

# IFRS: An overview

International Financial Reporting Standards

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# IFRS: An overview

*IFRS: An overview* brings together all of the individual overview sections in our publication *Insights into IFRS* KPMG's practical guide to International Financial Reporting Standards, 7<sup>th</sup> Edition 2010/11.

The overview of the requirements of IFRSs included in this publication and in *Insights into IFRS*, and the interpretive positions described in *Insights into IFRS* reflect the work of both current and former members of the KPMG International Standards Group and were made possible by the invaluable input of many people working in KPMG member firms worldwide. This overview should be read in conjunction with *Insights into IFRS* in order to understand more fully the requirements of IFRSs.

# About this publication

The purpose of this publication is to provide a quick overview of the key requirements of IFRSs for easy reference. This edition is based on IFRSs in issue at 1 August 2010 that are applicable for entities with annual reporting periods beginning on 1 January 2010. When a significant change will occur as a result of a standard or interpretation that is in issue at 1 August 2010, but which is not required to be adopted by an entity with an annual period ending 31 December 2010, the impact of these is discussed briefly under the heading “forthcoming requirements”. In addition, chapters 3.6A *Financial instruments* and 5.5A *Related party disclosures* are included as forthcoming requirements in their entirety.

A list of the standards and interpretations that currently are effective, including the latest effective amendments to and future developments in respect of those standards and interpretations, is included in Appendix I.

This publication does not consider the requirements of IAS 26 *Accounting and Reporting by Retirement Benefit Plans* and the *IFRS for Small and Medium-sized Entities*.

For ease of reference, the overview is organised by topic, following the typical presentation of items in financial statements. Separate sections deal with **general issues** such as business combinations, with specific **statement of financial position** and **statement of comprehensive income items**, with **special topics** such as leases, and with issues relevant to entities making the **transition to IFRSs**.

## Other ways KPMG member firm professionals can help

This publication has been produced by the KPMG International Standards Group. We have a range of publications that can assist you further, including:

- *Insights into IFRS* KPMG’s practical guide to International Financial Reporting Standards;

- IFRS Handbooks, which include extensive interpretative guidance and illustrative examples to elaborate or clarify the practical application of a standard;
- Illustrative financial statements for interim and annual periods;
- New on the Horizon publications, which discuss consultation papers;
- IFRS Practice Issues publications, which discuss specific requirements of pronouncements;
- First Impressions publications, which discuss new pronouncements;
- Newsletters, which highlight recent developments; and
- IFRS disclosure checklist.

IFRS-related technical information is available at [www.kpmg.com/ifrs](http://www.kpmg.com/ifrs).

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# 1. Background

## 1.1 Introduction

(IFRS Foundation Constitution, Preface to IFRSs, IAS 1)

### **Overview of currently effective requirements**

- IFRSs is the term used to indicate the whole body of IASB authoritative literature.
- IFRSs are designed for use by profit-oriented entities.
- Any entity claiming compliance with IFRSs complies with all standards and interpretations, including disclosure requirements, and makes a statement of explicit and unreserved compliance with IFRSs.
- Both the bold- and plain-type paragraphs of IFRSs have equal authority.
- The overriding requirement of IFRSs is for the financial statements to give a fair presentation (or true and fair view).

## 1.2 The Framework (IASB Framework)

### Overview of currently effective requirements

- The IASB uses its conceptual framework when developing new or revised IFRSs or amending existing IFRSs.
- The Framework is a point of reference for preparers of financial statements in the absence of specific guidance in IFRSs.
- IFRSs do not apply to items that are “immaterial”.
- Transactions are accounted for in accordance with their substance, rather than only their legal form.
- Transactions with shareholders in their capacity as shareholders are recognised directly in equity.

## 2. General issues

### 2.1 Form and components of financial statements (IAS 1, IAS 27)

#### **Overview of currently effective requirements**

- The following are presented: a statement of financial position; a statement of comprehensive income; a statement of changes in equity; a statement of cash flows; and notes including accounting policies.
- In addition, a statement of financial position as at the beginning of the earliest comparative period is presented when an entity restates comparative information following a change in accounting policy, correction of an error or reclassification of items in the financial statements.
- Comparative information is required for the preceding period only, but additional periods and information may be presented.
- An entity with one or more subsidiaries presents consolidated financial statements unless specific criteria are met.
- An entity without subsidiaries but with an associate or jointly controlled entity prepares individual financial statements unless specific criteria are met. In its individual financial statements, generally an entity accounts for an investment in an associate using the equity method, and an investment in a jointly controlled entity using the equity method or proportionate consolidation.
- An entity is permitted, but not required, to present separate financial statements in addition to consolidated or individual financial statements.

