to pay (recover) using the tax rates and laws that have been enacted or **substantively enacted** by the **reporting date**. An entity shall regard tax rates and tax laws as substantively enacted when the remaining steps in the enactment process have not affected the outcome in the past and are unlikely to do so. Paragraphs 29.32–29.33 provide additional **measurement** guidance.

Recognition of deferred tax

General recognition principle

- 29.7 It is inherent in the **recognition** of an asset or a liability that the reporting entity expects to recover or settle the carrying amount of that asset or liability. If it is **probable** that recovery or settlement of that carrying amount will make future tax payments larger (smaller) than they would be if such recovery or settlement were to have no tax consequences, this section requires an entity to recognise a **deferred tax liability (deferred tax asset)** with certain limited exceptions. If the entity expects to recover the carrying amount of an asset or

settle the carrying amount of a liability without affecting taxable profit, no deferred tax arises in respect of the asset or liability.

- 29.8 An entity shall recognise a deferred tax asset or liability for tax recoverable or payable in future periods as a result of past transactions or events. Such tax arises from the differences between the carrying amounts of the entity's assets and liabilities in the **statement of financial position** and the amounts attributed to those assets and liabilities by the tax authorities (such differences are called 'temporary differences'), and the carryforward of currently unused tax losses and tax credits.

Tax bases and temporary differences

- 29.9 The **tax base** of an asset is the amount that will be deductible for tax purposes against any taxable economic benefits that will flow to an entity when it recovers the carrying amount of the asset. If those economic benefits will not be taxable, the tax base of the asset is equal to its carrying amount.
- 29.10 The tax base of a liability is its carrying amount less any amount that will be deductible for tax purposes in respect of that liability in future periods. In the case of **revenue** that is received in advance, the tax base of the resulting liability is its carrying amount less any amount of the revenue that will not be taxable in future periods.
- 29.11 Some items have a tax base but are not recognised as assets and liabilities in the statement of financial position. For example, **research** and **development** costs are recognised as an **expense** when determining **accounting profit** in the period in which they are incurred but may not be permitted as a deduction when determining taxable profit (tax loss) until a later period. The difference between the tax base of the research and development costs, being the amount that the taxation authorities will permit as a deduction in future periods, and the carrying amount of nil is a **deductible temporary difference** that results in a deferred tax asset.
- 29.12 Temporary differences are differences between the carrying amount of an asset or liability in the statement of financial position and its tax base. In **consolidated financial statements**, temporary differences are determined by comparing the carrying amounts of assets and liabilities in the consolidated financial statements with the appropriate tax base. The tax base is determined by reference to a consolidated tax return in those jurisdictions in which such a return is filed. In other jurisdictions, the tax base is determined by reference to the tax returns of each entity in the **group**.
- 29.13 Examples of situations in which temporary differences arise include:
- (a) the identifiable assets acquired and liabilities assumed in a **business combination** are recognised at their **fair values** in accordance with Section 19 *Business Combinations and Goodwill*, but no equivalent adjustment is made for tax purposes (for example, the tax base of an asset may remain at cost to the previous owner). The resulting deferred tax asset or liability affects the amount of **goodwill** that an entity recognises.

- (b) assets are remeasured but no equivalent adjustment is made for tax purposes. For example, this Standard permits or requires certain assets to be remeasured at fair value or to be revalued (for example, Section 16 *Investment Property* and Section 17 *Property, Plant and Equipment*).
- (c) goodwill arises in a business combination, for example, the tax base of goodwill will be nil if taxation authorities do not allow the **amortisation** or the **impairment** of goodwill as a deductible expense when taxable profit is determined and do not permit the cost of goodwill to be treated as a deductible expense on disposal of the subsidiary.
- (d) the tax base of an asset or a liability on initial recognition differs from its initial carrying amount.
- (e) the carrying amount of investments in subsidiaries, branches and associates or interests in joint ventures becomes different from the tax base of the investment or interest.

Not all of these temporary differences will give rise to deferred tax assets and liabilities (see paragraphs 29.14 and 29.16).

Taxable temporary differences

29.14 A deferred tax liability shall be recognised for all **taxable temporary differences**, except to the extent that the deferred tax liability arises from:

- (a) the initial recognition of goodwill; or
- (b) the initial recognition of an asset or a liability in a transaction that:
 - (i) is not a business combination; and
 - (ii) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

However, for taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, a deferred tax liability shall be recognised in accordance with paragraph 29.25.

29.15 Some temporary differences arise when **income** or expense is included in accounting profit in one period but is included in taxable profit in a different period. Such temporary differences are often described as **timing differences**. The following are examples of temporary differences of this kind that are taxable temporary differences and that therefore result in deferred tax liabilities:

- (a) interest revenue is included in accounting profit on a time-proportion basis but may, in some jurisdictions, be included in taxable profit when cash is collected. The tax base of any receivable with respect to such revenues is nil, because the revenues do not affect taxable profit until cash is collected.
- (b) **depreciation** used when determining taxable profit (tax loss) may differ from that used when determining accounting profit. The temporary difference is the difference between the carrying amount of the asset and its tax base, which is the original cost of the asset less all deductions in respect of that asset permitted by the taxation authorities when

determining taxable profit of the current and prior periods. A taxable temporary difference arises, and results in a deferred tax liability, when tax depreciation is accelerated. If the tax depreciation is less rapid than the accounting depreciation, a deductible temporary difference arises resulting in a deferred tax asset (see paragraph 29.16).

Deductible temporary differences

29.16 A deferred tax asset shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or a liability in a transaction that:

- (a) is not a business combination; and
- (b) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

However, for deductible temporary differences associated with investments in subsidiaries, branches and associates and for interests in joint ventures, a deferred tax asset shall be recognised in accordance with paragraph 29.26.

29.17 The following are examples of deductible temporary differences that result in deferred tax assets:

- (a) retirement benefit costs may be deducted when determining accounting profit at the time that the service is provided by the employee, but deducted when determining taxable profit either when contributions are paid to a fund by the entity or when retirement benefits are paid by the entity. A temporary difference exists between the carrying amount of the liability and its tax base; the tax base of the liability is usually nil. Such a deductible temporary difference results in a deferred tax asset because economic benefits will flow to the entity in the form of a deduction from taxable profits when contributions or retirement benefits are paid.
- (b) certain assets may be carried at fair value, without an equivalent adjustment being made for tax purposes. A deductible temporary difference arises if the tax base of the asset exceeds its carrying amount.

29.18 The reversal of deductible temporary differences results in deductions when taxable profits of future periods are determined. It is probable that taxable profit will be available against which a deductible temporary difference can be utilised when there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity that are expected to reverse:

- (a) in the same period as the expected reversal of the deductible temporary difference; or
- (b) in periods into which a tax loss arising from the deferred tax asset can be carried back or forward.

In such circumstances, the deferred tax asset is recognised in the period in which the deductible temporary differences arise.

- 29.19 When there are insufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, the deferred tax asset is recognised to the extent that:
- (a) it is probable that the entity will have sufficient taxable profit relating to the same taxation authority and the same taxable entity in the same period as the reversal of the deductible temporary difference (or in the periods into which a tax loss arising from the deferred tax asset can be carried back or forward). When evaluating whether it will have sufficient taxable profit in future periods, an entity ignores taxable amounts arising from deductible temporary differences that are expected to originate in future periods, because the deferred tax asset arising from those deductible temporary differences will itself require future taxable profit in order to be utilised.
 - (b) tax planning opportunities are available to the entity that will create taxable profit in appropriate periods.
- 29.20 When an entity has a history of recent losses, the entity considers the guidance in paragraphs 29.21–29.22.

Unused tax losses and unused tax credits

- 29.21 A deferred tax asset shall be recognised for the carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. When assessing the probability that taxable profit will be available against which the unused tax losses or unused tax credits can be utilised, an entity considers the following criteria:
- (a) whether the entity has sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, which will result in taxable amounts against which the unused tax losses or unused tax credits can be utilised before they expire;
 - (b) whether it is probable that the entity will have taxable profits before the unused tax losses or unused tax credits expire;
 - (c) whether the unused tax losses result from identifiable causes which are unlikely to recur; and
 - (d) whether tax planning opportunities are available to the entity that will create taxable profit in the period in which the unused tax losses or unused tax credits can be utilised.

To the extent that it is not probable that taxable profit will be available against which the unused tax losses or unused tax credits can be utilised, the deferred tax asset is not recognised.

- 29.22 The existence of unused tax losses is strong evidence that future taxable profit may not be available. Consequently, when an entity has a history of recent losses, the entity recognises a deferred tax asset arising from unused tax losses or

tax credits only to the extent that the entity has sufficient taxable temporary differences or to the extent that there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilised by the entity.

Reassessment of unrecognised deferred tax assets

- 29.23 At the end of each **reporting period**, an entity reassesses any unrecognised deferred tax assets. The entity recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Investments in subsidiaries, branches and associates and interests in joint ventures

- 29.24 Temporary differences arise when the carrying amount of investments in subsidiaries, branches and associates and interests in joint ventures (for example, in the **parent's** consolidated financial statements the carrying amount of a subsidiary is the net consolidated assets of that subsidiary, including the carrying amount of any related goodwill) becomes different from the tax base (which is often cost) of the investment or interest. Such differences may arise in a number of different circumstances, for example:

- (a) the existence of undistributed profits of subsidiaries, branches, associates and joint ventures;
- (b) changes in foreign exchange rates when a parent and its subsidiary are based in different countries; and
- (c) a reduction in the carrying amount of an investment in an associate to its **recoverable amount**.

Investments may be accounted for differently in the parent's **separate financial statements** compared to the consolidated financial statements, in which case the temporary difference associated with that investment may also differ. For example, in the parent's separate financial statement the carrying amount of a subsidiary will depend on the accounting policy chosen in paragraph 9.26.

- 29.25 An entity shall recognise a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, except to the extent that both of the following conditions are satisfied:

- (a) the parent, investor or **venturer** is able to control the timing of the reversal of the temporary difference; and
- (b) it is probable that the temporary difference will not reverse in the foreseeable future.

- 29.26 An entity shall recognise a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries, branches and associates and interests in joint ventures, only to the extent that it is probable that:

- (a) the temporary difference will reverse in the foreseeable future; and

- (b) taxable profit will be available against which the temporary difference can be utilised.

