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International Financial Reporting Standards
A review of the Standards

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David Chitty BA FCA

We are pleased to present the 2016 edition of the Crowe Horwath International *International Financial Reporting Standards – A Review of the Standards.* This short guide is a review of the standards currently in issue. We have retained the foreword prepared by Michael Armstrong of ICAEW for the 2015 edition. Michael's foreword remains very relevant and draws attention to the importance of IFRS in the context of one region, the Middle East.

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Foreword

Global business has made significant progress in establishing a universal language of accounting since former ICAEW President Sir Henry Benson championed the movement to develop a global set of accounting standards in the 1970s. The benefits of greater transparency and comparability across borders are ever more apparent in today's interconnected world, and many believe the momentum behind IFRS is irreversible.

Here in the Middle East, International Financial Reporting Standards provide a valuable foundation for improving access to capital markets and human capital expertise for local businesses. It is indeed notable that in the region a majority of countries have already adopted IFRS for some or all companies.

While the benefits of a universal financial language are well documented, from a reduced cost of raising capital to ease of comparability of companies in different countries, implementation is not without its challenges. For the busy CFO, chief accountant or finance professional, this guide provides an authoritative, expedient and essential overview of the IASB's standards.

At a time when businesses are being challenged to implement new international standards on financial instruments, revenue recognition and (soon) leasing, and while the Middle East's largest economy Saudi Arabia moves to complete its IFRS convergence project for listed companies by 2017, this guide could hardly be more timely.

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International Financial Reporting Standards

A review of the standards

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1.0 Introduction

The purpose of this review is to provide a brief introduction to the accounting standards issued by the International Accounting Standards Board (IASB). The standards issued by the board comprise International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS). IFRS and IAS both have the status of accounting standards. IFRS are new standards issued since the establishment of the IASB. IAS are standards that were issued in their original form by the Board's predecessor.

2.0 Application of International Financial Reporting Standards

The IASB's body of standards are applied in more than 100 countries for financial reporting. In some countries national GAAP has been replaced by IFRS, whilst in other countries there has been a substantial degree of convergence towards IFRS. The IASB's standards are predominantly applied for public company reporting, but in some countries the standards are applied by all entities for public reporting. Issue of the International Financial Reporting Standard for Small and Medium Enterprises ("IFRS for SME") extended the use of the standards beyond reporting by listed entities.

IFRS for SME is the subject of a separate guide, available at http://www.crowehorwath.net/audit.

The standards are supplemented by interpretations issued by the International Financial Reporting Interpretations Committee. Details of interpretations can be found at http://www.ifrs.org.

3.0 The Standards

The standards presently in issue are as follows:
IAS 1 *Presentation of Financial Statements*
IAS 2 *Inventories*
IAS 7 *Statement of Cash Flows*
IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
IAS 10 *Events after the Reporting Period*
IAS 11 *Construction Contracts*
IAS 12 *Income Taxes*
IAS 16 *Property, Plant and Equipment*
IAS 17 *Leases*
IAS 18 *Revenue*
IAS 19 *Employee Benefits*
IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*
IAS 21 *The Effects of Changes in Foreign Exchange Rates*
IAS 23 *Borrowing Costs*
IAS 24 *Related Party Disclosures*
IAS 26 *Accounting and Reporting by Retirement Benefit Plans*
IAS 27 *Separate Financial Statements*
IAS 28 *Investments in Associates and Joint Ventures*
IAS 29 *Financial reporting in Hyperinflationary Economies*
IAS 32 *Financial Instruments: Presentation*
IAS 33 *Earnings per Share*
IAS 34 *Interim Financial Reporting*
IAS 36 *Impairment of Assets*
IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
IAS 38 *Intangible Assets*
IAS 39 *Financial Instruments: Recognition and Measurement*
IAS 40 *Investment Property*
IAS 41 *Agriculture*

IFRS 1 *First-time Adoption of International Financial Reporting Standards*
IFRS 2 *Share-based Payment*
IFRS 3 *Business Combinations*
IFRS 4 *Insurance Contracts*
IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

IFRS 6 *Exploration for and Evaluation of Mineral Resources*
IFRS 7 *Financial Instruments: Disclosures*
IFRS 8 *Operating Segments*
IFRS 9 *Financial Instruments*
IFRS 10 *Consolidated Financial Statements*
IFRS 11 *Joint Arrangements*
IFRS 12 *Disclosure of Interests in Other Entities*
IFRS 13 *Fair Value Measurement*
IFRS 14 *Regulatory Dererral Accounts*
IFRS 15 *Revenue from Contracts with Customers*
IFRS 16 *Leases*

4.0 IAS 1 Presentation of Financial Statements

The Standard prescribes the basis for presentation of general-purpose financial statements to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. It sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

4.1 Components of financial statements

The IAS specifies that a complete set of financial statements comprises the following:

1. A statement of financial position as at the end of the period.
2. A statement of profit and loss and other comprehensive income for the period.
3. A statement of changes in equity for the period.
4. A statement of cash flows for the period.
5. Notes comprising a summary of significant accounting policies and other explanatory notes.
6. Comparative information in respect of the preceding period as specified by IAS 1.
7. A statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

An entity may use titles for the statements other than those used in the Standard. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income.' Present with equal prominence all of the financial statements in a complete set of financial statements. An entity may present a single statement of profit or loss and other comprehensive income, with profit or loss and other comprehensive income presented in two sections. The sections shall be presented together, with the profit or loss section presented first followed directly by the other comprehensive income section. An entity may present the profit or loss section in a separate statement of profit or loss. If so, the separate statement of profit or loss shall immediately precede the statement presenting comprehensive income.

4.2 Definitions

IAS 1 contains the following definitions, which are essential for the understanding of this standard and the presentation of financial statements under IFRS 1:

Material
Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make 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.

Other comprehensive income *comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other IFRS.*

The components of other comprehensive income include:

(a) Changes in revaluation surplus (see IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*);

(b) Remeasurement of defined benefit plans (see IAS 19 *Employee Benefits*);

(c) Gains and losses arising from translating the financial statements of a foreign operation (see IAS 21 *The Effects of Changes in Foreign Exchange Rates*);

(d) Gains and losses on remeasuring available-for-sale financial assets (see IAS 39 *Financial Instruments: Recognition and Measurement*);

(e) The effective portion of gains and losses on hedging instruments in a cash flow hedge (see IAS 39).

(f) For particular liabilities designated as at fair value through profit or loss, the amount of the change in fair value that is attributable to changes in the liability's credit risk (see IFRS 9 *Financial Instruments*)

Owners *are holders of instruments classified as equity.*

Profit or loss *is the total of income less expenses, excluding the components of other comprehensive income.*

Reclassification adjustments *are amounts reclassified to profit or loss in the current period that were recognised in other comprehensive income in the current or previous periods.*

Total comprehensive income *is 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.*

Total comprehensive income comprises all components of 'profit or loss' and of 'other comprehensive income.'

4.3 Fair presentation and compliance with IFRS

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 the IASB's Framework. The application of IFRS, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.

In terms of compliance, IAS 1 states:

- An entity whose financial statements comply with IFRS shall make an explicit and unreserved statement of such compliance in the notes.
- An entity shall not describe financial statements as complying with IFRS unless they comply with all the requirements of IFRS.
- In virtually all circumstances, an entity achieves a fair presentation by compliance with applicable IFRS.

A fair presentation also requires an entity:

(a) To select and apply accounting policies in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. IAS 8 sets out a hierarchy of authoritative guidance that management considers in the absence of an IFRS that specifically applies to an item.

(b) To present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.

(c) To provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

4.4 Going concern

When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern.

An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may 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.

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, 12 months from the balance sheet date.

4.5 Accrual basis of accounting

An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.

4.6 Materiality and aggregation

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.

4.7 Offsetting

An entity shall not offset assets and liabilities or income and expenses, unless required or permitted by an IFRS.

4.8 Comparative information

Except when IFRS permit or require otherwise, an entity shall disclose comparative information in respect of the previous period for all amounts reported 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.

4.9 Consistency of presentation

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 IAS 8; or

(b) An IFRS requires a change in presentation.

4.10 Statement of financial position

As a minimum, the statement of financial position shall include line items that present the following amounts:

1. Property, plant and equipment.
2. Investment property.
3. Intangible assets.
4. Financial assets (excluding amounts shown under 5, 8 and 9).
5. Investments accounted for using the equity method.
6. Biological assets.
7. Inventories.
8. Trade and other receivables.
9. Cash and cash equivalents.
10. The total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with IFRS 5.
11. Trade and other payables.
12. Provisions.
13. Financial liabilities (excluding amounts shown under 11 and 12).
14. Liabilities and assets for current tax, as defined in IAS 12 *Income Taxes*.
15. Deferred tax liabilities and deferred tax assets, as defined in IAS 12.
16. Liabilities included in disposal groups classified as held for sale in accordance with IFRS 5.
17. Non-controlling interests, presented within equity.
18. Issued capital and reserves attributable to equity holders of the parent.

4.11 Current/non-current distinction

Present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of the statement of financial position in accordance with the requirements of the standard except when a presentation based on liquidity provides information that is reliable and is more relevant. When that exception applies, present all assets and liabilities broadly in order of liquidity. Whichever method of presentation is adopted, for each asset and liability line item that combines amounts expected to be recovered or settled within:

- No more than 12 months after the balance sheet date, and
- More than 12 months after the balance sheet date,

disclose the amount expected to be recovered or settled after more than 12 months.

Definition of Current Assets

IAS 1 states that an asset shall be classified as current when it satisfies any of the following criteria:

(a) It is expected to be realised in, or is intended for sale or consumption in, the entity's normal operating cycle;

(b) It is held primarily for the purpose of being traded;

(c) It is expected to be realised within twelve months after the balance sheet date; or

(d) It is cash or a cash equivalent (as defined in IAS 7) unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date.

All other assets shall be classified as non-current.

Definition of Current Liabilities

IAS 1 states that a liability shall be classified as current when it satisfies any of the following criteria:

(a) It is expected to be settled in the entity's normal operating cycle;
(b) It is held primarily for the purpose of being traded;
(c) It is due to be settled within twelve months after the balance sheet date; or
(d) The entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

All other liabilities shall be classified as non-current.

4.12 Statement of profit and loss and other comprehensive income

The statement of profit or loss and other comprehensive income (statement of comprehensive income) shall present, in addition to the profit or loss and other comprehensive income sections:

(a) Profit or loss;

(b) Total other comprehensive income;

(c) Comprehensive income for the period, being the total of profit or loss and other comprehensive income.

4.13 Information to be presented in the profit and loss section or in the statement of profit and loss

In addition to the items required by other IFRS, the profit and loss section or the statement of profit and loss shall include line items that present the following amounts for the period:

1. Revenue;

2. Gains and losses arising from the derecognition of financial assets measured at amortised cost;

3. Finance costs;

4. Share of the profit or loss of associates and joint ventures accounted for using the equity method;

5. If a financial asset is reclassified so that it is measured at fair value, any gain or loss arising from a difference between the previous carrying amount and its fair value at the reclassification date (as defined in IFRS 9);

6. Tax expense;

7. A single amount for the total of discontinued operations (see IFRS 5).

4.14 Information to be presented in the other comprehensive income section

The other comprehensive income section shall present line items for amounts of other comprehensive income in the period, classified by nature (including share of the other comprehensive income of associates and joint ventures accounted for using the equity method) and grouped into those that, in accordance with other IFRS:

(a) Will not be reclassified subsequently to profit or loss, and

(b) Will be reclassified subsequently to profit or loss when specific conditions are met.

Disclose the amount of income tax relating to each item of other comprehensive income, including reclassification adjustments, either in the statement of profit and loss and other comprehensive income, or in the notes. An entity may present items of other comprehensive income either:

(a) Net of related tax effects, or

(b) Before related tax effects with one amount shown for the aggregate amount of income tax relating to those items.