## 2.2 Changes in equity (IAS 1)

### Overview of currently effective requirements

- An entity presents a statement of changes in equity as part of a complete set of financial statements.
- All owner-related changes in equity are presented in the statement of changes in equity, separately from non-owner changes in equity.

### Forthcoming requirements

#### Improvements to IFRSs 2010 – statement of changes in equity

In May 2010 the IASB issued *Improvements to IFRSs 2010*, which amends IAS 1 *Presentation of Financial Statements* to allow disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income to be presented either in the statement of changes in equity or in the notes. The amendment is effective for annual periods beginning on or after 1 January 2011; early application is permitted.

## 2.3 Statement of cash flows (IAS 7)

### Overview of currently effective requirements

- The statement of cash flows presents cash flows during the period classified by operating, investing and financing activities.
- Net cash flows from all three categories are totalled to show the change in cash and cash equivalents during the period, which then is used to reconcile opening and closing cash and cash equivalents.
- Cash and cash equivalents includes certain short-term investments and, in some cases, bank overdrafts.
- Cash flows from operating activities may be presented using either the direct method or the indirect method.
- Foreign currency cash flows are translated at the exchange rates at the dates of the cash flows (or using averages when appropriate).
- Generally all financing and investing cash flows are reported gross. Cash flows are offset only in limited circumstances.

## 2.4 Basis of accounting

(IAS 1, IAS 21, IAS 29, IFRIC 7)

### Overview of currently effective requirements

- Financial statements are prepared on a modified historical cost basis with a growing emphasis on fair value.
- When an entity's functional currency is hyperinflationary, its financial statements should be adjusted to state all items in the measuring unit current at the reporting date.
- An entity discloses information about key sources of estimation uncertainty and judgements made in applying the entity's accounting policies. An entity discloses estimation uncertainty that has a significant risk of causing material adjustments within the next annual reporting period.

## 2.5 Consolidation (IAS 27, SIC-12)

### Overview of currently effective requirements

- Consolidation is based on control, which is the power to govern, either directly or indirectly, the financial and operating policies of an entity so as to obtain benefits from its activities.
- The ability to control is considered separately from the exercise of that control.
- The assessment of control may be based on either a power-to-govern or a *de facto* control model.
- Potential voting rights that are currently exercisable are considered in assessing control.
- A special purpose entity (SPE) is an entity created to accomplish a narrow and well-defined objective. SPEs are consolidated based on control. The determination of control includes an analysis of the risks and benefits associated with an SPE.
- All subsidiaries are consolidated, including subsidiaries of venture capital organisations and unit trusts, and those acquired exclusively with a view to subsequent disposal.
- A parent and its subsidiaries generally use the same reporting date when consolidated financial statements are prepared. If this is impracticable, then the difference between the reporting date of a parent and its subsidiary cannot be more than three months. Adjustments are made for the effects of significant transactions and events between the two dates.
- Uniform accounting policies are used throughout the group.
- Non-controlling interests (NCI) are recognised initially at fair value or at their proportionate interest in the recognised amount of the identifiable net assets of the acquiree at the acquisition date.

- An entity recognises a liability for the present value of the (estimated) exercise price of put options held by NCI, but there is no detailed guidance on the accounting for such put options.
- Losses in a subsidiary may create a deficit balance in NCI.
- NCI in the statement of financial position are classified as equity but are presented separately from the parent shareholders' equity.
- Profit or loss and comprehensive income for the period are allocated to NCI and owners of the parent.
- Intra-group transactions are eliminated in full.
- Upon the loss of control of a subsidiary, the assets and liabilities of the subsidiary and the carrying amount of the NCI are derecognised. The consideration received and any retained interest, measured at fair value, are recognised. Amounts recognised in other comprehensive income are reclassified as required by other IFRSs. Any resulting gain or loss is recognised in profit or loss.
- Changes in the parent's ownership interest in a subsidiary without a loss of control are accounted for as equity transactions and no gain or loss is recognised in profit or loss.

## **Forthcoming requirements**

### **Improvements to IFRSs 2010 – measurement of NCI on initial recognition**

In May 2010 the IASB issued *Improvements to IFRSs 2010*, which clarifies that the measurement choice between fair value and proportionate interest in identifiable net assets for NCI is only available upon initial recognition for NCI that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. The amendment is effective for annual periods beginning on or after 1 January 2011; early application is permitted. See 2.6 *Business combinations* for further details.