Measurement of deferred tax

- 29.27 An entity shall measure a deferred tax liability (asset) using the tax rates and tax laws that have been enacted or substantively enacted by the reporting date. An entity shall regard tax rates and tax laws as substantively enacted when the remaining steps in the enactment process have not affected the outcome in the past and are unlikely to do so.
- 29.28 When different tax rates apply to different levels of taxable profit, an entity shall measure deferred tax liabilities (assets) using the average enacted or substantively enacted rates that it expects to be applicable to the taxable profit (tax loss) of the periods in which it expects the deferred tax liability to be settled (deferred tax asset to be realised).
- 29.29 The measurement of deferred tax liabilities and deferred tax assets shall reflect 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. Consequently, an entity measures deferred tax liabilities and deferred tax assets using the tax rate and the tax base that are consistent with the expected manner of recovery or settlement. For example, if the temporary difference arises from an item of income that is expected to be taxable as a capital **gain** in a future period, the deferred **tax expense** is measured using the capital gain tax rate and the tax base that is consistent with recovering the carrying amount through sale.
- 29.30 If a deferred tax liability or deferred tax asset arises from a non-depreciable asset measured using the revaluation model in Section 17, the measurement of the deferred tax liability or deferred tax asset shall reflect the tax consequences of recovering the carrying amount of the non-depreciable asset through sale. If a deferred tax liability or asset arises from **investment property** that is measured at fair value, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale. Accordingly, unless the presumption is rebutted, the measurement of the deferred tax liability or the deferred tax asset shall reflect the tax consequences of recovering the carrying amount of the investment property entirely through sale. This presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, instead of through sale. If the presumption is rebutted, the requirements of paragraph 29.29 shall be followed.
- 29.31 The carrying amount of a deferred tax asset shall be reviewed at the end of each reporting period. An entity shall reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that recognised deferred tax asset to be utilised. Any such reduction shall be reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Measurement of both current and deferred tax

- 29.32 An entity shall not discount current or deferred tax assets and liabilities.
- 29.33 In some jurisdictions, income tax is payable at a higher or lower rate if part or all of the profit or retained earnings is paid out as a dividend to shareholders of the entity. In other jurisdictions, income tax may be refundable or payable if part or all of the profit or retained earnings is paid out as a dividend to shareholders of the entity. In both of those circumstances, an entity shall measure current and deferred tax at the tax rate applicable to undistributed profits until the entity recognises a liability to pay a dividend. When the entity recognises a liability to pay a dividend, it shall recognise the resulting current or deferred tax liability (asset) and the related tax expense (income).

Withholding tax on dividends

- 29.34 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.

Presentation

Allocation in comprehensive income and equity

- 29.35 An entity shall recognise tax expense in the same component of **total comprehensive income** (ie continuing operations, **discontinued operations** or **other comprehensive income**) or equity as the transaction or other event that resulted in the tax expense.

Current/non-current distinction

- 29.36 When an entity presents current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position, it shall not classify any deferred tax assets (liabilities) as current assets (liabilities).

Offsetting

- 29.37 An entity shall offset current tax assets and current tax liabilities, or offset deferred tax assets and deferred tax liabilities if, and only if, it has a legally enforceable right to set off the amounts and the entity can demonstrate without undue cost or effort that it plans either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Disclosures

- 29.38 An entity shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of the current and deferred tax consequences of recognised transactions and other events.

- 29.39 An entity shall disclose separately the major components of tax expense (income). Such components of tax expense (income) may include:
- (a) current tax expense (income);
 - (b) any adjustments recognised in the period for current tax of prior periods;
 - (c) the amount of deferred tax expense (income) relating to the origination and reversal of temporary differences;
 - (d) the amount of deferred tax expense (income) relating to changes in tax rates or the imposition of new taxes;
 - (e) the amount of the benefit arising from a previously unrecognised tax loss, tax credit or temporary difference of a prior period that is used to reduce tax expense;
 - (f) adjustments to deferred tax expense (income) arising from a change in the tax status of the entity or its shareholders;
 - (g) deferred tax expense (income) arising from the write-down, or reversal of a previous write-down, of a deferred tax asset in accordance with paragraph 29.31; and
 - (h) the amount of tax expense (income) relating to those changes in **accounting policies** and **errors** that are included in **profit or loss** in accordance with Section 10 *Accounting Policies, Estimates and Errors*, because they cannot be accounted for retrospectively.
- 29.40 An entity shall disclose the following separately:
- (a) the aggregate current and deferred tax relating to items that are recognised as items of other comprehensive income.
 - (b) the aggregate current and deferred tax relating to items that are charged or credited directly to equity.
 - (c) an explanation of any significant differences between the tax expense (income) and accounting profit multiplied by the applicable tax rate. For example such differences may arise from transactions such as revenue that are exempt from taxation or expenses that are not deductible in determining taxable profit (tax loss).
 - (d) an explanation of changes in the applicable tax rate(s) compared with the previous reporting period.
 - (e) for each type of temporary difference and for each type of unused tax losses and tax credits:
 - (i) the amount of deferred tax liabilities and deferred tax assets at the end of the reporting period; and
 - (ii) an analysis of the change in deferred tax liabilities and deferred tax assets during the period.
 - (f) the amount (and expiry date, if any) of deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax asset is recognised in the statement of financial position.

- (g) in the circumstances described in paragraph 29.33, an explanation of the nature of the potential income tax consequences that would result from the payment of dividends to its shareholders.

29.41 If an entity does not offset tax assets and liabilities in accordance with paragraph 29.37 because it is unable to demonstrate without undue cost or effort that it plans to settle them on a net basis or realise them simultaneously, the entity shall disclose the amounts that have not been offset and the reasons why applying the requirement would involve undue cost or effort.

Section 30 *Foreign Currency Translation*

Scope of this section

- 30.1 An entity can conduct foreign activities in two ways. It may have transactions in foreign currencies or it may have **foreign operations**. In addition, an entity may present its **financial statements** in a foreign currency. This section prescribes how to include foreign currency transactions and foreign operations in the financial statements of an entity and how to translate financial statements into a **presentation currency**. Accounting for **financial instruments** that derive their value from the change in a specified foreign exchange rate (for example, foreign currency forward exchange contracts) and hedge accounting of foreign currency items are dealt with in Section 12 *Other Financial Instrument Issues*.

Functional currency

- 30.2 Each entity shall identify its **functional currency**. An entity's functional currency is the currency of the primary economic environment in which the entity operates.
- 30.3 The primary economic environment in which an entity operates is normally the one in which it primarily generates and expends cash. Consequently, the following are the most important factors an entity considers in determining its functional currency:
- (a) the currency:
 - (i) that mainly influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled); and
 - (ii) of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services.
 - (b) the currency that mainly influences labour, material and other costs of providing goods or services (this will often be the currency in which such costs are denominated and settled).
- 30.4 The following factors may also provide evidence of an entity's functional currency:
- (a) the currency in which funds from financing activities (issuing debt and **equity** instruments) are generated; and
 - (b) the currency in which receipts from operating activities are usually retained.
- 30.5 The following additional factors are considered in determining the functional currency of a foreign operation, and whether its functional currency is the same as that of the reporting entity (the reporting entity, in this context, being the entity that has the foreign operation as its **subsidiary**, branch, **associate** or **joint venture**):

- (a) whether the activities of the foreign operation are carried out as an extension of the reporting entity, instead of being carried out with a significant degree of autonomy. An example of the former is when the foreign operation only sells goods imported from the reporting entity and remits the proceeds to it. An example of the latter is when the operation accumulates cash and other **monetary items**, incurs **expenses**, generates **income** and arranges borrowings, all substantially in its local currency.
- (b) whether transactions with the reporting entity are a high or a low proportion of the foreign operation's activities.
- (c) whether cash flows from the activities of the foreign operation directly affect the cash flows of the reporting entity and are readily available for remittance to it.
- (d) whether cash flows from the activities of the foreign operation are sufficient to service existing and normally expected debt obligations without funds being made available by the reporting entity.

Reporting foreign currency transactions in the functional currency

Initial recognition

- 30.6 A foreign currency transaction is a transaction that is denominated or requires settlement in a foreign currency, including transactions arising when an entity:
- (a) buys or sells goods or services whose price is denominated in a foreign currency;
 - (b) borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency; or
 - (c) otherwise acquires or disposes of **assets**, or incurs or settles **liabilities**, denominated in a foreign currency.
- 30.7 An entity shall record a foreign currency transaction, on initial **recognition** in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.
- 30.8 The date of a transaction is the date on which the transaction first qualifies for recognition in accordance with this Standard. For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used, for example, an average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.

Reporting at the end of the subsequent reporting periods

- 30.9 At the end of each **reporting period**, an entity shall:
- (a) translate foreign currency monetary items using the closing rate;

- (b) translate non-monetary items that are measured in terms of historical cost in a foreign currency using the exchange rate at the date of the transaction; and
 - (c) translate non-monetary items that are measured at **fair value** in a foreign currency using the exchange rates at the date when the fair value was determined.
- 30.10 An entity shall recognise, in **profit or loss** in the period in which they arise, exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous periods, except as described in paragraph 30.13.
- 30.11 When another section of this Standard requires a **gain** or loss on a non-monetary item to be recognised in **other comprehensive income**, an entity shall recognise any exchange component of that gain or loss in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, an entity shall recognise any exchange component of that gain or loss in profit or loss.

Net investment in a foreign operation

- 30.12 An entity may have a monetary item that is receivable from or payable to a foreign operation. An item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the entity's net investment in that foreign operation, and is accounted for in accordance with paragraph 30.13. Such monetary items may include long-term receivables or loans. They do not include trade receivables or trade payables.
- 30.13 Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation shall be recognised in profit or loss in the **separate financial statements** of the reporting entity or the individual financial statements of the foreign operation, as appropriate. In the financial statements that include the foreign operation and the reporting entity (for example, **consolidated financial statements** when the foreign operation is a subsidiary), such exchange differences shall be recognised in other comprehensive income and reported as a component of equity. They shall not be recognised in profit or loss on disposal of the net investment.

Change in functional currency

- 30.14 When there is a change in an entity's functional currency, the entity shall apply the translation procedures applicable to the new functional currency prospectively from the date of the change.
- 30.15 As noted in paragraphs 30.2–30.5, the functional currency of an entity reflects the underlying transactions, events and conditions that are relevant to the entity. Accordingly, once the functional currency is determined, it can be changed only if there is a change to those underlying transactions, events and

conditions. For example, a change in the currency that mainly influences the sales prices of goods and services may lead to a change in an entity's functional currency.

- 30.16 The effect of a change in functional currency is accounted for prospectively. In other words, an entity translates all items into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for non-monetary items are treated as their historical cost.

Use of a presentation currency other than the functional currency

Translation to the presentation currency

- 30.17 An entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the entity's functional currency, the entity shall translate its items of income and expense and **financial position** into the presentation currency. For example, when a **group** contains individual entities with different functional currencies, the items of income and expense and financial position of each entity are expressed in a common currency so that consolidated financial statements may be presented.
- 30.18 An entity whose functional currency is not the currency of a hyperinflationary economy shall translate its results and financial position into a different presentation currency using the following procedures:
- (a) assets and liabilities for each **statement of financial position** presented (ie including comparatives) shall be translated at the closing rate at the date of that statement of financial position;
 - (b) income and expenses for each **statement of comprehensive income** (ie including comparatives) shall be translated at exchange rates at the dates of the transactions; and
 - (c) all resulting exchange differences shall be recognised in other comprehensive income and reported as a component of equity. They shall not subsequently be reclassified to profit or loss.
- 30.19 For practical reasons, an entity may use a rate that approximates the exchange rates at the dates of the transactions, for example an average rate for the period, to translate income and expense items. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.
- 30.20 The exchange differences referred to in paragraph 30.18(c) result from:
- (a) translating income and expenses at the exchange rates at the dates of the transactions and assets and liabilities at the closing rate; and
 - (b) translating the opening net assets at a closing rate that differs from the previous closing rate.

When the exchange differences relate to a foreign operation that is consolidated but not wholly-owned, accumulated exchange differences arising from

translation and attributable to the **non-controlling interest** are allocated to, and recognised as part of, non-controlling interest in the consolidated statement of financial position.

- 30.21 An entity whose functional currency is the currency of a hyperinflationary economy shall translate its results and financial position into a different presentation currency using the procedures specified in Section 31 *Hyperinflation*.