4.15 Statement of changes in equity

Present, as a primary statement, a statement of changes in equity showing in the statement:

(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 IAS 8; 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) Transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control.

4.16 Disclosure of accounting policies

Disclose 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.

Disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations, 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.

4.17 Sources of estimation uncertainty

Disclose information about the assumptions an entity makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in 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.

5.0 IAS 2 *Inventories*

The objective of IAS 2 is to prescribe the accounting treatment for inventories and to provide guidance on the determination of cost and cost formulas. Inventories should be measured at the lower of cost and net realisable value.

6.0 IAS 7 Cash flow statements

IAS 7 is the international standard that details the requirements for presenting a cash flow statement. IAS 7 defines cash flows as movements in both cash and cash equivalents. Cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

The cash flow statement should report cash flows during the period classified by operating, investing and financing activities.

- Operating activities are the principal revenue producing activities of the enterprise.
- Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.
- Financing activities are activities that result in changes in the size and composition of equity capital and borrowings of the enterprise.

6.1 Evaluation of changes in liabilities arising from financing activities

In January 2016 the Board amended IAS 7 to require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments were made following feedback from users of financial statements asking for improved disclosures about an entity's debt, including changes in debt during the reporting period. The new requirements are presented below.

An entity shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

To the extent necessary to satisfy the above requirement, disclose the following changes in liabilities arising from financing activities:

(a) Changes from financing cash flows;

(b) Changes arising from obtaining or losing control of subsidiaries or other businesses;

(c) The effect of changes in foreign exchange rates;

(d) Changes in fair values; and

(e) Other changes.

Classify liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, in the statement of cash flows as cash flows from financing activities. In addition, the disclosure requirement above also applies to changes in financial assets (for example, assets that hedge liabilities arising from financing activities) if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

One way to fulfill the disclosure requirement above is by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. Where an entity discloses such a reconciliation, it shall provide sufficient information to

enable users of the financial statements to link items included in the reconciliation to the statement of financial position and the statement of cash flows.

If an entity provides the disclosure in combination with disclosures of changes in other assets and liabilities, it shall disclose the changes in liabilities arising from financing activities separately from changes in those other assets and liabilities.

The effective date of this amendment is for accounting periods commencing on or after 1 January 2017, although earlier application is permitted.

7.0 IAS 8 Accounting policies, changes in accounting estimates and errors

The objective of IAS 8 is to prescribe the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. The standard is intended to enhance the relevance and reliability of an entity's financial statements, as well as the comparability of those financial statements over time and with the financial statements of other entities. Apply this standard in selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates and corrections of prior period errors. The tax effects of corrections of prior period errors and of retrospective adjustments made to apply changes in accounting policies are accounted for and disclosed in accordance with IAS 12 *Income Taxes*.

7.1 Changes in accounting policy

An entity shall change an accounting policy only if the change:

- Is required by a standard or an interpretation, or
- 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.

7.2 Changes in accounting estimate

Recognise the effect of a change in an accounting estimate prospectively by including it in profit or loss in:

- The period of the change, if the change affects that period only, or
- The period of the change and future periods, if the change affects both.

8.0 IAS 10 Events after the reporting period

The objective of IAS 10 is to prescribe:

- When an entity should adjust its financial statements for events after the reporting period, and
- The disclosures that an entity should give about the date when the financial statements were authorised for issue and about events after the reporting period.

The standard also requires that an entity should not prepare its financial statements on a going-concern basis if events after the balance sheet date indicate that the going-concern assumption is not appropriate.

Events after the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified they are:

- Those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period), and

- Those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

Adjust the amounts recognised in the financial statements to reflect adjusting events after the reporting period. Do not adjust the amounts recognised in the financial statements to reflect non-adjusting events after the reporting period.

9.0 IAS 11 Construction contracts

IAS 11 should be applied in accounting for construction contracts in the financial statements of contractors.

9.1 Recognition of contract revenue and expenses

When the outcome of a construction contract can be estimated reliably, recognise contract revenue and contract costs associated with the construction contract as revenue and expenses respectively by reference to the stage of competition of the contract activity at the balance sheet date.

10.0 IAS 12 *Income taxes*

IAS 12 applies to accounting and reporting both current and deferred taxes. For the purposes of this standard, income taxes include all domestic and foreign taxes, which are based on taxable profits. Income taxes also include taxes, such as withholding taxes, which are payable by a subsidiary, associate or joint venture on distributions to the reporting enterprise.

10.1 Recognition of current tax liabilities and current tax assets

Current tax for current and prior periods should, to the extent unpaid, be recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess should be recognised as an asset. The benefit relating to a tax loss that can be carried back to recover current tax of a previous period should be recognised as an asset.

When a tax loss is used to recover current tax of a previous period, an enterprise recognises the benefit as an asset in the period in which the tax loss occurs because it is probable that the benefit will flow to the enterprise and the benefit can be reliably measured.

10.2 Recognition of deferred tax liabilities and deferred tax assets

Taxable temporary differences

A deferred tax liability should be recognised for all taxable temporary differences, unless the deferred tax liability arises from:

- Goodwill for which amortisation is not deductible for tax purposes, or

- The initial recognition of an asset or liability in a transaction which is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit.

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

Deductible temporary differences

Recognise a deferred tax asset for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised, unless the deferred tax asset arises from:

- Negative goodwill which is treated as deferred income, or
- The initial recognition of an asset or liability in a transaction which is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit.

However, for deductible temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, the deferred tax asset should be recognised.

Unused tax losses and unused tax credits

Recognise a deferred tax asset for the carry-forward 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.

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

Recognise the 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:

- The parent, investor or venturer is able to control the timing of the reversal of the temporary differences, and
- It is probable that the temporary differences will not reverse in the foreseeable future.

Recognise a *deferred tax asset* for all deductible temporary differences arising from investments in subsidiaries, branches and associates, and interests in joint ventures, to the extent that, and only to the extent that, it is probable that:

- The temporary difference will reverse in the foreseeable future, and
- Taxable profit will be available against which the temporary difference can be utilised.

10.3 Measurement

Current tax liabilities (assets) for the current and prior periods should be measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets and liabilities should be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws), that have been enacted or substantively enacted by the balance sheet date.

The measurement of deferred tax liabilities and deferred tax assets should reflect the tax consequences that would follow from the manner in which the enterprise expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

10.4 Recognition of current and deferred tax

Income statement

Current and deferred tax should be recognised as income or an expense and included in the net profit or loss for the period, except to the extent that the tax arises from:

- A transaction or event which is recognised, in the same or a different period, directly in equity, or
- A business combination that is an acquisition.

Most deferred tax liabilities and deferred tax assets arise where income or expense is included in accounting profit in one period, but is included in taxable profit (tax loss) in a different period. The resulting deferred tax is recognised in the income statement.

Items credited or charged directly to equity

Current tax and deferred tax should be charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

10.5 Presentation

Tax assets and tax liabilities

Present tax assets and tax liabilities separately from other assets and liabilities in the balance sheet. Distinguish deferred tax assets and liabilities from current tax assets and liabilities.

Offset

Offset current tax assets and current tax liabilities if, and only if, the entity:

- Has a legally enforceable right to set off the recognised amounts, and
- Intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Offset deferred tax assets and deferred tax liabilities if, and only if:

- The enterprise has a legally enforceable right to set off current tax assets against current tax liabilities, and
- The deferred tax assets and the deferred tax liabilities related to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on the net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Tax expense

Present the tax expense related to profit or loss from ordinary activities on the face of the income statement.

10.6 Recognition of deferred tax assets for unrealised losses (amendments to IAS 12)

In January 2016 the IASB issued *Recognition of Deferred Tax Assets for Unrealised Losses* (Amendments to IAS 12). The amendments were issued to clarify the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value.

When an entity assesses whether taxable profits will be available against which it can utilise a deductible temporary difference, it considers whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. If tax law imposes no such restrictions, assess a deductible temporary difference in combination with all of its other deductible temporary differences. However, if tax law restricts the utilisation of losses to deduction against income of a specific type, assess a deductible temporary difference in combination

only with other deductible temporary differences of the appropriate type.

When there are insufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, recognize the deferred tax asset 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). In evaluating whether it will have sufficient taxable profit in future periods:

  (i) Compare the deductible temporary differences with future taxable profit that excludes tax deductions resulting from the reversal of those deductible temporary differences. This comparison shows the extent to which the future taxable profit is sufficient for the entity to deduct the amounts resulting from the reversal of those deductible temporary differences.

  (ii) Ignore taxable amounts arising from deductible temporary differences that are expected to originate in future periods, because the deferred tax asset arising from these 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.

The estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this. For example, when an asset is measured at fair value, the entity shall consider whether there is sufficient evidence to conclude that it is probable that the entity will recover the asset for more than its carrying amount. This may be the case, for example, when an entity expects to hold a fixed-rate debt instrument and collect the contractual cash flows.

The effective date of this amendment is for accounting periods commencing on or after 1 January 2017, although earlier application is permitted.

11.0 IAS 16 Property, plant and equipment

IAS 16 sets out the main requirements for the recognition, measurement and depreciation of tangible fixed assets.

11.1 Recognition of property, plant and equipment

An item of property, plant and equipment should be recognised as an asset when:

- It is probable that future economic benefits associated with the asset will flow to the enterprise, and
- The cost of the asset to the enterprise can be measured reliably.

11.2 Recognition of subsequent costs

Under the recognition principle above, an entity does not recognise in the carrying amount of an item of property, plant and equipment the costs of the day-to-day servicing of the item. Rather, these costs are recognised in profit or loss as incurred. Costs of day-to-day servicing are primarily the costs of labour and consumables, and may include the cost of small parts. The purpose of these expenditures is often described as for the 'repairs and maintenance' of the item of property, plant

and equipment.

11.3 Initial measurement of property, plant and equipment

An item of property, plant and equipment which qualifies for recognition as an asset should initially be measured at its cost.

Components of cost

The cost of an item of property, plant and equipment comprises:

- Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- 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, and
- 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.

11.4 Measurement subsequent to initial recognition

IAS 16 permits the use of either a cost model or a revaluation model. Once either model has been selected as an accounting policy, that policy must be applied to an entire class of property, plant and equipment.

Cost model

An item of property, plant and equipment should be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Revaluation model

An item of property, plant and equipment should be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

11.5 Depreciation

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

Allocate the amount initially recognised in respect of an item of property, plant and equipment to its significant parts and depreciate separately each such part. For example, it may be appropriate to depreciate separately the airframe and engines of an aircraft. The depreciation charge for each period shall be recognised in profit or loss unless it is included in the carrying amount of another asset. Allocate the depreciable amount of an asset on a systematic basis over its useful life.

12.0 IAS 17 Leases

IAS 17 prescribes, for lessees and lessors, the appropriate accounting policies and disclosure to apply in relation to leases.

12.1 Classification of leases

A lease is classified as a ***finance lease*** if it transfers substantially all the risks and rewards incident

to ownership. A lease is classified as an ***operating lease*** if it does not transfer substantially all the risks and rewards incident to ownership.

12.2 Leases in the financial statements of lessees

Finance leases – initial recognition

Lessees should recognise finance leases as assets and liabilities in the balance sheet at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments, the discount factor is the interest rate implicit in the lease, if this is practicable to determine. If not, the lessee's incremental borrowing rate should be used. Any initial direct costs of the lessee are added to the amount recognised as an asset.

Rent payments should be apportioned between the finance charge and the reduction of the outstanding liability. The finance charge should be allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of a liability for each period.

Finance leases – subsequent recognition

Minimum lease payments shall be apportioned between the finance charge and the reduction of the outstanding liability. The finance charge shall be allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents shall be charged as expenses in the periods in which they are incurred.

In practice, in allocating the finance charge to periods during the lease term, a lessee may use some form of approximation to simplify the calculation.

The depreciation charge for leased assets should be consistent with that for owned assets. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset should be fully depreciated over the shorter of the lease term or its useful life.