## 2.6 Business combinations (IFRS 3)

### Overview of currently effective requirements

- All business combinations are accounted for using the acquisition method, with limited exceptions.
- A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses.
- A business is an integrated set of activities and assets that is capable of being conducted and managed to provide a return to investors (or other owners, members or participants) by way of dividends, lower costs or other economic benefits.
- The acquirer in a business combination is the combining entity that obtains control of the other combining business or businesses.
- In some cases the legal acquiree is identified as the acquirer for accounting purposes ("reverse acquisition").
- The acquisition date is the date on which the acquirer obtains control of the acquiree.
- Consideration transferred by the acquirer, which generally is measured at fair value at the acquisition date, may include assets transferred, liabilities incurred by the acquirer to the previous owners of the acquiree and equity interests issued by the acquirer.
- Contingent consideration transferred is recognised initially at fair value. Contingent consideration classified as a liability generally is remeasured to fair value each period until settlement, with changes recognised in profit or loss. Contingent consideration classified as equity is not remeasured.

- Any items that are not part of the business combination transaction are accounted for outside of the acquisition accounting. Examples include:
  - the settlement of a pre-existing relationship between the acquirer and the acquiree;
  - remuneration to employees who are former owners of the acquiree; and
  - acquisition-related costs.
- The identifiable assets acquired and the liabilities assumed as part of a business combination are recognised separately from goodwill at the acquisition date if they meet the definition of assets and liabilities and are exchanged as part of the business combination.
- The identifiable assets acquired and liabilities assumed as part of a business combination are measured at the acquisition date at their fair values.
- There are limited exceptions to the recognition and/or measurement principles in respect of contingent liabilities, deferred tax assets and liabilities, indemnification assets, employee benefits, reacquired rights, share-based payment awards and assets held for sale.
- Goodwill or a gain on a bargain purchase is measured as a residual. Goodwill is recognised as an asset. A gain on a bargain purchase is recognised in profit or loss after reassessing the values used in the acquisition accounting.
- Adjustments to the acquisition accounting during the “measurement period” reflect additional information about facts and circumstances that existed at the acquisition date. The measurement period ends when the acquirer obtains all information that is necessary to complete the acquisition accounting, or learns that more information is not available, and cannot exceed one year from the acquisition date.
- The acquirer in a business combination can elect, on a transaction-by-transaction basis, to measure non-controlling interests (NCI) at fair value or at their proportionate interest in the recognised amount of the identifiable net assets of the acquiree at the acquisition date.

- When a business combination is achieved in stages (step acquisition), the acquirer's previously held non-controlling equity interest in the acquiree is remeasured to fair value at the acquisition date, with any resulting gain or loss recognised in profit or loss.
- In general, items recognised in the acquisition accounting are measured and accounted for in accordance with the relevant IFRS subsequent to the business combination. However, as an exception, IFRS 3 includes some specific guidance for certain items, for example in respect of contingent liabilities and indemnification assets.
- The acquisition of a collection of assets that does not constitute a business is not a business combination. In such cases the entity allocates the cost of acquisition to the assets acquired and liabilities assumed based on their relative fair values at the date of acquisition. No goodwill is recognised.

## **Forthcoming requirements**

### **Improvements to IFRSs 2010 – acquiree awards**

In May 2010 the IASB issued *Improvements to IFRSs 2010*, which amends IFRS 3 *Business Combinations* to extend the guidance on the mandatory replacement of acquiree awards to the voluntary replacements of unexpired awards.

In addition, the amendments introduce requirements in respect of the accounting for acquiree awards that the acquirer does not replace. If an acquiree award is not replaced in a business combination, then the amendments distinguish between two scenarios:

- If an equity-settled unreplaced acquiree award is vested at the acquisition date, then those acquiree awards are part of the NCI in the acquiree and are measured at their market-based measure at the acquisition date in accordance with IFRS 2.
- If an equity-settled unreplaced acquiree award is not vested at the acquisition date, then it is measured at its market-based measure as if the acquisition date were the grant date under IFRS 2, and is allocated to the NCI on the basis of the ratio of the portion of the vesting period completed to the

greater of the total vesting period and the original vesting period of the share-based payment.

The amendments, which are effective for annual periods beginning on or after 1 July 2010, are required to be applied prospectively from the date that an entity first applied IFRS 3 (2008).