Translation of a foreign operation into the investor's presentation currency

- 30.22 In incorporating the assets, liabilities, income and expenses of a foreign operation with those of the reporting entity, the entity shall follow normal consolidation procedures, such as the elimination of intragroup balances and intragroup transactions of a subsidiary (see Section 9 *Consolidated and Separate Financial Statements*) and the translation procedures set out in paragraphs 30.17–30.21. However, an intragroup monetary asset (or liability), whether short-term or long-term, cannot be eliminated against the corresponding intragroup liability (or asset) without showing the results of currency fluctuations in the consolidated financial statements. This is because the monetary item represents a commitment to convert one currency into another and exposes the reporting entity to a gain or loss through currency fluctuations. Accordingly, in the consolidated financial statements, a reporting entity continues to recognise such an exchange difference in profit or loss or, if it arises from the circumstances described in paragraph 30.13, the entity shall recognise it as other comprehensive income.
- 30.23 Any **goodwill** arising on the acquisition of a foreign operation and any fair value adjustments to the **carrying amounts** of assets and liabilities arising on the acquisition of that foreign operation shall be treated as assets and liabilities of the foreign operation. Thus, they shall be expressed in the functional currency of the foreign operation and shall be translated at the closing rate in accordance with paragraph 30.18.

Disclosures

- 30.24 In paragraphs 30.26 and 30.27, references to 'functional currency' apply, in the case of a group, to the functional currency of the **parent**.
- 30.25 An entity shall disclose the following:
- (a) the amount of exchange differences recognised in profit or loss during the period, except for those arising on financial instruments measured at fair value through profit or loss in accordance with Section 11 *Basic Financial Instruments* and Section 12; and
 - (b) the amount of exchange differences arising during the period and classified in a separate component of equity at the end of the period.
- 30.26 An entity shall disclose the currency in which the financial statements are presented. When the presentation currency is different from the functional currency, an entity shall state that fact and shall disclose the functional currency and the reason for using a different presentation currency.

- 30.27 When there is a change in the functional currency of either the reporting entity or a significant foreign operation, the entity shall disclose that fact and the reason for the change in functional currency.

Section 31 *Hyperinflation*

Scope of this section

- 31.1 This section applies to an entity whose **functional currency** is the currency of a hyperinflationary economy. It requires such an entity to prepare **financial statements** that have been adjusted for the effects of hyperinflation.

Hyperinflationary economy

- 31.2 This section does not establish an absolute rate at which an economy is deemed hyperinflationary. An entity shall make that judgement by considering all available information including, but not limited to, the following possible indicators of hyperinflation:
- (a) the general population prefers to keep its wealth in non-monetary **assets** or in a relatively stable foreign currency. Amounts of local currency held are immediately invested to maintain purchasing power.
 - (b) the general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency. Prices may be quoted in that currency.
 - (c) sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short.
 - (d) interest rates, wages and prices are linked to a price index.
 - (e) the cumulative inflation rate over three years is approaching, or exceeds, 100 per cent.

Measuring unit in the financial statements

- 31.3 All amounts in the financial statements of an entity whose functional currency is the currency of a hyperinflationary economy shall be stated in terms of the measuring unit current at the end of the **reporting period**. The comparative information for the previous period required by paragraph 3.14, and any information presented in respect of earlier periods, shall also be stated in terms of the measuring unit current at the **reporting date**.
- 31.4 The restatement of financial statements in accordance with this section requires the use of a general price index that reflects changes in general purchasing power. In most economies there is a recognised general price index, normally produced by the government, that entities will follow.

Procedures for restating historical cost financial statements

Statement of financial position

- 31.5 **Statement of financial position** amounts not expressed in terms of the measuring unit current at the end of the reporting period are restated by applying a general price index.
- 31.6 **Monetary items** are not restated because they are expressed in terms of the measuring unit current at the end of the reporting period. Monetary items are money held and items to be received or paid in money.
- 31.7 Assets and **liabilities** linked by agreement to changes in prices, such as index-linked bonds and loans, are adjusted in accordance with the agreement and presented at this adjusted amount in the restated statement of financial position.
- 31.8 All other assets and liabilities are non-monetary:
- (a) some non-monetary items are carried at amounts current at the end of the reporting period, such as net realisable value and **fair value**, so they are not restated. All other non-monetary assets and liabilities are restated.
 - (b) most non-monetary items are carried at cost or cost less **depreciation**; hence they are expressed at amounts current at their date of acquisition. The restated cost, or cost less depreciation, of each item is determined by applying to its historical cost and accumulated depreciation the change in a general price index from the date of acquisition to the end of the reporting period.
 - (ba) some non-monetary items are carried at amounts current at dates other than that of acquisition or the reporting date, for example, **property, plant and equipment** that has been revalued at some earlier date. In these cases, the **carrying amounts** are restated from the date of the revaluation.
 - (c) the restated amount of a non-monetary item is reduced, in accordance with Section 27 *Impairment of Assets*, when it exceeds its **recoverable amount**.
- 31.9 At the beginning of the first period of application of this section, the components of **equity**, except retained earnings and any revaluation surplus, are restated by applying a general price index from the dates the components were contributed or otherwise arose. Any revaluation surplus that arose in previous periods is eliminated. Restated retained earnings are derived from all the other amounts in the restated statement of financial position.
- 31.10 At the end of the first period and in subsequent periods, all components of **owners' equity** are restated by applying a general price index from the beginning of the period or the date of contribution, if later. The changes for the period in owners' equity are disclosed in accordance with Section 6 *Statement of Changes in Equity and Statement of Income and Retained Earnings*.

Statement of comprehensive income and income statement

- 31.11 All items in the **statement of comprehensive income** (and in the **income statement**, if presented) shall be expressed in terms of the measuring unit current at the end of the reporting period. Consequently, all amounts need to be restated by applying the change in the general price index from the dates when the items of **income** and **expenses** were initially recognised in the financial statements. If general inflation is approximately even throughout the period, and the items of income and expense arose approximately evenly throughout the period, an average rate of inflation may be appropriate.

Statement of cash flows

- 31.12 An entity shall express all items in the **statement of cash flows** in terms of the measuring unit current at the end of the reporting period.

Gain or loss on net monetary position

- 31.13 In a period of inflation, an entity holding an excess of monetary assets over monetary liabilities loses purchasing power, and an entity with an excess of monetary liabilities over monetary assets **gains** purchasing power, to the extent the assets and liabilities are not linked to a price level. An entity shall include in **profit or loss** the gain or loss on the net monetary position. An entity shall offset the adjustment to those assets and liabilities linked by agreement to changes in prices made in accordance with paragraph 31.7 against the gain or loss on net monetary position.

Economies ceasing to be hyperinflationary

- 31.14 When an economy ceases to be hyperinflationary and an entity discontinues the preparation and presentation of financial statements prepared in accordance with this section, it shall treat the amounts expressed in the **presentation currency** at the end of the previous reporting period as the basis for the carrying amounts in its subsequent financial statements.

Disclosures

- 31.15 An entity to which this section applies shall disclose the following:
- (a) the fact that financial statements and other prior period data have been restated for changes in the general purchasing power of the functional currency;
 - (b) the identity and level of the price index at the reporting date and changes during the current reporting period and the previous reporting period; and
 - (c) amount of gain or loss on monetary items.

Section 32 *Events after the End of the Reporting Period*

Scope of this section

- 32.1 This section defines events after the end of the **reporting period** and sets out principles for recognising, measuring and disclosing those events.

Events after the end of the reporting period defined

- 32.2 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 when the **financial statements** are authorised for issue. There are two types of events:
- (a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the end of the reporting period); and
 - (b) those that are indicative of conditions that arose after the end of the reporting period (non-adjusting events after the end of the reporting period).
- 32.3 Events after the end of the reporting period include all events up to the date when the financial statements are authorised for issue, even if those events occur after the public announcement of **profit or loss** or other selected financial information.

Recognition and measurement

Adjusting events after the end of the reporting period

- 32.4 An entity shall adjust the amounts recognised in its financial statements, including related disclosures, to reflect adjusting events after the end of the reporting period.
- 32.5 The following are examples of adjusting events after the end of the reporting period that require an entity to adjust the amounts recognised in its financial statements, or to recognise items that were not previously recognised:
- (a) the settlement after the end of the reporting period of a court case that confirms that the entity had a present obligation at the end of the reporting period. The entity adjusts any previously recognised **provision** related to this court case in accordance with Section 21 *Provisions and Contingencies* or recognises a new provision. The entity does not merely disclose a **contingent liability**. Instead, the settlement provides additional evidence to be considered in determining the provision that should be recognised at the end of the reporting period in accordance with Section 21.

- (b) the receipt of information after the end of the reporting period indicating that an **asset** was impaired at the end of the reporting period or that the amount of a previously recognised **impairment loss** for that asset needs to be adjusted. For example:
 - (i) the bankruptcy of a customer that occurs after the end of the reporting period usually confirms that a loss existed at the end of the reporting period on a trade receivable and that the entity needs to adjust the **carrying amount** of the trade receivable; and
 - (ii) the sale of **inventories** after the end of the reporting period may give evidence about their selling price at the end of the reporting period for the purpose of assessing impairment at that date.
- (c) the determination after the end of the reporting period of the cost of assets purchased, or the proceeds from assets sold, before the end of the reporting period.
- (d) the determination after the end of the reporting period of the amount of profit-sharing or bonus payments, if the entity had a legal or **constructive obligation** at the end of the reporting period to make such payments as a result of events before that date (see Section 28 *Employee Benefits*).
- (e) the discovery of fraud or **errors** that show that the financial statements are incorrect.

Non-adjusting events after the end of the reporting period

- 32.6 An entity shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the end of the reporting period.
- 32.7 Examples of non-adjusting events after the end of the reporting period include:
- (a) a decline in market value of investments between the end of the reporting period and the date when the financial statements are authorised for issue. The decline in market value does not normally relate to the condition of the investments at the end of the reporting period, but reflects circumstances that have arisen subsequently. Consequently, an entity does not adjust the amounts recognised in its financial statements for the investments. Similarly, the entity does not update the amounts disclosed for the investments as at the end of the reporting period, although it may need to give additional disclosure in accordance with paragraph 32.10.
 - (b) an amount that becomes receivable as a result of a favourable judgement or settlement of a court case after the **reporting date** but before the financial statements are authorised for issue. This would be a **contingent asset** at the reporting date (see paragraph 21.13) and disclosure may be required by paragraph 21.16. However, agreement on the amount of damages for a judgement that was reached before the reporting date, but was not previously recognised because the amount could not be measured reliably, may constitute an adjusting event.

Dividends

- 32.8 If an entity declares dividends to holders of its **equity** instruments after the end of the reporting period, the entity shall not recognise those dividends as a **liability** at the end of the reporting period. The amount of the dividend may be presented as a segregated component of retained earnings at the end of the reporting period.

Disclosure

Date of authorisation for issue

- 32.9 An entity shall disclose the date when the financial statements were authorised for issue and who gave that authorisation. If the entity's **owners** or others have the power to amend the financial statements after issue, the entity shall disclose that fact.