Operating leases

Lease payments under an operating lease shall be recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

13.0 IAS 18 Revenue

The current standards applicable to revenue recognition are IAS 18 *Revenue* and IAS 11 *Construction contracts*. A commentary on IAS 18 is given below. The commentary on IAS 11 is in 22.00 below. In May 2014, IFRS 15 *Revenue from contracts with customers* was issued. IFRS has an effective date of 1 January 2017, with earlier application permitted. When IFRS 15 is effective, it replaces IAS 11 and 18.

This standard applies to the accounting for revenue arising from:

- The sale of goods;
- The rendering of services, and
- The use by others of enterprise assets yielding interest, royalties and dividends.

Revenue is the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an enterprise when those inflows result in increases in equity, other than increases releasing to contributions from equity participants.

13.1 Measurement of revenues

Revenue should be measured at the fair value of the consideration received or receivable.

13.2 Sale of goods

Recognise revenue from resale of goods when all the following conditions have been satisfied:

- The enterprise has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The enterprise retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits associated with the transaction will flow to the enterprise.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

13.3 Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction should be recognised by the reference to the stage of completion of the transaction at the balance sheet date. The outcome of a transaction can be estimated reliably when all of the following conditions are satisfied:

- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the enterprise;
- The stage of completion of the transaction at the balance sheet date can be measured reliably, and
- The costs incurred for the transaction and the cost to complete the transaction can be measured reliably.

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

14.0 IAS 19 Employee benefits

IAS 19 shall be applied by an employer in accounting for all employee benefits, except those to which IFRS 2 *Share-based Payment* applies.

Short-Term Employee Benefits

Short-term employee benefits 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) where the compensation for the absences is due to be settled 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.

14.1 Recognition and Measurement of All Short-Term Employee Benefits

When an employee has rendered service to an entity during an accounting period, the entity shall recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

(a) As a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund, and

(b) As an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

14.2 Defined Contribution Plans

Accounting for defined contribution plans is straightforward because the reporting entity's obligation for each period is determined by the amounts to be contributed for that period. Consequently, no actuarial assumptions are required to measure the obligation or the expense and there is no possibility of any actuarial gain or loss. Moreover, the obligations are measured on an undiscounted basis, except where they do not fall due wholly within 12 months after the end of the period in which the employees render the related service.

Recognition and Measurement

When an employee has rendered service to an entity during a period, the entity should recognise the contribution payable to a defined contribution plan in exchange for that service:

- As a liability (accrued expense), after deducting any contribution already paid; if the contribution already paid exceeds the contribution due for service before the balance sheet date, an entity should recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund, and
- As an expense.

Defined Benefit Plans

Defined benefit plans are defined by IAS 19 as post-employment benefit plans other than defined contribution plans.

Accounting for defined benefit plans involves the following steps:

(a) Determining the deficit or surplus – this involves:

  (i) Using an actuarial technique, the projected unit credit method, to make a reliable estimate of the ultimate cost to the entity of the benefit that employees have earned in return for their service in the current and prior periods;

  (ii) Discounting that benefit in order to determine the present value of the defined benefit obligation and the current service cost, and

  (iii) Deducting the fair value of any plan assets from the present value of the defined benefit obligation.

(b) Determining the amount of the net defined benefit liability (asset) as the amount of the deficit or surplus determined in (a), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling;

(c) Determining amounts to be recognised in profit or loss:

(i) Current service cost;

(ii) Any past service cost and gain or loss on settlement;

(iii) Net interest on the net defined benefit liability (asset).

(d) Determining the remeasurements of the net defined benefit liability (asset), to be recognised in other comprehensive income, comprising:

(i) Actuarial gains and losses;

(ii) Return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset), and

(iii) Any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

The net defined benefit liability (asset) is recognised in the statement of financial position.

The components of defined benefit cost are recognised as follows:

(a) Service cost in profit or loss;

(b) Net interest on the net defined benefit liability (asset) in profit or loss, and

(c) Remeasurements of the net defined benefit liability.

Remeasurements of the net defined benefit liability (asset) recognised in other comprehensive income shall not be reclassified to profit or loss in a subsequent period. However, the entity may transfer those amounts recognised in other comprehensive income within equity.

14.3 Disclosure

An entity shall disclose information that:

(a) Explains the characteristics of its defined benefit plans and risks associated with them;

(b) Identifies and explains the amounts in its financial statements arising from its defined benefit plans, and

(c) Describes how its defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows.

15.0 IAS 20 Accounting for government grants and disclosure of government assistance

The IAS permits two methods of presentation for asset-related grants, which may be either treated as deferred income and recognised as income over the useful life of the asset or deducted from cost in arriving at the carrying value of the asset.

16.0 IAS 21 The effects of changes in foreign exchange rates

IAS 21 *The effects of changes in foreign exchange rates* should be applied:

- In accounting for transactions in foreign currencies;
- In translating the results and financial position of foreign operations that are included in the financial statements of the enterprise by consolidation, proportionate consolidation or by the equity method, and
- In translating an entity's results and financial position into a presentation currency.

16.1 Reporting foreign currency transactions in the functional currency

Initial recognition

A foreign currency transaction is a transaction which is denominated in or requires settlement in a foreign currency, including transactions arising when an enterprise:

- Buys or sells goods or services whose price is denominated in a foreign currency;
- Borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency, or
- Otherwise acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency.

A foreign currency transaction should be recorded, on initial recognition in the reporting 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.

Reporting at subsequent balance sheet dates

At each balance sheet date:

- Foreign currency monetary amounts should be reported using the closing rate;
- Non-monetary items which are carried in terms of historical cost denominated in a foreign currency should be reported using the exchange rate at the date of the transaction, and
- Non-monetary items which are carried at fair value denominated in a foreign currency should be reported using the exchange rates that existed when values were determined.

16.2 Recognition of exchange differences

Exchange differences arising on the settlement of monetary items or on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognised as income or as expenses in the period in which they arise, with the exception of exchange differences arising from the net investment in a foreign entity.

16.3 Net investment in a foreign entity

Recognise exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation 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, (e.g. consolidated financial statements when the foreign operation is a subsidiary) such exchange differences shall be recognised initially in a separate component of equity and recognised in profit or loss on disposal of the net investment in accordance with the principles detailed below.

16.4 Translation to the presentation currency

An entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the entity's functional currency, it translates its results and financial position into the presentation currency. For example, when a group contains individual entities with different functional currencies, the results and financial position of each entity are expressed in a common currency so that consolidated financial statements may be presented.

16.5 Translation of a foreign operation

The incorporation of the results and financial position of a foreign operation with those of the reporting entity follows normal consolidation procedures, such as the elimination of intra-group balances and intra-group transactions of a subsidiary (see IAS 27 *Consolidated financial statements*

and accounting for investments in subsidiaries and IAS 31 *Financial reporting of interests in joint ventures*). However, an intra-group monetary asset (or liability), whether short-term or long-term, cannot be eliminated against the corresponding intra-group 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 of the reporting entity, such an exchange difference continues to be recognised in profit or loss. If it arises from the differences arising from a monetary item forming part of the reporting entity's net investment in a foreign currency, it is classified as equity until the disposal of the foreign operation.

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.

17.0 IAS 23 Borrowing costs

IAS 23 requires the capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.

18.0 IAS 24 Related party disclosures

The objective of IAS 24 is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

18.1 Disclosures of control

Disclose relationships between parents and subsidiaries irrespective of whether there have been transactions between those related parties. An entity shall disclose the name of the entity's 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 shall also be disclosed. When neither the entity's parent nor the ultimate controlling party produces financial statements available for public use, the entity discloses the name of the next most senior parent that does so. The next most senior parent is the first parent in the group above the immediate parent that produces consolidated financial statements available for public use.

18.2 Disclosure of key management personnel compensation

Disclose key management personnel compensation in total and for each of the following categories:

- Short-term employee benefits;
- Post-employment benefits;
- Other long-term benefits;
- Termination benefits, and
- Equity compensation benefits.

18.3 Disclosure of transactions between related parties

If there have been transactions between related parties, disclose the nature of the related-party relationship as well as information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements.

19.0 IAS 27 Separate financial statements

IAS 27 shall be applied in accounting for investments in subsidiaries, jointly controlled entities and associates when an entity elects, or is required by local regulations, to present separate financial statements. Separate financial statements shall be prepared in accordance with all applicable IFRS, except as provided below. When separate financial statements are prepared, investments in subsidiaries, jointly-controlled entities and associates shall be accounted for either:

- At cost, or
- In accordance with IFRS 9.

Apply the same accounting for each category of investments. Investments accounted for at cost shall be accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* when they are classified as held for sale (or included in a disposal group that is classified as held for sale). The measurement of investments accounted for in accordance with IFRS 9 is not changed in such circumstances.

20.0 IAS 28 Accounting for investments in associates and joint ventures

IAS 28 prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 shall be applied by all entities that are investors with joint control of, or significant influence over, an investee.

If an entity holds, directly or indirectly, (e.g. through subsidiaries) 20 percent or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds, directly or indirectly, (e.g. through subsidiaries) less than 20 percent of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an investor from having significant influence.

Under the equity method, the investment in an associate is initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the profit or loss of the investee is recognised in the investor's profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's equity that have not been recognised in the investee's profit or loss. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The investor's share of those changes is recognised directly in other comprehensive income. When potential voting rights exist, the investor's share of profit or loss of the investee and of changes in the investee's equity is determined on the basis of present ownership interests and does not reflect the possible exercise or conversion of potential voting rights.

21.0 IAS 29 Financial Reporting in Hyperinflationary Economies

Apply IAS 29 to the financial statements, including the consolidated financial statements, of any entity whose functional currency is the currency of a hyperinflationary economy. IAS 29 does not establish an absolute rate at which hyperinflation is deemed to arise. It is a matter of judgement when restatement of financial statements in accordance with IAS 29 becomes necessary.

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 corresponding figures for the previous period required by IAS 1 *Presentation of Financial Statements* and any information in respect of earlier periods shall also be stated in terms of the measuring unit current at the end of the reporting period.

The restatement of financial statements in accordance with IAS 29 requires the application of certain procedures as well as judgement. The consistent application of these procedures and judgements from period to period is more important than the precise accuracy of the resulting amounts included in the restated financial statements.

The restatement of financial statements in accordance with IAS 29 requires the use of a general price index that reflects changes in general purchasing power. It is preferable that all entities that report in the currency of the same economy use the same index.

When an economy ceases to be hyperinflationary and an entity discontinues the preparation and presentation of financial statements prepared in accordance with IAS 29, it shall treat the amounts expressed in the measuring unit current at the end of the previous reporting period as the basis for the carrying amounts in its subsequent financial statements.

22.0 IAS 32 Financial instruments: presentation

The objective of this standard is to establish principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities. It applies to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments; the classification of related interest, dividends, losses and gains; and the circumstances in which financial assets and financial liabilities should be offset.

22.1 Definitions

There are several important definitions in IAS 32, which are also applied in IAS 39, IFRS 7 and IFRS 9.

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

A financial asset is any asset that is:

1. Cash.
2. An equity instrument of another entity.
3. A contractual right:
   (a) To receive cash or another financial asset from another entity, or
   (b) To exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.
4. A contract that will or may be settled in the entity's own equity instruments and is:
   (a) A non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments, or
   (b) A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments; for this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

A financial liability is any liability that is:

1. A contractual obligation:
   (a) To deliver cash or another financial asset to another entity, or
   (b) To exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.
2. A contract that will or may be settled in the entity's own equity instruments and is:

(a) A non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments, or

(b) A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

An *equity instrument* is any contract that evidences a residual interest in the assets of an enterprise after deducting all of its liabilities.

22.2 Presentation

The issuer of a financial instrument shall classify the instrument, or its component parts, on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument.