### **Improvements to IFRSs 2010 – measurement of NCI on initial recognition**

In May 2010 the IASB issued *Improvements to IFRSs 2010*, which clarifies that the measurement choice between fair value and proportionate interest in identifiable net assets for NCI is only available upon initial recognition for NCI that are present ownership interests and entitles their holders to a proportionate share of the entity's net assets in the event of liquidation.

Therefore, the accounting policy choice does not apply to other components of NCI, such as equity components of convertible bonds or options under share-based payment arrangements. Such instruments are measured at fair value or in accordance with other relevant IFRSs, e.g. share-based payments that give rise to NCI are measured using the market-based measure in accordance with IFRS 2 *Share-based payments*.

The amendment, which is effective for annual periods beginning on or after 1 July 2010, is required to be applied prospectively from the date that an entity first applied IFRS 3 (2008).

### **Improvements to IFRSs 2010 – amendments to IFRS 7, IAS 32 and IAS 39**

In May 2010 the IASB issued *Improvements to IFRSs 2010*, which amends IFRS 7 *Financial Instruments: Disclosures*, IAS 32 *Financial Instruments: Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement* to clarify that those standards do not apply to contingent consideration amendments that relate to business combinations that occurred prior to the adoption of IFRS 3. The amendment is effective for annual periods beginning on or after 1 July 2010; early application is permitted.

## 2.7 Foreign currency translation (IAS 21, IAS 29)

### Overview of currently effective requirements

- An entity measures its assets, liabilities, income and expenses in its functional currency, which is the currency of the primary economic environment in which it operates.
- When the indicators are mixed and the functional currency is not obvious, management should give priority to a number of primary indicators before considering secondary indicators.
- All transactions that are not denominated in an entity's functional currency are foreign currency transactions; exchange differences arising on translation generally are recognised in profit or loss.
- The financial statements of foreign operations are translated for the purpose of consolidation as follows: assets and liabilities are translated at the closing rate; income and expenses are translated at actual rates or appropriate averages; and equity components (excluding the current year movements, which are translated at actual rates) are translated at historical rates.
- Exchange differences arising on the translation of the financial statements of a foreign operation are recognised in other comprehensive income and accumulated in a separate component of equity. The amount attributable to any non-controlling interest (NCI) is allocated to and recognised as part of NCI.
- If the functional currency of a foreign operation is hyperinflationary, then current purchasing power adjustments are made to its financial statements prior to translation and the financial statements are translated into a different presentation currency at the closing rate at the end of the current period. However, if the presentation currency is not hyperinflationary, comparative amounts are not restated.

- When an entity disposes of an interest in a foreign operation, which includes losing control over a foreign subsidiary, the cumulative exchange differences recognised in other comprehensive income and accumulated in a separate component of equity are reclassified to profit or loss. A partial disposal of a foreign subsidiary may lead to a proportionate reclassification to NCI, while other partial disposals result in a proportionate reclassification to profit or loss.
- An entity may present its financial statements in a currency other than its functional currency (presentation currency).
- When financial statements are translated into a presentation currency other than the entity's functional currency, the entity uses the same method as for translating the financial statements of a foreign operation.
- An entity may present supplementary financial information in a currency other than its presentation currency (currencies) if certain disclosures are made.

## 2.8 Accounting policies, errors and estimates (IAS 1, IAS 8)

### Overview of currently effective requirements

- Accounting policies are the specific principles, bases, conventions, rules and practices that an entity applies in preparing and presenting financial statements.
- A hierarchy of alternative sources is specified when IFRSs do not cover a particular issue.
- Unless otherwise permitted specifically by an IFRS, the accounting policies adopted by an entity are applied consistently to all similar items.
- An accounting policy is changed in response to a new or revised IFRS, or on a voluntary basis if the new policy is more appropriate.
- Generally accounting policy changes and corrections of prior period errors are made by adjusting opening equity and restating comparatives unless this is impracticable.
- Changes in accounting estimates are accounted for prospectively.
- When it is difficult to determine whether a change is a change in accounting policy or a change in estimate, it is treated as a change in estimate.
- Comparatives are restated unless impracticable if the classification or presentation of items in the financial statements is changed.
- A statement of financial position as at the beginning of the earliest comparative period is presented when an entity restates comparative information following a change in accounting policy, correction of an error, or reclassification of items in the financial statements.