Non-adjusting events after the end of the reporting period

- 32.10 An entity shall disclose the following for each category of non-adjusting event after the end of the reporting period:
- (a) the nature of the event; and
 - (b) an estimate of its financial effect or a statement that such an estimate cannot be made.
- 32.11 The following are examples of non-adjusting events after the end of the reporting period that would generally result in disclosure; the disclosures will reflect information that becomes known after the end of the reporting period but before the financial statements are authorised for issue:
- (a) a major **business combination** or disposal of a major **subsidiary**;
 - (b) announcement of a plan to discontinue an operation;
 - (c) major purchases of assets, disposals or plans to dispose of assets, or expropriation of major assets by government;
 - (d) the destruction of a major production plant by a fire;
 - (e) announcement, or commencement of the implementation, of a major restructuring;
 - (f) issues or repurchases of an entity's debt or equity instruments;
 - (g) abnormally large changes in asset prices or foreign exchange rates;
 - (h) changes in tax rates or tax laws enacted or announced that have a significant effect on current and deferred tax assets and liabilities;
 - (i) entering into significant commitments or contingent liabilities, for example, by issuing significant guarantees; and
 - (j) commencement of major litigation arising solely out of events that occurred after the end of the reporting period.

Section 33 *Related Party Disclosures*

Scope of this section

- 33.1 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 defined

- 33.2 A **related party** is a person or entity that is related to the entity that is preparing its financial statements (the reporting entity):
- (a) a person or a close member of that person's family is related to a reporting entity if that person:
 - (i) is a member of the key management personnel of the reporting entity or of a **parent** of the reporting entity;
 - (ii) has **control** or **joint control** over the reporting entity; or
 - (iii) has significant influence over the reporting entity.
 - (b) an entity is related to a reporting entity if any of the following conditions applies:
 - (i) the entity and the reporting entity are members of the same **group** (which means that each parent, **subsidiary** and fellow subsidiary is related to the others).
 - (ii) one entity is an **associate** or **joint venture** of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) both entities are joint ventures of the same third entity.
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) the entity is a **post-employment benefit plan** for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
 - (vi) the entity is controlled or jointly controlled by a person identified in (a).
 - (vii) the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.
 - (viii) a person identified in (a)(ii) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

- 33.3 In considering each possible related party relationship, an entity shall assess the substance of the relationship and not merely the legal form.
- 33.4 In the context of this Standard, the following are not necessarily related parties:
- (a) two entities simply because they have a director or other member of key management personnel in common;
 - (b) two **venturers** simply because they share joint control over a joint venture;
 - (c) any of the following simply by virtue of their normal dealings with an entity (even though they may affect the freedom of action of an entity or participate in its decision-making process):
 - (i) providers of finance;
 - (ii) trade unions;
 - (iii) public utilities; or
 - (iv) government departments and agencies.
 - (d) a customer, supplier, franchisor, distributor or general agent with whom an entity transacts a significant volume of business, merely by virtue of the resulting economic dependence.

Disclosures

Disclosure of parent-subsidiary relationships

- 33.5 Relationships between a parent and its subsidiaries shall be disclosed irrespective of whether there have been **related party transactions**. An entity shall disclose the name of its parent and, if different, the ultimate controlling party. If neither the entity's parent nor the ultimate controlling party produces financial statements available for public use, the name of the next most senior parent that does so (if any) shall also be disclosed.

Disclosure of key management personnel compensation

- 33.6 Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. Compensation includes all employee benefits (as defined in Section 28 *Employee Benefits*) including those in the form of share-based payment (see Section 26 *Share-based Payment*). Employee benefits include all forms of consideration paid, payable or provided by the entity, or on behalf of the entity (for example, by its parent or by a shareholder), in exchange for services rendered to the entity. It also includes such consideration paid on behalf of a parent of the entity in respect of goods or services provided to the entity.
- 33.7 An entity shall disclose key management personnel compensation in total.

Disclosure of related party transactions

- 33.8 A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged. Examples of related party transactions that are common to SMEs include, but are not limited to:
- (a) transactions between an entity and its principal **owner(s)**;
 - (b) transactions between an entity and another entity when both entities are under the common control of a single entity or person; and
 - (c) transactions in which an entity or person that controls the reporting entity incurs **expenses** directly that otherwise would have been borne by the reporting entity.
- 33.9 If an entity has related party transactions, it shall disclose the nature of the related party relationship as well as information about the transactions, outstanding balances and commitments necessary for an understanding of the potential effect of the relationship on the financial statements. Those disclosure requirements are in addition to the requirements in paragraph 33.7 to disclose key management personnel compensation. At a minimum, disclosures shall include:
- (a) the amount of the transactions;
 - (b) the amount of outstanding balances and:
 - (i) their terms and conditions, including whether they are secured and the nature of the consideration to be provided in settlement; and
 - (ii) details of any guarantees given or received.
 - (c) provisions for uncollectable receivables related to the amount of outstanding balances; and
 - (d) the expense recognised during the period in respect of bad or doubtful debts due from related parties.
- Such transactions could include purchases, sales or transfers of goods or services; **leases**; guarantees; and settlements by the entity on behalf of the related party or vice versa.
- 33.10 An entity shall make the disclosures required by paragraph 33.9 separately for each of the following categories:
- (a) entities with control, joint control or significant influence over the entity;
 - (b) entities over which the entity has control, joint control or significant influence;
 - (c) key management personnel of the entity or its parent (in the aggregate); and
 - (d) other related parties.

33.11 An entity is exempt from the disclosure requirements of paragraph 33.9 in relation to:

- (a) a **state** (a national, regional or local government) that has control, joint control or significant influence over the reporting entity; and
- (b) another entity that is a related party because the same state has control, joint control or significant influence over both the reporting entity and the other entity.

However, the entity must still disclose a parent-subsidiary relationship as required by paragraph 33.5.

33.12 The following are examples of transactions that shall be disclosed if they are with a related party:

- (a) purchases or sales of goods (finished or unfinished);
- (b) purchases or sales of property and other **assets**;
- (c) rendering or receiving of services;
- (d) leases;
- (e) transfers of **research** and **development**;
- (f) transfers under licence agreements;
- (g) transfers under finance arrangements (including loans and equity contributions in cash or in kind);
- (h) provision of guarantees or collateral;
- (i) settlement of **liabilities** on behalf of the entity or by the entity on behalf of another party; and
- (j) participation by a parent or subsidiary in a **defined benefit plan** that shares risks between group entities.

33.13 An entity shall not state that related party transactions were made on terms equivalent to those that prevail in arm's length transactions unless such terms can be substantiated.

33.14 An entity may disclose items of a similar nature in the aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity.

Section 34 Specialised Activities

Scope of this section

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

Agriculture

- 34.2 An entity using this Standard that is engaged in **agricultural activity** shall determine its accounting policy for each class of its **biological assets** as follows:
- (a) the entity shall use the **fair value** model in paragraphs 34.4–34.7 for those biological assets for which fair value is readily determinable without undue cost or effort; and
 - (b) the entity shall use the cost model in paragraphs 34.8–34.10 for all other biological assets.

Recognition

- 34.3 An entity shall recognise a biological asset or **agricultural produce** when, and only when:
- (a) the entity controls the **asset** as a result of past events;
 - (b) it is **probable** that future economic benefits associated with the asset will flow to the entity; and
 - (c) the fair value or cost of the asset can be measured reliably without undue cost or effort.

Measurement—fair value model

- 34.4 An entity shall measure a biological asset on initial **recognition** and at each **reporting date** at its **fair value less costs to sell**. Changes in fair value less costs to sell shall be recognised in **profit or loss**.
- 34.5 Agricultural produce harvested from an entity's biological assets shall be measured at its fair value less costs to sell at the point of harvest. Such **measurement** is the cost at that date when applying Section 13 *Inventories* or another applicable section of this Standard.
- 34.6 In determining fair value, an entity shall consider the following:
- (a) if an **active market** exists for a biological asset or agricultural produce in its present location and condition, the quoted price in that market is the appropriate basis for determining the fair value of that asset. If an entity has access to different active markets, the entity shall use the price existing in the market that it expects to use.
 - (b) if an active market does not exist, an entity uses one or more of the following, when available, in determining fair value:

- (i) the most recent market transaction price, provided that there has not been a significant change in economic circumstances between the date of that transaction and the end of the **reporting period**;
 - (ii) market prices for similar assets with adjustment to reflect differences; and
 - (iii) sector benchmarks such as the value of an orchard expressed per export tray, bushel or hectare and the value of cattle expressed per kilogram of meat.
- (c) in some cases, the information sources listed in (a) or (b) may suggest different conclusions as to the fair value of a biological asset or agricultural produce. An entity considers the reasons for those differences, to arrive at the most reliable estimate of fair value within a relatively narrow range of reasonable estimates.
- (d) in some circumstances, fair value may be readily determinable without undue cost or effort even though market determined prices or values are not available for a biological asset in its present condition. An entity shall consider whether the **present value** of expected net **cash flows** from the asset discounted at a current market determined rate results in a reliable measure of fair value.

Disclosures—fair value model

34.7 An entity shall disclose the following with respect to its biological assets measured at fair value:

- (a) a description of each class of its biological assets.
- (b) the methods and significant assumptions applied in determining the fair value of each category of agricultural produce at the point of harvest and each category of biological assets.
- (c) a reconciliation of changes in the **carrying amount** of biological assets between the beginning and the end of the current period. The reconciliation shall include:
 - (i) the **gain** or loss arising from changes in fair value less costs to sell;
 - (ii) increases resulting from purchases;
 - (iii) decreases resulting from harvest;
 - (iv) increases resulting from **business combinations**;
 - (v) 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
 - (vi) other changes.

This reconciliation need not be presented for prior periods.

Measurement—cost model

- 34.8 The entity shall measure at cost less any accumulated **depreciation** and any accumulated **impairment** losses those biological assets whose fair value is not readily determinable without undue cost or effort.
- 34.9 The entity shall measure agricultural produce harvested from its biological assets at fair value less estimated costs to sell at the point of harvest. Such measurement is the cost at that date when applying Section 13 or other sections of this Standard.

Disclosures—cost model

- 34.10 An entity shall disclose the following with respect to its biological assets measured using the cost model:
- (a) a description of each class of its biological assets;
 - (b) an explanation of why fair value cannot be measured reliably without undue cost or effort;
 - (c) the depreciation method used;
 - (d) the useful lives or the depreciation rates used; and
 - (e) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period.

Exploration for and evaluation of mineral resources

- 34.11 An entity using this Standard that is engaged in the exploration for, or evaluation of, mineral resources shall determine an accounting policy that specifies which expenditures are recognised as exploration and evaluation assets in accordance with paragraph 10.4 and apply the policy consistently. An entity is exempt from applying paragraph 10.5 to its **accounting policies** for the recognition and measurement of exploration and evaluation assets.
- 34.11A The following are examples of expenditures that might be included in the initial measurement of exploration and evaluation assets (the list is not exhaustive):
- (a) acquisition of rights to explore;
 - (b) topographical, geological, geochemical and geophysical studies;
 - (c) exploratory drilling;
 - (d) trenching;
 - (e) sampling; and
 - (f) activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.
- Expenditures related to the development of mineral resources shall not be recognised as exploration and evaluation assets.
- 34.11B Exploration and evaluation assets shall be measured on initial recognition at cost. After initial recognition, an entity shall apply Section 17 *Property, Plant and*

Equipment and Section 18 *Intangible Assets other than Goodwill* to the exploration and evaluation assets according to the nature of the assets acquired subject to paragraphs 34.11D–34.11F. If 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 Section 21 *Provisions and Contingencies*.