22.3 Interest, dividends, losses and gains

Recognise interest, dividends, losses and gains relating to a financial instrument or a component that is a financial liability as income or expense in profit or loss. Distributions to holders of an equity instrument shall be debited by the entity directly to equity, net of any related income tax benefit. Transaction costs of an equity transaction, other than costs of issuing an equity instrument that are directly attributable to the acquisition of a business (which shall be accounted for under IAS 22), shall be accounted for as a deduction from equity, net of any related income tax benefit.

22.4 Offsetting a financial asset and a financial liability

A financial asset and a financial liability shall be offset and the net amount presented in the balance sheet when, and only when, an entity:

- Currently has a legally enforceable right to set off the recognised amounts, and
- Intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, do not offset the transferred asset and the associated liability.

23.0 IAS 33 Earnings per share

IAS 33 prescribes principles for the determination and presentation of earnings per share, which will permit comparisons among different enterprises in the same period and among different accounting periods for the same enterprise.

23.1 Definitions

The following terms are used in IAS 33:

Basic earnings per share – the amount of net profit for the period that is attributable to each ordinary share, which is outstanding during all or part of the period.

Diluted earnings per share – the amount of net profit for the period that is attributable to each ordinary share which is outstanding during all or part of the period, and to each additional share which would have been outstanding assuming the conversion of all dilutive potential ordinary shares into ordinary shares during the period.

23.2 Basic earnings per share

The objective of basic earnings per share information is to provide a measure of the interests of each ordinary share of a parent entity in the performance of the entity over the reporting period. Calculate basic earnings per share amounts for profit or loss attributable to ordinary equity holders of the parent entity and, if presented, profit or loss from continuing operations attributable to those equity holders. Basic earnings per share shall be calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period.

23.3 Diluted earnings per share

The objective of diluted earnings per share is consistent with that of basic earnings per share – to provide a measure of the interest of each ordinary share in the performance of an entity while giving effect to all dilutive potential ordinary shares outstanding during the period. Calculate diluted earnings per share amounts for profit or loss attributable to ordinary equity holders of the parent entity and, if presented, profit or loss from continuing operations attributable to those equity holders. For the purpose of calculating diluted earnings per share, adjust profit or loss attributable to ordinary equity holders of the parent entity, and the weighted average number of shares outstanding, for the effects of all dilutive potential ordinary shares.

24.0 IAS 34 Interim financial reporting

IAS 34 states that the same accounting recognition and measurement principles should be applied in the interim report as are applied in the annual financial statements. IAS 34 also states that measurements for interim reporting purposes should be made on a year-to-date basis, which ensures that an entity's frequency of reporting (annual, half-yearly or quarterly) does not affect the measurement of its annual results. However, as a consequence, amounts reported in prior interim periods of the current financial year may need to be remeasured at a later date as new information becomes available. IAS 34 requires significant remeasurements of previously reported interim data to be disclosed in the interim report or, if there is no separate interim report for the final interim period of the year, in a note to the annual financial statements.

25.0 IAS 36 Impairment of assets

IAS 36 addresses the review and testing of assets for evidence of impairment. The definition of impairment is a reduction in the recoverable amount of a fixed asset or goodwill below its carrying amount. The recoverable amount is the higher of fair value less cost to sell and value in use.

25.1 Frequency of impairment testing

The standard requires that the recoverable amount of an intangible asset with an indefinite useful life should also be measured each annual reporting period, irrespective of whether there is any indication that it may be impaired. However, the most recent detailed calculation of recoverable amount made in a preceding reporting period may be used in the impairment test for that asset in the current period, provided specified criteria are met.

The IAS requires that goodwill acquired in a business combination should be tested for impairment annually and whenever there is any indication that it may be impaired.

25.2 Measurement of recoverable amount

If there is any indication that an asset may be impaired, the recoverable amount should be estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, determine the recoverable amount of the cash-generating unit to which the asset belongs. The resulting recoverable amount for either the individual asset or for the cash-generating unit is then compared to the carrying value of the individual asset or the carrying value of the cash-generating unit. Any impairment is recognised.

The recoverable amount cannot be determined for an individual asset where the asset does not generate cash inflows from continuing use that are largely independent of those from other assets or

groups of assets. If this is the case, the recoverable amount is determined for the cash-generating unit to which the asset belongs, unless either:

- The asset's fair value less cost to sell is higher than its carrying amount, or
- The asset's value in use can be estimated to be close to its fair value less cost to sell and fair value less cost to sell can be determined.

25.3 Calculation of fair value less cost to sell

The best evidence of net selling price is the price in a binding sale agreement in an arm's length transaction, after adjustment for incremental costs of disposal. If there is no sale agreement but the asset is traded in an active market, fair value less cost to sell is the market price less costs of selling. (The bid price is usually the appropriate price.) If there is no binding sale agreement or active market for an asset, fair value less cost to sell is based on the best information available to reflect the amount that an enterprise could obtain, at the balance sheet date, for the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal.

25.4 Calculation of value in use

The value in use is the present value of the future cash flows obtainable by the asset from its continuing use and ultimate disposal. Expected cash flows should be based on reasonable and supportable assumptions that represent management's best estimates of the economic conditions over the remaining useful life of the asset. Greater weight should be given to external evidence. Cash flow projections should be based on the most up to date plans and budgets approved by management. These should not cover more than five years unless this can be justified.

Cash flows beyond formal plans should normally assume a steady or declining growth rate, higher growth rate can be used if it is justified by objective evidence. Only in exceptional circumstances should:

- The period before the steady or declining growth rate is assumed extend to more than five years, or
- The growth rate exceed the long-term average growth rate (say 20 years) for the country/countries/markets in which the business operates.

The discount rate used should be an estimate of the rate that the market would expect on an equally risky investment. It should exclude the effects of any risk for which the cash flows have been adjusted and should be calculated on a pre-tax basis.

25.5 Recognition of impairment

Recognise the impairment loss in the income statement unless it arises on a previously revalued fixed asset. For revalued assets it is recognised as a revaluation decrease and will be deducted as far as possible from the revaluation surplus on that asset. Any related deferred tax liabilities should be calculated as required in IAS 12.

25.6 Reversal of impairments

The entity should assess at each balance sheet date whether there is an indication that an impairment loss previously recognised has reversed or decreased. If there is such an indication, the enterprise should estimate the recoverable amount of the asset. However, goodwill impairment losses may not be reversed.

26.0 IAS 37 Provisions, contingent liabilities and contingent assets

IAS 37 established detailed criteria for the recognition of provisions. The standard includes detailed disclosures, which explain the purpose of provisions and their movement during the year.

26.1 Recognition

A provision should be recognised when:

- An entity has a present obligation (legal or constructive) as a result of a past event;
- It is probable that a transfer of economic benefits will be required to settle the obligation, and
- A reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision should be recognised.

26.2 Measurement

The amount recognised as a provision should be the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

26.3 Changes in provisions

Review provisions at each balance sheet date and adjust them to reflect the current best estimate. If it is no longer probable that a transfer of economic benefits will be required to settle the obligation, the provision should be reversed.

26.4 Use of provisions

A provision should be used only for expenditures for which the provision was originally recognised.

27.0 IAS 38 Intangible Assets

IAS 38 defines an intangible asset as 'an identifiable non-monetary asset without physical substance.' The standard specifies that an asset should be treated as meeting the identifiability criterion in the definition of an intangible asset when it:

- Is separable, i.e. 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
- 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.

27.1 Criteria for initial recognition

IAS 38 requires an intangible asset to be recognised if, and only if:

- It is probable that the future economic benefits attributable to the asset will flow to the entity, and

- Its cost can be measured reliably.

IAS 38 provides additional guidance to clarify that:

- The probability recognition criterion will always be satisfied for separately acquired intangible assets, and

- The probability recognition criterion will always be satisfied for intangible assets acquired in a business combination.

27.2 Useful life

The revised IAS requires an intangible asset to be regarded as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit on the period over which the asset is expected to generate net cash inflows for the entity.

The IAS states that:

- The useful life of an intangible asset arising from contractual or other legal rights should not exceed the period of those rights but may be shorter depending on the period over which the asset is expected to be used by the entity, and

- If the rights are conveyed for a limited term that can be renewed, the useful life should include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost.

27.3 Intangible assets with indefinite useful lives

The IAS states the following:

1. An intangible asset with an indefinite useful life should not be amortised.

2. The useful life of such an asset should be reviewed each reporting period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite should be accounted for as a change in an accounting estimate.

27.4 Review of amortisation period

The amortisation period and the amortisation method for an intangible asset with a finite useful life shall be reviewed at least at each financial year end.

27.5 Review of useful life assessment

Review the useful life of an intangible asset that is not being amortised each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, account for the change in the useful life assessment from indefinite to finite for as a change in an accounting estimate in accordance with IAS 8.

27.6 Internally generated intangibles

Internally generated goodwill should not be recognised as an asset. To assess whether an internally generated intangible asset meets the criteria for recognition, an enterprise should classify the generation of the asset into:

- A research phase; and
- A development phase.

If an enterprise cannot distinguish the research phase from the development phase of an internal project to create an intangible asset, the enterprise treats the expenditure on that project as if it were incurred in the research phase only.

27.7 Research activities

No intangible asset arising from research (or from the research phase of an internal project) should be recognised. Expenditure on research (or on the research phase of an internal project) should be recognised as an expense when it is incurred.

27.8 Development activities

An intangible asset arising from development should be recognised if, and only if, an enterprise can demonstrate all of the following:

- The technical feasibility;

- Its intention to complete the intangible asset and use or sell it;

- Its ability to use or sell the intangible asset;

- How the intangible asset will generate probable future economic benefits;

- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and

- Its ability to measure the expenditure attributable to the intangible asset during its development reliably.

27.9 Subsequent expenditure

IAS 38 requires such expenditure to be:

- Recognised as an expense when incurred if it is in the nature of research expenditure;

- Recognised as an expense when incurred if it is in the nature of development expenditure but does not satisfy the criteria in IAS 38 for recognising such expenditure as an intangible asset, and

- Recognised as an intangible asset if it is in the nature of development expenditure that satisfies the criteria in IAS 38 for recognising such expenditure as an intangible asset.

27.10 Measurement after recognition

An entity shall choose either the cost model or the revaluation model as its accounting policy. If an intangible asset is accounted for using the revaluation model, account for all the other assets in its class using the same model, unless there is no active market for those assets.

27.11 Retirements and disposals

An intangible asset shall be derecognised:

- On disposal, or
- When no future economic benefits are expected from its use or disposal.

Determine the gain or loss arising from the derecognition of an intangible asset as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. It shall be recognised in profit or loss when the asset is derecognised (unless IAS 17 Leases requires otherwise on a sale and leaseback). Gains shall not be classified as revenue.

28.0 IAS 39 Financial instruments: recognition and measurement

IAS 39 applies to all financial instruments with certain exceptions for items such as:

- Insurance and pension plans;
- Items related to subsidiaries, associates and joint ventures, and
- Equity instruments of the reporting entity.

The standard does not apply to commodity contracts, which are intended to be settled by delivery. The standards applies to recognition and measurement of financial instruments. Under this standard many financial assets and certain financial liabilities should be measured, both initially and subsequently, at fair value. Detailed implementation guidance is appended to the standard.

The general rule of the standard is that all qualifying financial assets and liabilities should be recognised on the balance sheet. Recognition arises when an enterprise becomes a party to the contractual provisions of the instrument.

28.1 Financial asset or liability at fair value through profit or loss

'Financial asset or financial liability at fair value through profit or loss' are financial assets or financial liabilities that meet either of the following conditions:

1. It is classified as held for trading. A financial asset or financial liability is classified as held for trading if it is:

   - Acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
   - Part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking, or
   - A derivative (except for a derivative that is a designated and effective hedging instrument).