## 2.9 Events after the reporting period (IAS 1, IAS 10)

### Overview of currently effective requirements

- The financial statements are adjusted to reflect events that occur after the end of the reporting period, but before the financial statements are authorised for issue, if those events provide evidence of conditions that existed at the end of the reporting period.
- Financial statements are not adjusted for events that are indicative of conditions that arose after the end of the reporting period, except when the going concern assumption no longer is appropriate.
- Dividends declared after the end of the reporting period are not recognised as a liability in the financial statements.
- Liabilities generally are classified as current or non-current based on circumstances at the end of the reporting period. However, if an entity expects, and has the discretion, at the end of the reporting period to refinance or reschedule payments on a long-term basis, then it classifies the obligation as non-current.

## 3. Specific statement of financial position items

### 3.1 General (IAS 1)

#### **Overview of currently effective requirements**

- Generally an entity presents its statement of financial position classified between current and non-current assets and liabilities. An unclassified statement of financial position based on the order of liquidity is acceptable only when it provides reliable and more relevant information.
- While IFRSs require certain items to be presented in the statement of financial position, there is no prescribed format.
- A liability that is payable on demand because certain conditions are breached is classified as current even if the lender has agreed, after the end of the reporting period but before the financial statements are authorised for issue, not to demand repayment.
- Assets and liabilities that are part of working capital are classified as current even if they are due to be settled more than 12 months after the end of the reporting period.

## 3.2 Property, plant and equipment (IAS 16, IFRIC 1, IFRIC 18)

### Overview of currently effective requirements

- Property, plant and equipment is recognised initially at cost.
- Cost includes all expenditure directly attributable to bringing the asset to the location and working condition for its intended use.
- Cost includes the estimated cost of dismantling and removing the asset and restoring the site.
- Changes to an existing decommissioning or restoration obligation generally are added to or deducted from the cost of the related asset and depreciated prospectively over the remaining useful life of the asset.
- Property, plant and equipment is depreciated over its useful life.
- An item of property, plant and equipment is depreciated even if it is idle, but not if it is held for sale.
- Estimates of useful life and residual value, and the method of depreciation, are reviewed at least at each annual reporting date. Any changes are accounted for prospectively as a change in estimate.
- When an item of property, plant and equipment comprises individual components for which different depreciation methods or rates are appropriate, each component is depreciated separately.
- Subsequent expenditure is capitalised only when it is probable that it will give rise to future economic benefits.
- Property, plant and equipment may be revalued to fair value if fair value can be measured reliably. All items in the same class are revalued at the same time and the revaluations are kept up to date.

- Compensation for the loss or impairment of property, plant and equipment is recognised in profit or loss when receivable.
- The gain or loss on disposal is the difference between the net proceeds received and the carrying amount of the asset.

## 3.3 Intangible assets and goodwill

(IFRS 3, IAS 38, SIC-32)

### Overview of currently effective requirements

- An intangible asset is an identifiable non-monetary asset without physical substance.
- An intangible asset is identifiable if it is separable or arises from contractual or legal rights.
- Intangible assets generally are recognised initially at cost.
- The initial measurement of an intangible asset depends on whether it has been acquired separately, as part of a business combination, or was generated internally.
- Goodwill is recognised only in a business combination and is measured as a residual.
- Acquired goodwill and other intangible assets with indefinite useful lives are not amortised, but instead are subject to impairment testing at least annually.
- Intangible assets with finite useful lives are amortised over their expected useful lives.
- Subsequent expenditure on an intangible asset is capitalised only if the definition of an intangible asset and the recognition criteria are met.
- Intangible assets may be revalued to fair value only if there is an active market.
- Internal research expenditure is expensed as incurred. Internal development expenditure is capitalised if specific criteria are met. These capitalisation criteria are applied to all internally developed intangible assets.

- Advertising and promotional expenditure is expensed as incurred.
- Expenditure on relocation or a reorganisation is expensed as incurred.
- The following are not capitalised as intangible assets: internally generated goodwill, costs to develop customer lists, start-up costs and training costs.

## 3.4 Investment property (IAS 17, IAS 40)

### Overview of currently effective requirements

- Investment property is property held to earn rentals or for capital appreciation, or both.
- Property held by a lessee under an operating lease may be classified as investment property if the rest of the definition of investment property is met and the lessee measures all its investment property at fair value.
- A portion of a dual-use property is classified as investment property only if the portion could be sold or leased out under a finance lease. Otherwise the entire property is classified as property, plant and equipment, unless the portion of the property used for own use is insignificant.
- When a lessor provides ancillary services, the property is classified as investment property if such services are a relatively insignificant component of the arrangement as a whole.
- Investment property is recognised initially at cost.
- Subsequent to initial recognition, all investment property is measured using either the fair value model (subject to limited exceptions) or the cost model. When the fair value model is chosen, changes in fair value are recognised in profit or loss.
- Disclosure of the fair value of all investment property is required, regardless of the measurement model used.
- Subsequent expenditure is capitalised only when it is probable that it will give rise to future economic benefits.
- Transfers to or from investment property can be made only when there has been a change in the use of the property.