- 34.11C Exploration and evaluation assets shall be assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its **recoverable amount**. An entity shall measure, present and disclose any resulting impairment loss in accordance with Section 27 *Impairment of Assets*, except as provided by paragraph 34.11F.
- 34.11D For the purposes of exploration and evaluation assets only, paragraph 34.11E shall be applied instead of paragraphs 27.7–27.10 when identifying an exploration and evaluation asset that may be impaired. Paragraph 34.11E uses the term ‘assets’ but applies equally to separate exploration and evaluation assets or a **cash-generating unit**.
- 34.11E One or more of the following facts and circumstances indicate that an entity should test exploration and evaluation assets for impairment (the list is not exhaustive):
- (a) the period for which the entity has the right to explore in the specific area has expired during the period, or will expire in the near future, and is not expected to be renewed;
 - (b) substantive expenditure on further exploration for, and evaluation of, mineral resources in the specific area is neither budgeted nor planned;
 - (c) exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; or
 - (d) sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.
- The entity shall perform an impairment test, and recognise any impairment loss, in accordance with Section 27.
- 34.11F An entity shall determine an accounting policy for allocating exploration and evaluation assets to cash-generating units or groups of cash-generating units for the purpose of assessing such assets for impairment.

Service concession arrangements

- 34.12 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.

34.13 There are two principal categories of service concession arrangements:

- (a) in one, 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.
- (b) in the other, 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 model

34.14 The operator shall recognise a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services. The operator shall measure the financial asset at fair value. Thereafter, it shall follow Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instrument Issues* in accounting for the financial asset.

Accounting—intangible asset model

34.15 The operator shall recognise an intangible asset to the extent that it receives a right (a licence) to charge users of the public service. The operator shall initially measure the intangible asset at fair value. Thereafter, it shall follow Section 18 in accounting for the intangible asset.

Operating revenue

34.16 The operator of a service concession arrangement shall recognise, measure and disclose **revenue** in accordance with Section 23 *Revenue* for the services it performs.

Section 35 *Transition to the IFRS for SMEs*

Scope of this section

- 35.1 This section applies to a **first-time adopter of the IFRS for SMEs**, regardless of whether its previous accounting framework was **full IFRS** or another set of generally accepted accounting principles (GAAP) such as its national accounting standards or another framework such as the local income tax basis.
- 35.2 An entity that has applied the *IFRS for SMEs* in a previous **reporting period**, but whose most recent previous annual **financial statements** did not contain an explicit and unreserved statement of compliance with the *IFRS for SMEs*, must either apply this section or apply the *IFRS for SMEs* retrospectively in accordance with Section 10 *Accounting Policies, Estimates and Errors* as if the entity had never stopped applying the *IFRS for SMEs*. When such an entity does not elect to apply this section, it is still required to apply the disclosure requirements in paragraph 35.12A in addition to the disclosure requirements in Section 10.

First-time adoption

- 35.3 A first-time adopter of the *IFRS for SMEs* shall apply this section in its first financial statements that conform to this Standard.
- 35.4 An entity's first financial statements that conform to this Standard are the first annual financial statements in which the entity makes an explicit and unreserved statement in those financial statements of compliance with the *IFRS for SMEs*. Financial statements prepared in accordance with this Standard are an entity's first such financial statements if, for example, the entity:
- (a) did not present financial statements for previous periods;
 - (b) presented its most recent previous financial statements under national requirements that are not consistent with this Standard in all respects;
or
 - (c) presented its most recent previous financial statements in conformity with **full IFRS**.
- 35.5 Paragraph 3.17 defines a complete set of financial statements.
- 35.6 Paragraph 3.14 requires an entity to disclose, in a complete set of financial statements, comparative information in respect of the previous comparable period for all monetary amounts presented in the financial statements, as well as specified comparative narrative and descriptive information. An entity may present comparative information in respect of more than one comparable prior period. Consequently, an entity's **date of transition to the IFRS for SMEs** is the beginning of the earliest period for which the entity presents full comparative information in accordance with this Standard in its first financial statements that conform to this Standard.

Procedures for preparing financial statements at the date of transition

- 35.7 Except as provided in paragraphs 35.9–35.11, an entity shall on its date of transition to the *IFRS for SMEs* (ie the beginning of the earliest period presented):
- (a) recognise all **assets** and **liabilities** whose **recognition** is required by the *IFRS for SMEs*;
 - (b) not recognise items as assets or liabilities if this Standard does not permit such recognition;
 - (c) reclassify items that it recognised under its previous financial reporting framework as one type of asset, liability or component of **equity**, but are a different type of asset, liability or component of equity under this Standard; and
 - (d) apply this Standard in measuring all recognised assets and liabilities.
- 35.8 The **accounting policies** that an entity uses on adoption of this Standard may differ from those that it used for the same date using its previous financial reporting framework. The resulting adjustments arise from transactions, other events or conditions before the date of transition to this Standard. Consequently, an entity shall recognise those adjustments directly in retained earnings (or, if appropriate, another category of equity) at the date of transition to this Standard.
- 35.9 On first-time adoption of this Standard, an entity shall not retrospectively change the accounting that it followed under its previous financial reporting framework for any of the following transactions:
- (a) **derecognition of financial assets and financial liabilities.** Financial assets and liabilities derecognised under an entity's previous accounting framework before the date of transition shall not be recognised upon adoption of the *IFRS for SMEs*. Conversely, for financial assets and liabilities that would have been derecognised under the *IFRS for SMEs* in a transaction that took place before the date of transition, but that were not derecognised under an entity's previous accounting framework, an entity may choose (a) to derecognise them on adoption of the *IFRS for SMEs* or (b) to continue to recognise them until disposed of or settled.
 - (b) hedge accounting. An entity shall not change its hedge accounting before the date of transition to the *IFRS for SMEs* for hedging relationships that no longer exist at the date of transition. For hedging relationships that exist at the date of transition, the entity shall follow the hedge accounting requirements of Section 12 *Other Financial Instrument Issues*, including the requirements for discontinuing hedge accounting for hedging relationships that do not meet the conditions of Section 12.
 - (c) accounting estimates.
 - (d) **discontinued operations.**

- (e) measuring **non-controlling interests**. The requirements of paragraph 5.6 to allocate **profit or loss** and **total comprehensive income** between non-controlling interest and **owners** of the **parent** shall be applied prospectively from the date of transition to the *IFRS for SMEs* (or from such earlier date as this Standard is applied to restate **business combinations**—see paragraph 35.10(a)).
- (f) government loans. A first-time adopter shall apply the requirements in Section 11 *Basic Financial Instruments*, Section 12 and Section 24 *Government Grants* prospectively to government loans existing at the date of transition to this Standard. Consequently, if a first-time adopter did not, under its previous GAAP, recognise and measure a government loan on a basis that is consistent with this Standard, it shall use its previous GAAP **carrying amount** of the loan at the date of transition to this Standard as the carrying amount of the loan at that date and shall not recognise the benefit of any government loan at a below-market rate of interest as a **government grant**.

35.10 An entity may use one or more of the following exemptions in preparing its first financial statements that conform to this Standard:

- (a) business combinations. A first-time adopter may elect not to apply Section 19 *Business Combinations and Goodwill* to business combinations that were effected before the date of transition to this Standard. However, if a first-time adopter restates any business combination to comply with Section 19, it shall restate all later business combinations.
- (b) **share-based payment transactions**. A first-time adopter is not required to apply Section 26 *Share-based Payment* to equity instruments that were granted before the date of transition to this Standard, or to liabilities arising from share-based payment transactions that were settled before the date of transition to this Standard.
- (c) **fair value** as deemed cost. A first-time adopter may elect to measure an item of **property, plant and equipment**, an **investment property** or an **intangible asset** on the date of transition to this Standard at its fair value and use that fair value as its deemed cost at that date.
- (d) revaluation as deemed cost. A first-time adopter may elect to use a previous GAAP revaluation of an item of property, plant and equipment, an investment property or an intangible asset at, or before, the date of transition to this Standard as its deemed cost at the revaluation date.
- (da) event-driven fair value **measurement** as deemed cost. A first-time adopter may have established a deemed cost in accordance with its previous GAAP for some or all of its assets and liabilities by measuring them at their fair value at one particular date because of an event, for example, a valuation of the business, or parts of the business, for the purposes of a planned sale. If the measurement date:
 - (i) is at or before the date of transition to this Standard, the entity may use such event-driven fair value measurements as deemed cost at the date of that measurement.

- (ii) is after the date of transition to this Standard, but during the periods covered by the first financial statements that conform to this Standard, the event-driven fair value measurements may be used as deemed cost when the event occurs. An entity shall recognise the resulting adjustments directly in retained earnings (or, if appropriate, another category of equity) at the measurement date. At the date of transition to this Standard, the entity shall either establish the deemed cost by applying the criteria in paragraph 35.10(c)–(d) or measure those assets and liabilities in accordance with the other requirements in this section.
- (e) cumulative translation differences. Section 30 *Foreign Currency Translation* requires an entity to classify some translation differences as a separate component of equity. A first-time adopter may elect to deem the cumulative translation differences for all **foreign operations** to be zero at the date of transition to the *IFRS for SMEs* (ie a ‘fresh start’).
- (f) **separate financial statements.** When an entity prepares separate financial statements, paragraph 9.26 requires it to account for its investments in **subsidiaries, associates** and jointly controlled entities either:
 - (i) at cost less **impairment**;
 - (ii) at fair value with changes in fair value recognised in profit or loss; or
 - (iii) using the equity method following the procedures in paragraph 14.8.

If a first-time adopter measures such an investment at cost, it shall measure that investment at one of the following amounts at the date of transition:

 - (i) cost determined in accordance with Section 9 *Consolidated and Separate Financial Statements*; or
 - (ii) deemed cost, which shall be either fair value at the date of transition to the *IFRS for SMEs* or previous GAAP carrying amount on that date.
- (g) **compound financial instruments.** Paragraph 22.13 requires an entity to split a compound financial instrument into its liability and equity components at the date of issue. A first-time adopter need not separate those two components if the liability component is not outstanding at the date of transition to this Standard.
- (h) deferred income tax. A first-time adopter may apply Section 29 *Income Tax* prospectively from the date of transition to the *IFRS for SMEs*.
- (i) **service concession arrangements.** A first-time adopter is not required to apply paragraphs 34.12–34.16 to service concession arrangements entered into before the date of transition to this Standard.

- (j) extractive activities. A first-time adopter using full cost accounting under previous GAAP may elect to measure oil and gas assets (those used in the exploration, evaluation, development or production of oil and gas) on the date of transition to the *IFRS for SMEs* at the amount determined under the entity's previous GAAP. The entity shall test those assets for impairment at the date of transition to this Standard in accordance with Section 27 *Impairment of Assets*.
- (k) arrangements containing a **lease**. A first-time adopter may elect to determine whether an arrangement existing at the date of transition to the *IFRS for SMEs* contains a lease (see paragraph 20.3) on the basis of facts and circumstances existing at that date, instead of when the arrangement was entered into.
- (l) decommissioning liabilities included in the cost of property, plant and equipment. Paragraph 17.10(c) states that the cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce **inventories** during that period. A first-time adopter may elect to measure this component of the cost of an item of property, plant and equipment at the date of transition to the *IFRS for SMEs*, instead of on the date(s) when the obligation initially arose.
- (m) operations subject to rate regulation. If a first-time adopter holds items of property, plant and equipment or intangible assets that are used, or were previously used, in operations subject to rate regulation (ie to provide goods or services to customers at prices/rates established by an authorised body) it may elect to use the previous GAAP carrying amount of those items at the date of transition to this Standard as their deemed cost. If an entity applies this exemption to an item, it need not apply it to all items. The entity shall test those assets for impairment at the date of transition to this Standard in accordance with Section 27.
- (n) **severe hyperinflation**. If a first-time adopter has a **functional currency** that was subject to severe hyperinflation:
 - (i) if its date of transition to this Standard is on, or after, the **functional currency normalisation date**, the entity may elect to measure all assets and liabilities held before the functional currency normalisation date at fair value on the date of transition to this Standard and use that fair value as the deemed cost of those assets and liabilities at that date; and
 - (ii) if the functional currency normalisation date falls within a twelve month comparative period, an entity may use a comparative period of less than twelve months, provided that a complete set of financial statements (as required by paragraph 3.17) is provided for that shorter period.