2. Upon initial recognition it is designated by the entity as at fair value through profit or loss. Any financial asset or financial liability within the scope of this standard may be designated when initially recognised as a financial asset or financial liability at fair value through profit or loss except for investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

28.2 Initial recognition

When a financial asset or financial liability is recognised initially, an entity shall measure it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

28.3 Financial assets – measurement

For measurement, IAS 39 classifies financial assets into four categories:

- Loans and receivables;
- Held-to-maturity investments;
- Available-for-sale financial assets, and
- Financial assets at fair value through profit or loss.

After initial recognition, measure financial assets, including derivatives that are assets, at their fair values, without any deduction for transaction costs that the entity may incur on sale or other disposal – except for the following categories of financial assets:

- Loans and receivables;
- Held-to-maturity investments, and
- Any financial asset that does not have a quoted market price in an active market and whose fair value cannot be reliably measured.

Loans and receivables and held-to-maturity investments should be measured at amortised cost using the effective interest rate method. Investments in equity instruments whose fair value cannot be determined should be measured at cost.

28.4 Financial liabilities – measurement

After initial recognition, an enterprise should measure all financial liabilities, other than financial liabilities at FV through profit or loss and derivatives that are liabilities, at amortised cost. Financial liabilities at fair value through profit or loss, and derivatives that are liabilities, are measured at fair value. An exception is for derivative liabilities that are linked to and that must be settled by delivery of

an unquoted equity instrument whose fair value cannot be reliably measured. These should be measured at cost.

28.5 Reporting gains and losses

A recognised gain or loss arising from a change in the fair value of a financial asset or financial liability that is not part of a hedging relationship should be reported as follows:

- A gain or loss on a financial asset or liability at fair value through profit or loss should be included in net profit or loss for the period in which it arises, and

- A gain or loss on an available-for-sale financial asset should be either recognised directly in equity until the financial asset is sold, collected or otherwise disposed of, or until the financial asset is determined to be impaired at which time the cumulative gain or loss previously recognised in equity should be included in profit or loss.

For those financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in net profit or loss when the financial asset or liability is derecognised or impaired, as well as through the amortisation process.

28.6 Hedges

There are strict criteria for an item to be recognised as a hedge, essentially ensuring that there is a true hedge, including documentation of the hedge, an expectation that the hedge will be highly effective and evidence that it has in fact been effective.

In IAS 39, there are three types of hedging relationships:

- Fair value hedge;

- Cash flow hedge, and

- Hedge of a net investment in a foreign entity.

29.0 IAS 40 Investment properties

IAS 40 permits investment properties to be accounted for either at fair value, exempt from depreciation or at depreciated cost less any accumulated impairment losses.

30.0 IAS 41 *Agriculture*

The objective of IAS 41 is to prescribe the accounting treatment and disclosures related to agricultural activity.

Agricultural activity is the management by an entity of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce or into additional biological assets. Biological transformation comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset. A biological asset is a living animal or plant. Agricultural produce is the harvested product of the entity's biological assets. Harvest is the detachment of produce from a biological asset or the cessation of a biological asset's life processes.

IAS 41 prescribes, among other things, the accounting treatment for biological assets during the period of growth, degeneration, production, and procreation, and for the initial measurement of agricultural produce at the point of harvest. It requires measurement at fair value less costs to sell from initial recognition of biological assets up to the point of harvest, other than when fair value cannot be measured reliably on initial recognition.

IAS 41 is applied to agricultural produce, which is the harvested product of the entity's biological assets, only at the point of harvest. Thereafter, IAS 2 *Inventories* or another applicable Standard is applied. Accordingly, IAS 41 does not deal with the processing of agricultural produce after harvest.

IAS 41 requires that a change in fair value less costs to sell of a biological asset be included in profit or loss for the period in which it arises. In agricultural activity, a change in physical attributes of a living animal or plant directly enhances or diminishes economic benefits to the entity.

IAS 41 does not establish any new principles for land related to agricultural activity. Instead, an entity follows IAS 16 *Property, Plant and Equipment* or IAS 40 *Investment Property*, depending on which standard is appropriate in the circumstances. Biological assets that are physically attached to land (for example, trees in a plantation forest) are measured at their fair value less costs to sell separately from the land.

IAS 41 requires that an unconditional government grant related to a biological asset measured at its fair value less costs to sell to be recognised in profit or loss when, and only when, the government grant becomes receivable. If a government grant is conditional, including when a government grant requires an entity not to engage in specified agricultural activity, an entity should recognise the government grant in profit or loss when, and only when, the conditions attaching to the government grant are met. If a government grant relates to a biological asset measured at its cost less any accumulated depreciation and any accumulated impairment losses, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* is applied.

31.0 IFRS 1 First-time adoption of International Financial Reporting Standards

For companies required to adopt International Financial Reporting Standards (IFRS) for the first time specific guidance on the transition for "old GAAP" to IFRS is provided in IFRS 1 *First Time Adoption of International Financial Reporting Standards.*

The stated objective of IFRS is to ensure that an entity's first IFRS financial statements contain high quality information that:

- Is transparent for users and comparable over all periods prescribed
- Provides a suitable starting point for accounting under IFRS, and
- Can be generated at a cost that does not exceed the benefits to users.

IFRS 1 applies to the preparation of an entity's first IFRS financial statements (i.e. annual financial statements when IFRS is fully adopted). It also covers any interim financial statements for any period covered by the first IFRS financial statements.

The standard:

- Requires the financial accounts to state that they are the first to be prepared in accordance with IFRS and are in compliance with IFRS.

- Requires comparative information also to be prepared in accordance with IFRS. This means that there must be a restatement of the opening balance sheet for the commencement of the comparative period and the application of consistent accounting policies for both current and comparative periods. Under IAS 1 *Presentation of Financial Statements* at least one comparative period must be reported.

- Current IFRS must also be applied for comparative periods in first time adoption rather than earlier standards.

In applying IFRS 1 consideration is required for each of the following:

- *Recognition of* all assets and liabilities under IFRS not previously recognised.
- *Derecognition* of assets and liabilities not permitted under IFRS.

- *Reclassification* of assets, liabilities or equity that are treated differently under IFRS in comparison to existing GAAP.
- *Measurement* of assets and liabilities under IFRS which may require a restatement of carrying values.
- *Reassessment* of estimates previously applied under existing GAAP. Such reassessment should be made based upon information available when the original estimates were made or where new estimates are required the date of transition.

IFRS 1 permits some exemptions from the requirements of other standards. These relate to:

- Business combinations;
- Share-based payment transactions;
- Insurance contracts;
- Deemed cost;
- Leases;
- Cumulative translation differences;
- Investments in subsidiaries, joint ventures and associates;
- Assets and liabilities of subsidiaries, associates and joint ventures;
- Compound financial instruments;
- Designation of previously recognised financial instruments;
- Fair value measurement of financial assets or financial liabilities at initial recognition;
- Decommissioning liabilities included in the cost of property, plant and equipment;
- Financial assets or intangible assets accounted for in accordance with IFRIC 12 *Service Concession Arrangements*;
- Borrowing costs;
- Transfers of assets from customers;
- Extinguishing financial liabilities with equity instruments;
- Severe hyperinflation;
- Joint arrangements; and
- Stripping costs in the production phase of a surface mine.

IFRS 1 prohibits retrospective application of some aspects of other IFRS. These prohibitions relate to:

- Estimates;
- Derecognition of financial assets and financial liabilities;
- Hedge accounting, and

- Non-controlling interests.

To ensure clear understanding of the differences between how the entity reported financial performance, position and cash flows under the old GAAP to how they are now presented under IFRS, it is a critical requirement of IFRS that reconciliations are prepared with such explanations between amounts reported under previous GAAP to that under IFRS for the following:

- Equity/statement of financial position for the opening and closing position of the comparative period.

- Profit or loss for the comparative period.

- Main cash flow adjustments to restate the comparative period.

- Any adjustments in respect of impairment losses or reversals from first-time adoption.

32.0 Share-based payments

The objective of IFRS 2 is to specify the financial reporting by an entity when it undertakes a share-based payment transaction. In particular, it requires an entity to reflect in its profit or loss and financial position the effects of share-based payment transactions, including expenses associated with transactions in which share options are granted to employees.

32.1 Recognition

The recognition principles of the standard are as follows.

1. 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. 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.

2. When the goods or services received or acquired in a share-based payment transaction do not qualify for recognition as assets, they shall be recognised as expenses.

32.2 Equity-settled share-based payment transactions

For equity-settled share-based payment transactions, measure the goods or services received, and the corresponding increase in equity, directly, 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, measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the *equity instruments granted.*

Usually the fair value of the services received shall be measured by reference to the fair value of the equity instruments granted. The fair value of those equity instruments shall be measured at the *grant date.*

If the equity instruments granted *vest* immediately, the counterparty is not required to complete a specified period of service before becoming unconditionally entitled to those equity instruments. In the absence of evidence to the contrary, presume that services rendered by the counterparty as consideration for the equity instruments have been received. In this case, on grant date recognise the services received in full, with a corresponding increase in equity.

If the equity instruments granted do not vest until the counterparty completes a specified period of service, presume that the services to be rendered by the counterparty as consideration for those equity instruments will be received in the future, during the *vesting period.*

33.3 IFRS 3 *Business combinations*

IFRS 3 prescribes the accounting treatment for business combinations. The standard specifies that all business combinations should be accounted for by applying the purchase method. Therefore, the acquirer recognises the acquiree's identifiable assets, liabilities and contingent liabilities at their fair values at the acquisition date and also recognises goodwill, which is subsequently tested for impairment rather than amortised.

33.1 Accounting for acquisitions

All business combinations shall be accounted for by applying the purchase method. Applying the purchase method involves the following steps:

- Identifying the acquirer;
- Determining the acquisition date;
- Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; and
- Recognising and measuring goodwill or a gain from a bargain purchase.

33.2 Concept of control

An acquirer should be identified for every business combination within its scope. The acquirer is the combining entity that obtains control of the other combining entities or operations. Control is the power to govern the financial and operating policies of an entity or operation so as to obtain benefits from its activities. A combining entity shall be presumed to have obtained control of another combining entity when it acquires more than one-half of that other entity's voting rights, unless it can be demonstrated that such ownership does not constitute control. Even if one of the combining entities does not acquire more than one-half of the voting rights of another combining entity, it might have obtained control of that other entity if, as a result of the combination, it obtains:

a) Power over more than one-half of the voting rights of the other entity by virtue of an agreement with other investors;

b) Power to govern the financial and operating policies of the other 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 of the other entity, or

d) Power to cast the majority of votes at meetings of the board of directors or equivalent governing body of the other entity.

33.3 Identifying the Acquirer

In a business combination effected through an exchange of equity interests, the entity that issues the equity interests is normally the acquirer. However, all pertinent facts and circumstances shall be considered to determine which of the combining entities has the power to govern the financial and operating policies of the other entity (or entities) so as to obtain benefits from its (or their) activities.

33.4 Reverse Acquisitions

In some business combinations, commonly referred to as reverse acquisitions, the acquirer is the entity whose equity interests have been acquired and the issuing entity is the acquiree. This might be the case when, for example, a private entity arranges to have itself 'acquired' by a smaller public entity as a means of obtaining a stock exchange listing. Although legally the issuing public entity is regarded as the parent and the private entity is regarded as the subsidiary, the legal subsidiary is the acquirer if it has the power to govern the financial and operating policies of the legal parent so as to obtain benefits from its activities

33.5 Determining the acquisition date

The acquirer shall identify the acquisition date, which is the date on which it obtains control of the acquiree. The date on which the acquirer obtains control of the acquiree is generally the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree-the closing date.

33.6 Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree

Recognition principle

As of the acquisition date, the acquirer shall recognise, separately from goodwill:

- The identifiable assets acquired,
- The liabilities assumed, and
- Any non-controlling interest in the acquiree.