- 35.11 If it is **impracticable** for an entity to make one or more of the adjustments required by paragraph 35.7 at the date of transition, the entity shall apply paragraphs 35.7–35.10 for such adjustments in the earliest period for which it is practicable to do so, and shall identify which amounts in the financial statements have not been restated. If it is impracticable for an entity to provide any of the disclosures required by this Standard, including those for comparative periods, the omission shall be disclosed.

Disclosures

Explanation of transition to the *IFRS for SMEs*

- 35.12 An entity shall explain how the transition from its previous financial reporting framework to this Standard affected its reported **financial position**, financial **performance** and **cash flows**.
- 35.12A An entity that has applied the *IFRS for SMEs* in a previous period, as described in paragraph 35.2, shall disclose:
- (a) the reason it stopped applying the *IFRS for SMEs*;
 - (b) the reason it is resuming the application of the *IFRS for SMEs*; and
 - (c) whether it has applied this section or has applied the *IFRS for SMEs* retrospectively in accordance with Section 10.

Reconciliations

- 35.13 To comply with paragraph 35.12, an entity's first financial statements prepared using this Standard shall 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 this Standard for both of the following dates:
 - (i) the date of transition to this Standard; 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 this Standard for the same period.
- 35.14 If an entity becomes aware of **errors** made under its previous financial reporting framework, the reconciliations required by paragraph 35.13(b) and (c) shall, to the extent practicable, distinguish the correction of those errors from changes in accounting policies.
- 35.15 If an entity did not present financial statements for previous periods, it shall disclose that fact in its first financial statements that conform to this Standard.

Appendix A

Effective date and transition

This Appendix is an integral part of the Standard.

- A1 *2015 Amendments to the International Financial Reporting Standards (IFRS for SMEs)*, issued in May 2015, amended paragraphs 1.3, 2.22, 2.47, 2.49–2.50, 4.2, 4.12, 5.4–5.5, 6.2–6.3, 9.1–9.3, 9.16, 9.18, 9.24–9.26, 9.28, 11.2, 11.4, 11.7, 11.9, 11.11, 11.13–11.15, 11.27, 11.32, 11.44, 12.3, 12.8–12.9, 12.23, 12.25, 12.29, 14.15, 15.21, 16.10, 17.5–17.6, 17.15, 17.31–17.32, 18.8, 18.20, 19.2, 19.11, 19.14–19.15, 19.23, 19.25–19.26, 20.1, 20.3, 21.16, 22.8–22.9, 22.15, 22.17–22.18, 26.1, 26.9, 26.12, 26.16–26.17, 26.22, 27.1, 27.6, 27.14, 27.30–27.31, 28.30, 28.41, 28.43, 30.1, 30.18, 31.8–31.9, 33.2, 34.7, 34.10–34.11, 35.2, 35.9–35.11 and the glossary of terms, revised Section 29 and added paragraphs 1.7, 2.14A–2.14D, 9.3A–9.3C, 9.23A, 10.10A, 11.9A–11.9B, 17.15A–17.15D, 17.33, 22.3A, 22.15A–22.15C, 22.18A–22.18B, 22.20, 26.1A–26.1B, 34.11A–34.11F, 35.12A and A2–A3. An entity shall apply those paragraphs for annual periods beginning on or after 1 January 2017. Amendments to Sections 2–34 shall be applied retrospectively in accordance with Section 10 except as stated in paragraph A2. Earlier application of *2015 Amendments to the IFRS for SMEs* is permitted. If an entity applies *2015 Amendments to the IFRS for SMEs* for an earlier period it shall disclose that fact.
- A2 If it is impracticable for an entity to apply any new or revised requirements in the amendments to Sections 2–34 retrospectively, the entity shall apply those requirements in the earliest period for which it is practicable to do so. In addition an entity:
- (a) may elect to apply the revised Section 29 prospectively from the beginning of the period in which it first applies *2015 Amendments to the IFRS for SMEs*.
 - (b) shall apply the amendments to paragraph 19.11 prospectively from the beginning of the period in which it first applies *2015 Amendments to the IFRS for SMEs*. This paragraph is only applicable if the entity has business combinations within the scope of Section 19.
 - (c) shall apply the amendments to paragraphs 2.49–2.50, 5.4, 17.15, 27.6, 27.30–27.31 and 31.8–31.9 and new paragraphs 10.10A, 17.15A–17.15D and 17.33 prospectively from the beginning of the period it first applies *2015 Amendments to the IFRS for SMEs*. These paragraphs are only applicable if the entity applies the revaluation model to any classes of property, plant and equipment in accordance with paragraph 17.15.
- A3 The entity shall identify which amounts in the financial statements have not been restated as a result of applying paragraph A2.

Appendix B

Glossary of terms

This Appendix is an integral part of the Standard.

accounting policies	The specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.
accounting profit	Profit or loss for a period before deducting tax expense.
accrual basis of accounting	The effects of transactions and other events are recognised when they occur (and not as cash or its equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate.
accumulating compensated absences	Compensated absences that are carried forward and can be used in future periods if the current period's entitlement is not used in full.
active market	A market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
agricultural activity	The management by an entity of the biological transformation of biological assets for sale, into agricultural produce or into additional biological assets.
agricultural produce	The harvested product of the entity's biological assets.
amortisation	The systematic allocation of the depreciable amount of an asset over its useful life.
amortised cost of a financial asset or financial liability	The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability.
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.
associate	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.
biological asset	A living animal or plant.
borrowing costs	Interest and other costs incurred by an entity in connection with the borrowing of funds.

business	<p>An integrated set of activities and assets conducted and managed for the purpose of providing:</p> <p>(a) a return to investors; or</p> <p>(b) lower costs or other economic benefits directly and proportionately to policyholders or participants.</p> <p>A business generally consists of inputs, processes applied to those inputs, and resulting outputs that are, or will be, used to generate revenues. If goodwill is present in a transferred set of activities and assets, the transferred set shall be presumed to be a business.</p>
business combination	The bringing together of separate entities or businesses into one reporting entity.
carrying amount	The amount at which an asset or liability is recognised in the statement of financial position.
cash	Cash on hand and demand deposits.
cash equivalent	Short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.
cash flows	Inflows and outflows of cash and cash equivalents.
cash-generating unit	The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.
cash-settled share-based payment transaction	A share-based payment transaction in which the entity acquires goods or services by incurring a liability to transfer cash or other assets to the supplier of those goods or services for amounts that are based on the price (or value) of equity instruments (including shares or share options) of the entity or another group entity.
change in accounting estimate	An adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.
class of assets	A grouping of assets of a similar nature and use in an entity's operations.
close members of the family of a person	<p>Those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity, including:</p> <p>(a) that person's children and spouse or domestic partner;</p> <p>(b) children of that person's spouse or domestic partner; and</p> <p>(c) dependants of that person or that person's spouse or domestic partner.</p>

component of an entity	Operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity.
compound financial instrument	A financial instrument that, from the issuer's perspective, contains both a liability and an equity element.
consolidated financial statements	The financial statements of a parent and its subsidiaries presented as those of a single economic entity.
construction contract	A contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.
constructive obligation	An obligation that derives from an entity's actions where: <ul style="list-style-type: none"> (a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and (b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.
contingent asset	A possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.
contingent liability	<ul style="list-style-type: none"> (a) A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or (b) a present obligation that arises from past events but is not recognised because: <ul style="list-style-type: none"> (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or (ii) the amount of the obligation cannot be measured with sufficient reliability.
control (of an entity)	The power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.
current tax	The amount of income tax payable (recoverable) in respect of the taxable profit (tax loss) for the current period or past periods.
date of transition to the IFRS for SMEs	The beginning of the earliest period for which an entity presents full comparative information under the <i>IFRS for SMEs</i> in its first financial statements that comply with the <i>IFRS for SMEs</i> .

deductible temporary differences	Temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.
deferred tax	Income tax payable (recoverable) in respect of the taxable profit (tax loss) for future periods as a result of past transactions or events.
deferred tax assets	The amounts of income tax recoverable in future periods in respect of: <ul style="list-style-type: none"> (a) deductible temporary differences; (b) the carryforward of unused tax losses; and (c) the carryforward of unused tax credits.
deferred tax liabilities	The amounts of income tax payable in future periods in respect of taxable temporary differences.
defined benefit liability	The present value of the defined benefit obligation at the reporting date minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.
defined benefit obligation (present value of)	The present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.
defined benefit plans	Post-employment benefit plans other than defined contribution plans.
defined contribution plans	Post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions or to make direct benefit payments to employees if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.
depreciable amount	The cost of an asset, or other amount substituted for cost (in the financial statements), less its residual value.
depreciation	The systematic allocation of the depreciable amount of an asset over its useful life.
derecognition	The removal of a previously recognised asset or liability from an entity's statement of financial position.
development	The application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.

discontinued operation	<p>A component of an entity that either has been disposed of, or is held for sale, and:</p> <ul style="list-style-type: none"> (a) represents a separate major line of business or geographical area of operations; (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to resale.
effective interest method	A method of calculating the amortised cost of a financial asset or a financial liability (or a group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.
effective interest rate	The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.
effectiveness of a hedge	The degree to which changes in the fair value or cash flows of the hedged item that are attributable to a hedged risk are offset by changes in the fair value or cash flows of the hedging instrument.
employee benefits	All forms of consideration given by an entity in exchange for service rendered by employees.
equity	The residual interest in the assets of the entity after deducting all its liabilities.
equity-settled share-based payment transaction	<p>A share-based payment transaction in which the entity:</p> <ul style="list-style-type: none"> (a) receives goods or services as consideration for its own equity instruments (including shares or share options); or (b) receives goods or services but has no obligation to settle the transaction with the supplier.
errors	<p>Omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:</p> <ul style="list-style-type: none"> (a) was available when financial statements for those periods were authorised for issue; and (b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.
expenses	Decreases in economic benefits during the reporting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to owners.

fair presentation	Faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses.
fair value	The amount for which an asset could be exchanged, a liability settled or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm's length transaction.
fair value less costs to sell	The amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.
finance lease	A lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. A lease that is not a finance lease is an operating lease.
financial asset	Any asset that is: <ul style="list-style-type: none"> (a) cash; (b) an equity instrument of another entity; (c) a contractual right: <ul style="list-style-type: none"> (i) to receive cash or another financial asset from another entity; or (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or (d) a contract that will or may be settled in the entity's own equity instruments and: <ul style="list-style-type: none"> (i) under which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or (ii) that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.
financial instrument	A contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

financial liability	Any liability that is: <ul style="list-style-type: none"> (a) a contractual obligation: <ul style="list-style-type: none"> (i) to deliver cash or another financial asset to another entity; or (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or (b) a contract that will or may be settled in the entity's own equity instruments and: <ul style="list-style-type: none"> (i) under which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments, or (ii) will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.
financial position	The relationship of the assets, liabilities and equity of an entity as reported in the statement of financial position.
financial statements	Structured representation of the financial position, financial performance and cash flows of an entity.
financing activities	Activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.
firm commitment	A binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.
first-time adopter of the IFRS for SMEs	An entity that presents its first annual financial statements that conform to the <i>IFRS for SMEs</i> , regardless of whether its previous accounting framework was full IFRS or another set of accounting standards.
forecast transaction	An uncommitted but anticipated future transaction.
foreign operation	An entity that is a subsidiary, associate, joint venture or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.
full IFRS	International Financial Reporting Standards (IFRS) other than the <i>IFRS for SMEs</i> .
functional currency	The currency of the primary economic environment in which the entity operates.

functional currency normalisation date	The date when an entity's functional currency no longer has either, or both, of the two characteristics of severe hyperinflation, or when there is a change in the entity's functional currency to a currency that is not subject to severe hyperinflation.
funding (of post-employment benefits)	Contributions by an entity, and sometimes its employees, into an entity, or fund, that is legally separate from the reporting entity and from which the employee benefits are paid.
gains	Increases in economic benefits that meet the definition of income but are not revenue.
general purpose financial statements	Financial statements directed to the general financial information needs of a wide range of users who are not in a position to demand reports tailored to meet their particular information needs.
going concern	An entity is a going concern unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.
goodwill	Future economic benefits arising from assets that are not capable of being individually identified and separately recognised.
government grants	Assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity.
grant date	The date at which the entity and another party (including an employee) agree to a share-based payment arrangement, being when the entity and the counterparty have a shared understanding of the terms and conditions of the arrangement. At the grant date, the entity confers on the counterparty the right to cash, other assets or equity instruments of the entity, provided the specified vesting conditions, if any, are met. If that agreement is subject to an approval process (for example, by shareholders), the grant date is the date when that approval is obtained.
gross investment in a lease	The aggregate of: <ul style="list-style-type: none"> (a) the minimum lease payments receivable by the lessor under a finance lease; and (b) any unguaranteed residual value accruing to the lessor.
group	A parent and all its subsidiaries.

hedged item

For the purpose of special hedge accounting by SMEs under Section 12 of this Standard, a hedged item is:

- (a) interest rate risk of a debt instrument measured at amortised cost;
- (b) foreign exchange or interest rate risk in a firm commitment or a highly probable forecast transaction;
- (c) price risk of a commodity that it holds or in a firm commitment or highly probable forecast transaction to purchase or sell a commodity; or
- (d) foreign exchange risk in a net investment in a foreign operation.

hedging instrument

For the purpose of special hedge accounting by SMEs under Section 12 of this Standard, a hedging instrument is a financial instrument that meets all of the following terms and conditions:

- (a) it is an interest rate swap, a foreign currency swap, a foreign currency forward exchange contract or a commodity forward exchange contract that is expected to be highly effective in offsetting a risk identified in paragraph 12.17 that is designated as the hedged risk;
- (b) it involves a party external to the reporting entity (ie external to the group, segment or individual entity being reported on);
- (c) its notional amount is equal to the designated amount of the principal or notional amount of the hedged item;
- (d) it has a specified maturity date not later than:
 - (i) the maturity of the financial instrument being hedged;
 - (ii) the expected settlement of the commodity purchase or sale commitment; or
 - (iii) the occurrence of the highly probable forecast foreign currency or commodity transaction being hedged.
- (e) it has no prepayment, early termination or extension features.

An entity that chooses to apply IAS 39 in accounting for financial instruments shall apply the definition of hedging instrument in that standard instead of this definition.

highly probable

Significantly more likely than probable.

impairment (loss)	The amount by which the carrying amount of an asset exceeds: <ul style="list-style-type: none"> (a) in the case of inventories, its selling price less costs to complete and sell; or (b) in the case of other non-financial assets, its recoverable amount.
impracticable	Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.
imputed rate of interest	The more clearly determinable of either: <ul style="list-style-type: none"> (a) the prevailing rate for a similar instrument of an issuer with a similar credit rating; or (b) a rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.
income	Increases in economic benefits during the reporting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from owners.
income statement	A financial statement that presents all items of income and expense recognised in a reporting period, excluding the items of other comprehensive income.
income tax	All domestic and foreign taxes that are based on taxable profits. Income tax also includes taxes, such as withholding taxes, that are payable by a subsidiary, associate or joint venture on distributions to the reporting entity.
insurance contract	A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.
intangible asset	An identifiable non-monetary asset without physical substance. Such an asset is identifiable when it: <ul style="list-style-type: none"> (a) is separable, ie is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or (b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.
interest rate implicit in the lease	The discount rate that, at the inception of the lease, causes the aggregate present value of (a) the minimum lease payments and (b) the unguaranteed residual value to be equal to the sum of (i) the fair value of the leased asset and (ii) any initial direct costs of the lessor.

interim financial report	A financial report containing either a complete set of financial statements or a set of condensed financial statements for an interim period.
interim period	A financial reporting period shorter than a full financial year.
International Financial Reporting Standards (IFRS)	Standards adopted by the International Accounting Standards Board (IASB). They comprise: <ul style="list-style-type: none"> (a) International Financial Reporting Standards; (b) International Accounting Standards; and (c) Interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).
intrinsic value	The difference between the fair value of the shares to which the counterparty has the (conditional or unconditional) right to subscribe or which it has the right to receive, and the price (if any) the counterparty is (or will be) required to pay for those shares. For example, a share option with an exercise price of CU15, on a share with a fair value of CU20, has an intrinsic value of CU5.
inventories	Assets: <ul style="list-style-type: none"> (a) held for sale in the ordinary course of business; (b) in the process of production for such sale; or (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.
investing activities	The acquisition and disposal of long-term assets and other investments not included in cash equivalents.
investment property	Property (land or a building, or part of a building, or both) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both, instead of for: <ul style="list-style-type: none"> (a) use in the production or supply of goods or services or for administrative purposes; or (b) sale in the ordinary course of business.
joint control	The contractually agreed sharing of control over an economic activity. It exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).
joint venture	A contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint ventures can take the form of jointly controlled operations, jointly controlled assets, or jointly controlled entities.

jointly controlled entity	A joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity.
lease	An agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.
lessee's incremental borrowing rate of interest	The rate of interest the lessee would have to pay on a similar lease or, if that is not determinable, the rate that, at the inception of the lease, the lessee would incur to borrow over a similar term, and with a similar security, the funds necessary to purchase the asset.
liability	A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.
loans payable	Financial liabilities other than short-term trade payables on normal credit terms.
market vesting condition	A condition upon which the exercise price, vesting or exercisability of an equity instrument depends that is related to the market price of the entity's equity instruments, such as attaining a specified share price or a specified amount of intrinsic value of a share option, or achieving a specified target that is based on the market price of the entity's equity instruments relative to an index of market prices of equity instruments of other entities.
material	Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken 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.
measurement	The process of determining the monetary amounts at which the elements of the financial statements are to be recognised and carried in the statement of financial position and statement of comprehensive income.

minimum lease payments	<p>The payments over the lease term that the lessee is or can be required to make, excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor, together with:</p> <ul style="list-style-type: none"> (a) for a lessee, any amounts guaranteed by the lessee or by a party related to the lessee; or (b) for a lessor, any residual value guaranteed to the lessor by: <ul style="list-style-type: none"> (i) the lessee; (ii) a party related to the lessee; or (iii) a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee. <p>However, if the lessee has an option to purchase the asset at a price that is expected to be sufficiently lower than fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised, the minimum lease payments comprise the minimum payments payable over the lease term to the expected date of exercise of this purchase option and the payment required to exercise it.</p>
monetary items	Units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.
multi-employer (benefit) plans	<p>Defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that:</p> <ul style="list-style-type: none"> (a) pool the assets contributed by various entities that are not under common control; and (b) use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.
net investment in a lease	The gross investment in a lease discounted at the interest rate implicit in the lease.
non-controlling interest	The equity in a subsidiary not attributable, directly or indirectly, to a parent.

notes (to financial statements)	Notes contain information in addition to that presented in the statement of financial position, statement of comprehensive income, income statement (if presented), combined statement of income and retained earnings (if presented), statement of changes in equity and statement of cash flows. Notes provide narrative descriptions or disaggregations of items presented in those statements and information about items that do not qualify for recognition in those statements.
notional amount	The quantity of currency units, shares, bushels, pounds or other units specified in a financial instrument contract.
objective of financial statements	To provide information about the financial position, performance and cash flows of an entity that is useful for economic decision-making by a broad range of users who are not in a position to demand reports tailored to meet their particular information needs.
onerous contract	A contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.
operating activities	The principal revenue-producing activities of the entity and other activities that are not investing or financing activities.
operating lease	A lease that does not transfer substantially all the risks and rewards incidental to ownership. A lease that is not an operating lease is a finance lease.
other comprehensive income	Items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by this Standard.
owners	Holders of instruments classified as equity.
parent	An entity that has one or more subsidiaries.
performance	The relationship of the income and expenses of an entity, as reported in the statement of comprehensive income.
plan assets (of an employee benefit plan)	Assets held by a long-term employee benefit fund and qualifying insurance policies.
post-employment benefits	Employee benefits (other than termination benefits) that are payable after the completion of employment.
post-employment benefit plans	Formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.
present value	A current estimate of the present discounted value of the future net cash flows in the normal course of business.
presentation currency	The currency in which the financial statements are presented.
probable	More likely than not.
profit or loss	The total of income less expenses, excluding the components of other comprehensive income.

projected unit credit method	An actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method).
property, plant and equipment	Tangible assets that: <ul style="list-style-type: none"> (a) are held for use in the production or supply of goods or services, for rental to others or for administrative purposes; and (b) are expected to be used during more than one period.
prospective application (of a change in accounting policy)	Applying the new accounting policy to transactions, other events and conditions occurring after the date as at which the policy is changed.
provision	A liability of uncertain timing or amount.
prudence	The inclusion of a degree of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.
public accountability	An entity has public accountability if: <ul style="list-style-type: none"> (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 (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.
publicly traded (debt or equity instruments)	Traded, or in process of being issued for trading, in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets).
recognition	The process of incorporating in the statement of financial position or statement of comprehensive income an item that meets the definition of an asset, liability, equity, income or expense and that satisfies the following criteria: <ul style="list-style-type: none"> (a) it is probable that any future economic benefit associated with the item will flow to or from the entity; and (b) the item has a cost or value that can be measured with reliability.
recoverable amount	The higher of an asset's (or cash-generating unit's) fair value less costs to sell and its value in use.

related party

A related party is a person or entity that is related to the entity that is preparing its financial statements (the reporting entity):

- (a) a person or a close member of that person's family is related to a reporting entity if that person:
 - (i) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity;
 - (ii) has control or joint control over the reporting entity; or
 - (iii) has significant influence over the reporting entity.
- (b) an entity is related to a reporting entity if any of the following conditions applies:
 - (i) the entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) both entities are joint ventures of the same third entity.
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
 - (vi) the entity is controlled or jointly controlled by a person identified in (a).
 - (vii) the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.
 - (viii) a person identified in (a)(ii) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

related party transaction

A transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

relevance	The quality of information that allows it to influence the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations.
reliability	The quality of information that makes it free from material error and bias and represent faithfully that which it either purports to represent or could reasonably be expected to represent.
reporting date	The end of the latest period covered by financial statements or by an interim financial report.
reporting period	The period covered by financial statements or by an interim financial report.
research	Original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.
residual value (of an asset)	The estimated amount that an entity would currently obtain from disposal of an asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.
retrospective application (of a change in accounting policy)	Applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.
revenue	The gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants.
separate financial statements	Those presented by an entity, in which the entity could elect, in accordance with paragraphs 9.25–9.26, to account for its investments in subsidiaries, jointly-controlled entities and associates either at cost less impairment, at fair value with changes in fair value recognised in profit or loss or using the equity method following the procedures in paragraph 14.8.
service concession arrangement	An arrangement whereby a government or other public sector body 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.
severe hyperinflation	The currency of a hyperinflationary economy is subject to severe hyperinflation if it has both of the following characteristics: <ul style="list-style-type: none"> (a) a reliable general price index is not available to all entities with transactions and balances in the currency; and (b) exchangeability between the currency and a relatively stable foreign currency does not exist.