Recognition conditions

To qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in the IASB's *Framework* at the acquisition date. In addition, the identifiable assets acquired and liabilities assumed must be part of what the acquirer and the acquiree (or its former *owners*) exchanged in the business combination transaction rather than the result of separate transactions.

The acquirer shall apply the guidance in IFRS 3 to determine which assets acquired or liabilities assumed are part of the exchange for the acquiree and which, if any, are the result of separate transactions to be accounted for in accordance with their nature and the applicable IFRS.

33.7 Classifying or designating identifiable assets acquired and liabilities assumed in a business combination

At the acquisition date, the acquirer shall classify or designate the identifiable assets acquired and liabilities assumed as necessary to apply other IFRS subsequently. The acquirer shall make those classifications or designations on the basis of the contractual terms, economic conditions, its operating or accounting policies and other pertinent conditions as they exist at the acquisition date.

IFRS 3 provides two exceptions to the principle above:

- Classification of a lease contract as either an operating lease or a finance lease in accordance with IAS 17 *Leases*; and
- Classification of a contract as an insurance contract in accordance with IFRS 4 *Insurance Contracts*.

The acquirer shall classify those contracts on the basis of the contractual terms and other factors at the inception of the contract.

33.8 Measurement principle

The acquirer shall measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values. For each business combination, measure any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

33.9 Exceptions to the recognition or measurement principles

IFRS 3 provides limited exceptions to its recognition and measurement principles. The acquirer shall account for those items by applying the requirements in IFRS 3, which will result in some items being:

- Recognised either by applying recognition conditions in addition to those in IFRS 3.11 or .12 or by applying the requirements of other IFRS, with results that differ from applying the recognition principle and conditions.

- Measured at an amount other than their acquisition-date fair values.

Exception to the recognition principle

Contingent liabilities

The requirements in IAS 37 do not apply in determining which contingent liabilities to recognise as of the acquisition date. The acquirer shall recognise as of the acquisition date a contingent liability assumed in a business combination if it is a present obligation that arises from past events and its fair value can be measured reliably. Therefore, contrary to IAS 37, the acquirer recognises a contingent liability assumed in a business combination at the acquisition date even if it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Exceptions to both the recognition and measurement principles

Income taxes

The acquirer shall recognise and measure a deferred tax asset or liability arising from the assets acquired and liabilities assumed in a business combination in accordance with IAS 12 *Income Taxes*. Account for the potential tax effects of temporary differences and carryforwards of an acquiree that exist at the acquisition date or arise as a result of the acquisition in accordance with IAS 12.

Employee benefits

The acquirer shall recognise and measure a liability (or asset, if any) related to the acquiree's employee benefit arrangements in accordance with IAS 19 *Employee Benefits*.

Indemnification assets

The seller in a business combination may contractually indemnify the acquirer for the outcome of a contingency or uncertainty related to all or part of a specific asset or liability. As a result, the acquirer obtains an indemnification asset. The acquirer shall recognise an indemnification asset at the same time that it recognises the indemnified item measured on the same basis as the indemnified item, subject to the need for a valuation allowance for uncollectible amounts. If the indemnification relates to an asset or a liability that is recognised at the acquisition date and measured at its acquisition-date fair value, the acquirer shall recognise the indemnification asset at the acquisition date measured at its acquisition-date fair value. For an indemnification asset measured at fair value, the effects of uncertainty about future cash flows because of collectibility considerations are included in the fair value measure and a separate valuation allowance is not necessary.

Exceptions to the measurement principle

Reacquired rights

The acquirer shall measure the value of a reacquired right recognised as an intangible asset on the basis of the remaining contractual term of the related contract regardless of whether market participants would consider potential contractual renewals in determining its fair value.

Share-based payment awards

The acquirer shall measure a liability or an equity instrument related to the replacement of an acquiree's share-based payment awards with share-based payment awards of the acquirer in accordance with the method in IFRS 2 *Share-based Payment*. (This IFRS refers to the result of that method as the 'market-based measure' of the award.)

Assets held for sale

The acquirer shall measure an acquired non-current asset (or disposal group) that is classified as held for sale at the acquisition date in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* at fair value less costs to sell in accordance with paragraphs 15–18 of that IFRS.

33.10 Recognising and measuring goodwill or a gain from a bargain purchase

The acquirer shall recognise goodwill as of the acquisition date measured as the excess of (a) over (b) below:

(a) The aggregate of:

(i) The consideration transferred measured in accordance with this IFRS, which generally requires acquisition-date fair value;

(ii) The amount of any non-controlling interest in the acquiree measured in accordance with this IFRS; and

(iii) In a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held *equity interest* in the acquiree.

(b) The net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with this IFRS.

In a business combination in which the acquirer and the acquiree (or its former owners) exchange only equity interests, the acquisition-date fair value of the acquiree's equity interests may be more reliably measurable than the acquisition-date fair value of the acquirer's equity interests.

In a bargain purchase the acquirer shall recognise the resulting gain in profit or loss on the acquisition date.

33.11 Consideration transferred

The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the:

- Assets transferred by the acquirer;
- The liabilities incurred by the acquirer to former owners of the acquire; and
- The equity interests issued by the acquirer.

33.12 Contingent consideration

The consideration the acquirer transfers in exchange for the acquiree includes any asset or liability resulting from a contingent consideration arrangement. The acquirer shall recognise the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquiree. Classify an obligation to pay contingent consideration as a liability or as equity on the basis of the definitions of an equity instrument and a financial liability in IAS 32.

33.13 Business combination achieved in stages

In a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss.

33.14 Measurement period

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 report in its financial statements provisional amounts for the items for which the accounting is incomplete.

During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date.

During the measurement period, the acquirer shall also recognise additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date.

The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

33.15 Determining what is part of the business combination transaction

The acquirer shall recognise as part of applying the acquisition method only the consideration transferred for the acquiree and the assets acquired and liabilities assumed in the exchange for the acquiree. Separate transactions shall be accounted for in accordance with the relevant IFRS.

A transaction entered into by or on behalf of the acquirer or primarily for the benefit of the acquirer or the combined entity, rather than primarily for the benefit of the acquiree (or its former owners) before the combination, is likely to be a separate transaction. The following are examples of separate transactions that are not to be included in applying the acquisition method:

- A transaction that in effect settles pre-existing relationships between the acquirer and acquiree;

- A transaction that remunerates employees or former owners of the acquiree for future services; and

- A transaction that reimburses the acquiree or its former owners for paying the acquirer's acquisition-related costs.

33.16 Acquisition-related costs

Acquisition-related costs are costs the acquirer incurs to effect a business combination. The acquirer shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception. Recognise the costs to issue debt or equity securities in accordance with IAS 32 and IAS 39.

33.17 Subsequent measurement and accounting

In general, an acquirer shall subsequently measure and account for assets acquired, liabilities assumed or incurred and equity instruments issued in a business combination in accordance with other applicable IFRS for those items, depending on their nature. However, IFRS 3 provides guidance on subsequently measuring and accounting for the following assets acquired, liabilities assumed or incurred and equity instruments issued in a business combination:

- Reacquired rights;

- Contingent liabilities recognised as of the acquisition date;
- Indemnification assets; and
- Contingent consideration.

34.0 IFRS 4 Insurance Contracts

The objective of IFRS 4 is to specify the financial reporting for insurance contracts by any entity that issues such contracts (described in IFRS 4 as an insurer) until the IASB completes the second phase of its project on insurance contracts. In particular, IFRS 4 requires:

(a) Limited improvements to accounting by insurers for insurance contracts.

(b) Disclosure that identifies and explains the amounts in an insurer's financial statements arising from insurance contracts and helps users of those financial statements understand the amount, timing and uncertainty of future cash flows from insurance contracts.

An insurance contract is 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.

IFRS 4 applies to all insurance contracts (including reinsurance contracts) that an entity issues and to reinsurance contracts that it holds, except for specified contracts covered by other IFRSs. It does not apply to other assets and liabilities of an insurer, such as financial assets and financial liabilities within the scope of IFRS 9 *Financial Instruments*. Furthermore, it does not address accounting by policyholders.

IFRS 4 exempts an insurer temporarily (i.e. during phase I of this project) from some requirements of other IFRSs, including the requirement to consider the IASB's Framework in selecting accounting policies for insurance contracts. However, IFRS 4:

(a) Prohibits provisions for possible claims under contracts that are not in existence at the end of the reporting period (such as catastrophe and equalisation provisions).

(b) Requires a test for the adequacy of recognised insurance liabilities and an impairment test for reinsurance assets.

(c) Requires an insurer to keep insurance liabilities in its statement of financial position until they are discharged or cancelled, or expire, and to present insurance liabilities without offsetting them against related reinsurance assets.

IFRS 4 permits an insurer to change its accounting policies for insurance contracts only if, as a result, its financial statements present information that is more relevant and no less reliable, or more reliable and no less relevant. In particular, an insurer cannot introduce any of the following practices, although it may continue using accounting policies that involve them:

(a) Measuring insurance liabilities on an undiscounted basis.

(b) Measuring contractual rights to future investment management fees at an amount that exceeds their fair value as implied by a comparison with current fees charged by other market participants for similar services.

(c) Using non-uniform accounting policies for the insurance liabilities of subsidiaries.

IFRS 4 permits the introduction of an accounting policy that involves remeasuring designated insurance liabilities consistently in each period to reflect current market interest rates (and, if the insurer so elects, other current estimates and assumptions). Without this permission, an insurer would have been required to apply the change in accounting policies consistently to all similar liabilities.

IFRS 4 requires disclosure to help users understand:

(a) The amounts in the insurer's financial statements that arise from insurance contracts; and

(b) The nature and extent of risks arising from insurance contracts.

35.0 IFRS 5 Disposal of non-current assets and presentation of discontinued operations

This standard establishes principles for the presentation and disclosure of information about discontinuing operations. IFRS 5 contains requirements that relate both to assets held for sale and discontinued operations. It adopts a 'held for sale' classification for non-current assets. The standard also introduces the concept of the 'disposal group.' These are a group of assets (and related liabilities) to be disposed of as a package. Assets or disposal groups that are specified as "held for sale" are measured at lower of carrying value and fair value less cost to sell.

An asset classified as held for sale, or included within a disposal group that is classified as held for sale, is not depreciated. An asset classified as held for sale, and the assets and liabilities included within a disposal group classified as held for sale, are presented separately on the face on the statement of financial position.

IFRS 5 contains a definition of 'discontinued operation.' A 'discontinued operation' is any unit whose operations and cash flows can be clearly distinguished operationally and for financial reporting purposes.

The timing of classification is now the date of actual disposal or when the 'held for sale' criteria are met. The standard prohibits retroactive classification when the definition criteria are met after balance sheet date.

Present the results of discontinued operations separately on the face of the income statement. Disclosure is required of the elements of cash flows relating to discontinued operations.

36.0 IFRS 6 Exploration for and Evaluation of Mineral Resources

The objective of IFRS 6 is to specify the financial reporting for the exploration for and evaluation of mineral resources.

Exploration and evaluation expenditures are expenditures incurred by an entity in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Exploration for and evaluation of mineral resources is the search for mineral resources, including minerals, oil, natural gas and similar non-regenerative resources after the entity has obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resource.

Exploration and evaluation assets are exploration and evaluation expenditures recognised as assets in accordance with the entity's accounting policy.

IFRS 6:

(a) Permits an entity to develop an accounting policy for exploration and evaluation assets without specifically considering the requirements of IAS 8.11-12. Thus, an entity adopting IFRS 6 may continue to use the accounting policies applied immediately before adopting the IFRS. This includes continuing to use recognition and measurement practices that are part of those accounting policies.

(b) Requires entities recognising exploration and evaluation assets to perform an impairment test on those assets when facts and circumstances suggest that the carrying amount of the assets may exceed their recoverable amount.

(c) Varies the recognition of impairment from that in IAS 36 but measures the impairment in accordance with that Standard once the impairment is identified.

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. Each cash-generating unit or group of units to which an exploration and evaluation asset is allocated shall not be larger than an operating segment determined in accordance with IFRS 8 *Operating Segments*.

Assess exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. When facts and circumstances suggest that the carrying amount exceeds the recoverable amount, measure, present and disclose any resulting impairment loss in accordance with IAS 36.

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.

(d) Sufficient data exist 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.

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

37.0 IFRS 7 Financial Instruments: Disclosures

IFRS 7 applies to all risks arising from all financial instruments. The IFRS applies to all entities, including entities that have few financial instruments and those that have many financial instruments. However, the extent of disclosure required depends on the extent of the entity's use of financial instruments and of its exposure to risk.

The IFRS requires disclosure of:

(a) The significance of financial instruments for an entity's financial position and performance.

(b) Qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk.

- The qualitative disclosures describe management’s objectives, policies and processes for managing those risks.

- The quantitative disclosures provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel.

- Together, these disclosures provide an overview of the entity's use of financial instruments and the exposures to risks they create.

38.0 IFRS 8 Operating segments

IFRS 8 *Operating segments* sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. The core principle of the standard states that:

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

38.1 Definition of "Segment"

Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the "chief operating decision maker" in deciding how to allocate resources and in assessing performance. Generally, financial information is required to be reported on the basis that it is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. The definition includes a component of an entity that sells primarily or exclusively to other operating segments of the entity in the definition of an operating segment if the entity is managed that way.

38.2 Reporting

The IFRS:

- Requires the amount of each operating segment item reported to be the measure reported to the chief operating decision maker for the purposes of allocating resources to the segment and assessing its performance.

- Requires reconciliations of total reportable segment revenues, total profit or loss, total assets, total liabilities and other amounts disclosed for reportable segments to corresponding amounts in the entity's financial statements.

- Requires an explanation of how segment profit or loss and segment assets and liabilities are measured for each reportable segment.

- Requires an entity to report information about the revenues derived from its products or services (or groups of similar products and services), about the countries in which it earns revenues and holds assets, and about major customers, regardless of whether that information is used by management in making operating decisions.

- Requires an entity to give descriptive information about the way in which operating segments were determined, the products and services provided by the segments, differences between the measurements used in reporting segment information and those used in the entity's financial statements, and changes in the measurement of segment amounts from period to period.

IFRS 9 Financial Instruments

IFRS 9 was developed as a project to replace IAS 39. In July 2014, the IASB issued the completed version of IFRS 9 with an effective date of accounting periods commencing on or after 1 January 2018. IFRS 9 sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

IFRS 9 covers the following areas:

- Classification and measurement;
- Impairment methodology; and
- Hedge accounting.

39.1 Classification and measurement

IFRS 9 requires an entity to recognise a financial asset or a financial liability in its statement of financial position when it becomes party to the contractual provisions of the instrument. At the initial recognition, measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or the financial liability.

Financial assets

When an entity first recognises a financial asset, it classifies it based on the entity's business model for managing the assets and the asset's contractual cash flow characteristics.

A financial asset is measured at amortised cost if both of the following conditions are met:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows: and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

However, an entity may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an accounting "mismatch") that should otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

A financial asset is measured at fair value unless it is measured at amortised cost.

When, and only when, an entity changes its business model for managing financial assets it must reclassify all affected financial assets.

In July 2014, the IASB made limited amendments to the requirements in IFRS 9 for the classification and measurement of financial assets. Those amendments addressed a narrow range of application questions and introduced a ‘fair value through other comprehensive income’ measurement category for particular simple debt instruments. The introduction of that third measurement category responded to feedback from interested parties, including many insurance companies, that this is the most relevant measurement basis for financial assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Financial liabilities

Classify all financial liabilities as subsequently measured at amortised cost using the effective interest method, except for:

- Financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, are subsequently measured at fair value.
- Financial liabilities that arise when the transfer of the financial asset does not qualify for derecognition or when the continuing involvement approach applies.

- Financial guarantee contracts (for which special accounting is prescribed).

- Commitments to provide a loan at a below market interest rate (for which special accounting is prescribed).

However, an entity may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss when permitted or when doing so results in more relevant information.

After initial recognition, an entity cannot reclassify any financial liability.

39.2 Impairment

The impairment requirements relate to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit. Those requirements eliminate the threshold that was in IAS 39 for the recognition of credit losses. Under the impairment approach in IFRS 9 it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses, and changes in those expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses.

39.3 Hedge accounting

The requirements related to hedge accounting align hedge accounting more closely with risk management, establish a more principle-based approach to hedge accounting and address inconsistencies and weaknesses in the hedge accounting model in IAS 39.

In its discussion of these general hedge accounting requirements, the IASB did not address specific accounting for open portfolios or macro hedging. Instead, the IASB is discussing proposals for those items as part of its current active agenda and in April 2014 published a Discussion Paper *Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging*. Consequently, the exception in IAS 39 for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply.

The IASB also provided entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting because it had not yet completed its project on the accounting for macro hedging.

40.0 IFRS 10 Consolidated Financial Statements

The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10:

- Requires an entity (the *parent*) that controls one or more other entities (*subsidiaries*) to present consolidated financial statements;

- Defines the principle of *control*, and establishes control as the basis for consolidation;

- Sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee;

- Sets out the accounting requirements for the preparation of consolidated financial statements; and

- Defines an investment entity and sets out an exception to consolidating particular subsidiaries of an investment entity.

40.1 Control

An investor, regardless of the nature of its involvement with an entity (the investee), shall determine whether it is a parent by assessing whether it controls the investee. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Thus, an investor controls an investee if and only if the investor has all the following:

(a) Power over the investee;

(b) Exposure, or rights, to variable returns from its involvement with the investee, and

(c) The ability to use its power over the investee to affect the amount of the investor's returns.

All facts and circumstances should be considered when assessing whether an investor controls an investee. Whether the entity controls an investee should be reassessed if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Two or more investors collectively control an investee when they must act together to direct the relevant activities. In such cases, because no investor can direct the activities without the co-operation of the others, no investor individually controls the investee. Each investor would account for its interest in the investee in accordance with the relevant IFRS, such as IFRS 11 *Joint Arrangements*, IAS 28 *Investments in Associates and Joint Ventures* or IFRS 9 *Financial Instruments.*

40.2 Power

An investor has power over an investee when the investor has existing rights that give it the current ability to direct the *relevant activities*, i.e. the activities that significantly affect the investee's returns. Power arises from rights. Sometimes assessing power is straightforward, such as when power over an investee is obtained directly and solely from the voting rights granted by equity instruments such as shares, and can be assessed by considering the voting rights from those shareholdings. In other cases, the assessment will be more complex and require more than one factor to be considered, for example when power results from one or more contractual arrangements.

An investor with the current ability to direct the relevant activities has power even if its rights to direct have yet to be exercised. Evidence that the investor has been directing relevant activities can help determine whether the investor has power, but such evidence is not, in itself, conclusive in determining whether the investor has power over an investee. If two or more investors each have existing rights that give them the unilateral ability to direct different relevant activities, the investor that has the current ability to direct the activities that most significantly affect the returns of the investee has power over the investee.

An investor can have power over an investee even if other entities have existing rights that give them the current ability to participate in the direction of the relevant activities, for example when another entity has *significant influence*. However, an investor that holds only protective rights does not have power over an investee, and consequently does not control the investee.

40.3 Returns

An investor is exposed, or has rights, to variable returns from its involvement with the investee when the investor's returns from its involvement have the potential to vary as a result of the investee's performance. The investor's returns can be only positive, only negative or wholly positive and negative. Although only one investor can control an investee, more than one party can share in the returns of an investee. For example, holders of non-controlling interests can share in the profits or distributions of an investee.

40.4 Consolidation Procedures

A parent shall prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances. Consolidation of an investee shall begin from the date the investor obtains control of the investee and cease when the investor loses control of the investee.

40.5 Uniform Accounting Policies

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 that group member's financial statements in preparing the consolidated financial statements to ensure conformity with the group's accounting policies.

40.6 Measurement

An entity includes the income and expenses of a subsidiary in the consolidated financial statements from the date it gains control until the date when the entity ceases to control the subsidiary. Income and expenses of the subsidiary are based on the amounts of the assets and liabilities recognised in the consolidated financial statements at the acquisition date. For example, depreciation expense recognised in the consolidated statement of comprehensive income after the acquisition date is based on the fair values of the related depreciable assets recognised in the consolidated financial statements at the acquisition date.

40.7 Reporting Date

The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall have the same reporting date. When the end of the reporting period of the parent is different from that of a subsidiary, the subsidiary prepares, for consolidation purposes, additional financial information as of the same date as the financial statements of the parent to enable the parent to consolidate the financial information of the subsidiary, unless it is impracticable to do so. The difference between the date of the subsidiary's financial statements and that of the consolidated financial statements shall be no more than three months, and the length of the reporting periods and any difference between the dates of the financial statements shall be the same from period to period.

40.8 Non-controlling Interests

A parent shall present non-controlling interests in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are equity transactions (i.e. transactions with owners in their capacity as owners). An entity shall attribute the profit or loss and each component of other comprehensive income to the owners of the parent and to the non-controlling interests. The entity shall also attribute total comprehensive income to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

40.9 Loss of Control

If a parent loses control of a subsidiary, the parent:

(a) Derecognises the assets and liabilities of the former subsidiary from the consolidated statement of financial position;

(b) Recognises any investment retained in the former subsidiary at its fair value when control is lost and subsequently accounts for it and for any amounts owed by or to the former subsidiary in accordance with relevant IFRS. That fair value shall be regarded as the fair value on initial recognition of a financial asset in accordance with IFRS 9 or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture;

(c) Recognises the gain or loss associated with the loss of control attributable to the former controlling interest.

40.10 Investment Entities: Exception to Consolidation

An investment entity shall not consolidate its subsidiaries or apply IFRS 3 when it obtains control of another entity. Instead, measure an investment in a subsidiary at fair value through profit or loss in accordance with IFRS 9. However, if an investment entity has a subsidiary that provides services that relate to the investment entity's investment activities, consolidate that subsidiary in accordance with the requirements of IFRS 10 and apply the requirements of IFRS 3 to the acquisition of any such subsidiary.

41.0 IFRS 11 Joint Arrangements

A joint arrangement is an arrangement of which two or more parties have joint control. A joint arrangement has the following characteristics:

(a) The parties are bound by a contractual arrangement.

(b) The contractual arrangement gives two or more of those parties joint control of the arrangement.

A joint arrangement is either a *joint operation* or a *joint venture*.

41.1 Joint Control

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. An entity that is a party to an arrangement shall assess whether the contractual arrangement gives all the parties, or a group of the parties, control of the arrangement collectively. All the parties, or a group of the parties, control the arrangement collectively when they must act together to direct the activities that significantly affect the returns of the arrangement (i.e. the relevant activities). Once it has been determined that all the parties, or a group of the parties, control the arrangement collectively, joint control exists only when decisions about the relevant activities require the unanimous consent of the parties that control the arrangement collectively.

In a joint arrangement, no single party controls the arrangement on its own. A party with joint control of an arrangement can prevent any of the other parties, or a group of the parties, from controlling the arrangement. An arrangement can be a joint arrangement even though not all of its parties have joint control of the arrangement.

IFRS 11 distinguishes between parties that have joint control of a joint arrangement (*joint operators* or *joint venturers*) and parties that participate in, but do not have joint control of, a joint arrangement. An entity will need to apply judgement when assessing whether all the parties, or a group of the parties, have joint control of an arrangement. An entity shall make this assessment by considering all facts and circumstances. If facts and circumstances change, an entity shall reassess whether it still has joint control of the arrangement.

41.2 Types of Joint Arrangement

An entity shall determine the type of joint arrangement in which it is involved. The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement. A *joint operation* is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators. A *joint venture* is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers. Apply judgement when assessing whether a joint arrangement is a joint operation or a joint venture. An entity shall determine the type of joint arrangement in which it is involved by considering its rights and obligations arising from the arrangement. An entity assesses its rights and obligations by considering the structure and legal form of the arrangement, the terms agreed by the parties in the contractual arrangement and, when relevant, other facts and circumstances.