share-based payment arrangement	<p>An agreement between the entity (or another group entity or any shareholder of any group entity) and another party (including an employee) that entitles the other party to receive:</p> <ul style="list-style-type: none"> (a) cash or other assets of the entity for amounts that are based on the price (or value) of equity instruments (including shares or share options) of the entity or another group entity; or (b) equity instruments (including shares or share options) of the entity or another group entity <p>provided the specified vesting conditions, if any, are met.</p>
share-based payment transaction	<p>A transaction in which the entity:</p> <ul style="list-style-type: none"> (a) receives goods or services from the supplier of those goods or services (including an employee) in a share-based payment arrangement; or (b) incurs an obligation to settle the transaction with the supplier in a share-based payment arrangement when another group entity receives those goods or services.
small and medium-sized entities	<p>Entities that:</p> <ul style="list-style-type: none"> (a) do not have public accountability; and (b) publish general purpose financial statements for external users. <p>An entity has public accountability if:</p> <ul style="list-style-type: none"> (a) it files, or it is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; or (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.
state	A national, regional or local government.
state (employee benefit) plan	Employee benefit plans established by legislation to cover all entities (or all entities in a particular category, for example a specific industry) and operated by national or local government or by another body (for example an autonomous agency created specifically for this purpose) which is not subject to control or influence by the reporting entity.
statement of cash flows	A financial statement that provides information about the changes in cash and cash equivalents of an entity for a period, showing separately changes during the period from operating, investing and financing activities.

statement of changes in equity	A financial statement that presents the profit or loss for a period, items of income and expense recognised directly in equity for the period, the effects of changes in accounting policy and corrections of errors recognised in the period and (depending on the format of the statement of changes in equity chosen by the entity) the amounts of transactions with owners acting in their capacity as owners during the period.
statement of comprehensive income	A financial statement that presents all items of income and expense recognised in a period, including those items recognised in determining profit or loss (which is a subtotal in the statement of comprehensive income) and items of other comprehensive income. If an entity chooses to present both an income statement and a statement of comprehensive income, the statement of comprehensive income begins with profit or loss and then displays the items of other comprehensive income.
statement of financial position	A financial statement that presents the relationship of an entity's assets, liabilities and equity as of a specific date (also called the balance sheet).
statement of income and retained earnings	A financial statement that presents the profit or loss and changes in retained earnings for a period.
subsidiary	An entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as the parent).
tax base	The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.
tax expense	The aggregate amount included in total comprehensive income or equity for the reporting period in respect of current tax and deferred tax.
taxable profit (tax loss)	The profit (loss) for a reporting period upon which income taxes are payable or recoverable, determined in accordance with the rules established by the taxation authorities. Taxable profit equals taxable income less amounts deductible from taxable income.
taxable temporary differences	Temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.
temporary differences	Differences between the carrying amount of an asset or liability in the statement of financial position and its tax base.
termination benefits	Employee benefits payable as a result of either: <ul style="list-style-type: none"> (a) an entity's decision to terminate an employee's employment before the normal retirement date; or (b) an employee's decision to accept voluntary redundancy in exchange for those benefits.

timing differences	Income or expenses that are recognised in profit or loss in one period but, under tax laws or regulations, are included in taxable income in a different period.
timeliness	Providing the information in financial statements within the decision time frame.
total comprehensive income	The change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners (equal to the sum of profit or loss and other comprehensive income).
transaction costs (financial instruments)	Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.
treasury shares	An entity's own equity instruments, held by the entity or other members of the consolidated group.
understandability	The quality of information in a way that makes it comprehensible by users who have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence.
useful life	The period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity.
value in use	The present value of the future cash flows expected to be derived from an asset or cash-generating unit.
venturer	A party to a joint venture that has joint control over that joint venture.
vest	Become an entitlement. Under a share-based payment arrangement, a counterparty's right to receive cash, other assets or equity instruments of the entity vests when the counterparty's entitlement is no longer conditional on the satisfaction of any vesting conditions.
vested benefits	Benefits, the rights to which, under the conditions of a retirement benefit plan, are not conditional on continued employment.

vesting conditions

The conditions that determine whether the entity receives the services that entitle the counterparty to receive cash, other assets or equity instruments of the entity, under a share-based payment arrangement. Vesting conditions are either service conditions or performance conditions. Service conditions require the counterparty to complete a specified period of service. Performance conditions require the counterparty to complete a specified period of service and specified performance targets to be met (such as a specified increase in the entity's profit over a specified period of time). A performance condition might include a market vesting condition.

vesting period

The period during which all the specified vesting conditions of a share-based payment arrangement are to be satisfied.

Derivation table

The *IFRS for SMEs* was developed by:

- (a) extracting the fundamental concepts from the *IASB Framework for the Preparation and Presentation of Financial Statements (IASB Framework)* and the principles and related mandatory guidance from full IFRS; and
- (b) considering the modifications that are appropriate on the basis of users' needs and cost-benefit considerations.

The following table identifies the primary sources in full IFRS from which the principles in each section of the *IFRS for SMEs* were derived.

	Section in the <i>IFRS for SMEs</i>	Sources
	Preface	<i>Preface to International Financial Reporting Standards</i>
1	<i>Small and Medium-sized Entities</i>	—
2	<i>Concepts and Pervasive Principles</i>	<i>IASB Framework, IAS 1 Presentation of Financial Statements</i>
3	<i>Financial Statement Presentation</i>	IAS 1
4	<i>Statement of Financial Position</i>	IAS 1
5	<i>Statement of Comprehensive Income and Income Statement</i>	IAS 1
6	<i>Statement of Changes in Equity and Statement of Comprehensive Income and Retained Earnings</i>	IAS 1
7	<i>Statement of Cash Flows</i>	IAS 7 <i>Statement of Cash Flows</i>
8	<i>Notes to the Financial Statements</i>	IAS 1
9	<i>Consolidated and Separate Financial Statements</i>	IAS 27 <i>Consolidated and Separate Financial Statements</i> as amended
10	<i>Accounting Policies, Estimates and Errors</i>	IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>
11 and 12	<i>Basic Financial Instruments and Other Financial Instrument Issues</i>	IAS 32 <i>Financial Instruments: Presentation</i> , IAS 39 <i>Financial Instruments: Recognition and Measurement</i> , IFRS 7 <i>Financial Instruments: Disclosures</i>
13	<i>Inventories</i>	IAS 2 <i>Inventories</i>
14	<i>Investments in Associates</i>	IAS 28 <i>Investments in Associates</i>
15	<i>Investments in Joint Ventures</i>	IAS 31 <i>Interests in Joint Ventures</i>
16	<i>Investment Property</i>	IAS 40 <i>Investment Property</i>

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17	<i>Property, Plant and Equipment</i>	IAS 16 <i>Property, Plant and Equipment</i>
18	<i>Intangible Assets other than Goodwill</i>	IAS 38 <i>Intangible Assets</i>
19	<i>Business Combinations and Goodwill</i>	IFRS 3 <i>Business Combinations</i>
20	<i>Leases</i>	IAS 17 <i>Leases</i>
21	<i>Provisions and Contingencies</i>	IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i>
22	<i>Liabilities and Equity</i>	IAS 1, IAS 32
23	<i>Revenue</i>	IAS 11 <i>Construction Contracts</i> , IAS 18 <i>Revenue</i>
24	<i>Government Grants</i>	IAS 20 <i>Accounting for Government Grants and Disclosure of Government Assistance</i>
25	<i>Borrowing Costs</i>	IAS 23 <i>Borrowing Costs</i>
26	<i>Share-based Payment</i>	IFRS 2 <i>Share-based Payment</i>
27	<i>Impairment of Assets</i>	IAS 2, IAS 36 <i>Impairment of Assets</i>
28	<i>Employee Benefits</i>	IAS 19 <i>Employee Benefits</i>
29	<i>Income Tax</i>	IAS 12 <i>Income Taxes</i>
30	<i>Foreign Currency Translation</i>	IAS 21 <i>The Effects of Changes in Foreign Exchange Rates</i>
31	<i>Hyperinflation</i>	IAS 29 <i>Financial Reporting in Hyperinflationary Economies</i>
32	<i>Events after the End of the Reporting Period</i>	IAS 10 <i>Events after the Reporting Period</i>
33	<i>Related Party Disclosures</i>	IAS 24 <i>Related Party Disclosures</i>
34	<i>Specialised Activities</i>	IAS 41 <i>Agriculture</i> , IFRS 6 <i>Exploration for and Evaluation of Mineral Resources</i>
35	<i>Transition to the IFRS for SMEs</i>	IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i>

Approval by the Board of the *IFRS for SMEs* issued in July 2009

The *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)* was approved for issue by thirteen of the fourteen members of the International Accounting Standards Board. Mr Leisenring dissented. His dissenting opinion is set out after the Basis for Conclusions.

Sir David Tweedie

Chairman

Thomas E Jones

Vice-Chairman

Mary E Barth

Stephen Cooper

Philippe Danjou

Jan Engström

Robert P Garnett

Gilbert Gélard

Prabhakar Kalavacherla

James J Leisenring

Warren J McGregor

John T Smith

Tatsumi Yamada

Wei-Guo Zhang

Approval by the Board of 2015 Amendments to the IFRS for SMEs issued in May 2015

2015 Amendments to the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) was approved for publication by thirteen of the fourteen members of the International Accounting Standards Board. Ms Tokar voted against its publication. Her dissenting opinion is set out after the Basis for Conclusions.

Hans Hoogervorst

Chairman

Ian Mackintosh

Vice-Chairman

Stephen Cooper

Philippe Danjou

Amaro Luiz De Oliveira Gomes

Martin Edelmann

Patrick Finnegan

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2015 IFRS for SMEs (bound volume)

This is the only official printed edition of the IASB's *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)* that incorporates and is updated by 2015 Amendments to the IFRS for SMEs (effective for annual reporting periods beginning on or after 1 January 2017 with early application permitted).

The IFRS for SMEs has simplifications that reflect the needs of users of SMEs' financial statements and cost-benefit considerations. Compared with full IFRS, it is less complex in a number of ways:

- topics that are not relevant for SMEs are omitted;
- many of the principles for recognising and measuring assets, liabilities, income and expenses in full IFRS are simplified;
- significantly fewer disclosures are required;
- the IFRS for SMEs has been written in clear, easily translatable language; and
- to further reduce the burden for SMEs, revisions are not expected to be made more frequently than once every three years.

It is intended for entities that do not have public accountability as defined in the IFRS for SMEs.

This edition is presented in two volumes, Part A (the requirements) containing the IFRS for SMEs Standard and Derivation Table, and Part B containing the accompanying documents, such as Basis for Conclusions and Illustrative Financial Statements.

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International Accounting Standards Board® (IASB®)

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