41.3 Financial Statements of Parties to a Joint Arrangement

Joint Operations

A joint operator shall recognise in relation to its interest in a joint operation:

(a) Its assets, including its share of any assets held jointly;

(b) Its liabilities, including its share of any liabilities incurred jointly;

(c) Its revenue from the sale of its share of the output arising from the joint operation;

(d) Its share of the revenue from the sale of the output by the joint operation; and

(e) Its expenses, including its share of any expenses incurred jointly.

A joint operator shall account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRS applicable to the particular assets, liabilities, revenues and expenses.

Joint Ventures

A joint venturer shall recognise its interest in a joint venture as an investment and shall account for that investment using the equity method in accordance with IAS 28 *Investments in Associates and Joint Ventures* unless the entity is exempted from applying the equity method as specified in that standard. A party that participates in, but does not have joint control of, a joint venture shall account for its interest in the arrangement in accordance with IFRS 9 *Financial Instruments*, unless it has significant influence over the joint venture, in which case it shall account for it in accordance with IAS 28.

42.0 IFRS 12 Disclosure of Interests in Other Entities

The objective of this IFRS is to require an entity to disclose information that enables users of its financial statements to evaluate (a) the nature of, and risks associated with, its i*nterests in other entities*, and (b) the effects of those interests on its financial position, financial performance and cash flows. To meet the objective of standard, disclose:

(a) The significant judgements and assumptions it has made in determining the nature of its interest in another entity or arrangement, and in determining the type of joint arrangement in which it has an interest, and

(b) Information about its interests in:

   (i) Subsidiaries;

   (ii) Joint arrangements and associates, and

   (iii) *Structured entities* that are not controlled by the entity (unconsolidated structured entities).

IFRS 12 is applied for an entity that has an interest in any of the following:

- Subsidiaries;
- Joint arrangements (i.e. joint operations or joint ventures);
- Associates; and
- Unconsolidated structured entities.

43.0 IFRS 13 Fair Value Measurement

IFRS 13:

(a) Defines fair value;

(b) Sets out in a single IFRS a framework for measuring fair value; and

(c) Requires disclosures about fair value measurements.

IFRS 13 applies to IFRS that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances.

The measurement and disclosure requirements of IFRS 13 do not apply to the following:

(a) Share-based payment transactions within the scope of IFRS 2 *Share-based Payment*;

(b) Leasing transactions within the scope of IAS 17 *Leases*; and

(c) Measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

The disclosures required by the IFRS are not required for the following:

(a) Plan assets measured at fair value in accordance with IAS 19 *Employee Benefits*;

(b) Retirement benefit plan investments measured at fair value in accordance with IAS 26 *Accounting and Reporting by Retirement Benefit Plans*; and

(c) Assets for which recoverable amount is fair value less costs of disposal in accordance with IAS 36.

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). That definition of fair value emphasises that fair value is a market-based measurement, not an entity-specific measurement. When measuring fair value, use the assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. As a result, an entity's intention to hold an asset or to settle or otherwise fulfil a liability is not relevant when measuring fair value.

IFRS 13 explains that a fair value measurement requires an entity to determine the following:

(a) The particular asset or liability being measured;

(b) For a non-financial asset, the highest and best use of the asset and whether the asset is used in combination with other assets or on a stand-alone basis;

(c) The market in which an orderly transaction would take place for the asset or liability; and

(d) The appropriate valuation technique(s) to use when measuring fair value. The valuation technique(s) used should maximise the use of relevant observable inputs and minimise unobservable inputs. Those inputs should be consistent with the inputs a market participant would use when pricing the asset or liability.

43.1 Application to liabilities and an entity's own equity instruments

A fair value measurement assumes that a financial or non-financial liability or an entity's own equity instrument (e.g. equity interests issued as consideration in a business combination) is transferred to a market participant at the measurement date. The transfer of a liability or an entity's own equity instrument assumes the following:

(a) A liability would remain outstanding and the market participant transferee would be required to fulfil the obligation. The liability would not be settled with the counterparty or otherwise extinguished on the measurement date.

(b) An entity's own equity instrument would remain outstanding and the market participant transferee would take on the rights and responsibilities associated with the instrument. The instrument would not be cancelled or otherwise extinguished on the measurement date.

43.2 Fair value hierarchy

To increase consistency and comparability in fair value measurements and related disclosures, the IFRS establishes a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

43.3 Disclosure

An entity shall disclose information that helps users of its financial statements assess both of the following:

(a) For assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the valuation techniques and inputs used to develop those measurements.

(b) For recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income for the period.

44.0 IFRS 14 Regulatory deferral accounts

IFRS 14 describes regulatory deferral account balances as amounts of expense or income that would not be recognised as assets or liabilities in accordance with other Standards, but that qualify to be deferred in accordance with IFRS 14 because the amount is included, or is expected to be included, by the rate regulator in establishing the price(s) that an entity can charge to customers for rate-regulated goods or services.

IFRS 14 permits a first-time adopter within its scope to continue to account for regulatory deferral account balances in its first IFRS financial statements in accordance with its previous GAAP when it adopts IFRS. However, IFRS 14 introduces limited changes to some previous GAAP accounting practices for regulatory deferral account balances, which are primarily related to the presentation of these accounts.

The scope of IFRS 14 is limited to first-time adopters that recognised regulatory deferral account balances in their financial statements in accordance with their previous GAAP, as defined in IFRS 1 *First-time Adoption of International Financial Reporting Standards* (i.e. the basis of accounting that a first-time adopter used immediately before adopting IFRS). An entity that is within the scope of, and that elects to apply, this Standard in its first IFRS financial statements continues to apply it in the entity's subsequent financial statements.

IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Earlier application is permitted.

45.0 IFRS 15 Revenue from contracts with customers

IFRS 15 only applies to contracts with customers. A "customer" is a party that has contracted to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.

The core principle of IFRS is that an entity should "recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services."

IFRS 15 details a five step process for revenue recognition:

Step 1 – identify the contract with a customer
Step 2 – identify the performance obligations in the contract
Step 3 – determine the transaction price
Step 4 – allocate the transaction price to performance obligations
Step 5 – recognise revenue when performance obligations are satisfied

45.1 Step 1 – Identify the contract with a customer

A contract is an agreement between two or more parties that creates enforceable rights and obligations. Recognise revenue only when all of the following are met:

- The contract is approved (in writing, orally or in accordance with normal business practice)
- Each party's rights regarding goods or services to be transferred can be identified
- The payment terms can be identified
- The contract has commercial substance
- It is probable that the entity will collect the consideration due

A contract does not exist if each party has the unilateral enforceable right to terminate a wholly unperformed contract without compensating the other party. The requirements apply to each contract unless the conditions are met to combine contracts.

Contracts shall be combined if one or more of the following conditions are met:

- The contracts are negotiated as a package with a single commercial objective
- Amount of consideration paid on one is dependent on the price or performances of another contract
- The goods or services promised are a single performance obligation.

Recognise contract modifications when approved (when a new contract has been created).

If a change of scope is agreed but a corresponding change in price is yet to be determined then the change in the transaction price should be estimated. The terms should be reviewed to determine whether a new contract or performance obligation has been created or whether there is an amendment to an existing contract or performance obligation.

45.2 Step 2 – Identify the performance obligations in the contract

A performance obligation is a promise in a contract to transfer goods or services to a customer. No definition is given of 'goods or services' though a list of possible promised goods or services is given. The promised goods and services should be evaluated and those that have distinct performance obligations should be recognised. Goods or services are distinct if:

- The customer could benefit on its own or together with readily available resources, and
- The promise to transfer the good or service to the customer is separately identifiable from other promises in the contract.

Factors indicating that a promise may not be separately identifiable are:

- The entity provides significant services to integrate the good or service
- The good or service significantly modifies or customises another promised good or service
- The good or service is highly dependent on or highly interrelated with other goods and services.

Non-distinct goods or services should be combined together until a performance obligation is recognised.

Administrative activities to set up a contract do not constitute a separate performance obligation as no goods or services have been transferred.

45.3 Step 3 – Determine the transaction price

The transaction price is the amount of consideration to which an entity expects to be entitled. The assessment is made on a “pre-credit risk” basis. The transaction price includes the impact of discounts, rebates, contingencies, incentives and the time value of money (for contracts over one year). A probability weighted approach or single most-likely outcome is used depending on which is most predictive.

Variable consideration is only included when it is highly probable that a significant reversal in the amount recognised will not occur when the uncertainty is resolved. The variable consideration is reassessed at the end of each reporting period.

45.4 Step 4 – Allocate the transaction price to performance obligations

The transaction price is allocated on a relative stand-alone selling price basis. If the goods or services are not sold separately then the transaction price is estimated using a method that maximises observable inputs (cost plus, market assessment or residual approach are all mention as possible methodologies). Variable consideration is allocated to the entire contract or the appropriate obligation(s) as applicable. Discounts are allocated proportionately to all performance obligations unless there is observable evidence that the entire discount relates to one or more performance obligation.

45.5 Step 5 – Recognise revenue when performance obligations are satisfied

Obligations are satisfied when the promised goods or services are transferred to the customer who obtains control of that asset. Control passes when the customer can direct the use and obtain the benefits of the asset. The following should be considered in determining the point when control is passed:

- Transfer of legal title
- Physical transfer
- Present right to payment
- Passing of significant risks and rewards
- Acceptance by the customer

Recognise revenue over time if one of the following conditions is met:

- Customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs
- Performance creates or enhances an asset that the customer controls as it is created or enhanced
- The entity's performance does not create an asset with an alternative us to the entity and the entity has an enforceable tight to payment for performance completed to date.

When recognising revenue over time a single method to measure progress consistently to similar performance obligations should be applied. The most appropriate measure should be determined, applying either an output or input measure.

45.6 Disclosure

The objective of the disclosures in the standards is to enable users to understand the nature, amounts, timing and uncertainty of revenue and cash flows arising from contracts with customers. To achieve this, the entity shall disclose qualitative and quantitative information about:

- Contracts with customers
- Significant judgements made in applying the standard and changes in those judgements
- Any asset recognised for costs to obtain or fulfil a contract.

46.0 IFRS 16 *Leases*

On 13 January 2016, the International Accounting Standards Board (IASB) issued the long awaited new standard on lease accounting, IFRS 16 *Leases*.

The new standard introduces a single lessee model for lessee accounting, but contains little change to existing lessor accounting. The new standard requires:

- All leases to be presented on the balance sheet;
- Interest and depreciation presented separately in the income statement; and
- Cash paid split into principal (financing activities) and interest (operating or financing activities) in the cash flow statement.

The new definition of a lease is similar to the existing definition (in IAS 22), but the guidance on "control" changes and is based on the ability to direct the use and obtain the benefits from use.

The standard also contains optional recognition exemptions. These apply to:

- Short-term leases, which are leases with a term of less than twelve months; and
- Low-value asset leases, which are leased assets with a value of less than US $5,000 such as personal computers, office furniture and mobile phones.

According to the new standard, lease assets and liabilities will be measured on a present value basis. Lease payments will:

- Be those payable during a non-cancellable period plus optional periods that the lessee is *reasonably certain* to exercise;

- Include fixed payments and inflation-linked payments; and
- Exclude variable payments linked to future sales or use.

The discount rate will be the rate in the contract, or the lessee's incremental borrowing rate.

The standard contains detailed transitional requirements and full retrospective accounting is not mandatory. A modified retrospective approach will be permitted for the transition, enabling existing finance lease accounting to be carried forward, and simplifying the transition for operating leases, including no restatement of comparatives.

The effective date of the standard is for periods commencing on or after 1 January 2019. Early adoption is permitted.

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