- The intention to sell an investment property without redevelopment does not justify reclassification from investment property into inventory; the property continues to be classified as investment property until the time of disposal unless it is classified as held for sale.

## 3.5 Investments in associates and joint ventures (IAS 28, IAS 31, SIC-13)

### Overview of currently effective requirements

- The definition of an associate is based on significant influence, which is the power to participate in the financial and operating policies of an entity.
- There is a rebuttable presumption of significant influence if an entity holds 20 to 50 percent of the voting rights of another entity.
- Potential voting rights that are currently exercisable are considered in assessing significant influence.
- A joint venture is an entity, asset or operation that is subject to contractually established joint control.
- Associates are accounted for using the equity method in the consolidated financial statements.
- Jointly controlled entities may be accounted for either by proportionate consolidation or using the equity method in the consolidated financial statements.
- In applying the equity method or proportionate consolidation, an associate's or jointly controlled entity's accounting policies should be consistent with those of the investor.
- The reporting date of an associate or jointly controlled entity may not differ from the investor's by more than three months, and should be consistent from period to period. Adjustments are made for the effects of significant events and transactions between the two dates.
- When an equity-accounted investee incurs losses, the carrying amount of the investor's interest is reduced but not to below zero. Further losses

are recognised by the investor only to the extent that the investor has an obligation to fund losses or has made payments on behalf of the investee.

- Unrealised profits and losses on transactions with associates or jointly controlled entities are eliminated to the extent of the investor's interest in the investee.
- Gains and losses on non-monetary contributions, other than a subsidiary, in return for an equity interest in a jointly controlled entity generally are eliminated to the extent of the investor's interest in the investee.
- When an entity contributes a *subsidiary* in exchange for an interest in associate or a jointly controlled entity, the entity may choose to either recognise the gain or loss in full or eliminate the gain or loss to the extent of the investor's interest in the investee.
- For jointly controlled assets, the investor accounts for its share of the jointly controlled assets, the liabilities and expenses it incurs, and its share of any income or output.
- For jointly controlled operations, the investor accounts for the assets it controls, the liabilities and expenses it incurs, and its share of the income from the joint operation.
- Equity accounting or proportionate consolidation is not applied to an investee that is acquired with a view to its subsequent disposal if the criteria are met for classification as held for sale.
- Venture capital organisations, mutual funds, unit trusts and similar entities may elect to account for investments in associates and jointly controlled entities as financial assets.
- A loss of significant influence or joint control is an economic event that changes the nature of the investment. The fair value of any retained investment is taken into account to calculate the gain or loss on the

transaction, as if the investment was fully disposed of. This gain or loss is recognised in profit or loss. Amounts recognised in other comprehensive income are reclassified or transferred as required by other IFRSs.

## **Forthcoming requirements**

### **Improvements to IFRSs 2010 – transitional requirements in IAS 28 and IAS 31**

In May 2010 the IASB issued *Improvements to IFRSs 2010*, which amends the transitional requirements in IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures* for amendments arising as a result of IAS 27 *Consolidated and Separate Financial Statements* (2008) to clarify that the new requirements related to the loss of significant influence and joint control are applied prospectively. These amendments are applicable for annual periods beginning on or after 1 July 2010; early application is permitted.

## 3.6 Financial instruments (IAS 21, IAS 32, IAS 39, IFRIC 9)

### Overview of currently effective requirements

- Financial assets and financial liabilities, including derivative instruments, are recognised in the statement of financial position at trade date. However, “regular way” purchases and sales of financial assets are recognised either at trade date or at settlement date.
- An embedded derivative is one or more implicit or explicit terms in a host contract that affect the cash flows of the contract in a manner similar to a stand-alone derivative instrument.
- A host contract may be a financial or a non-financial contract.
- An embedded derivative is not accounted for separately from the host contract when it is closely related to the host contract, or when the entire contract is measured at fair value through profit or loss.
- Financial assets are classified into one of four categories: at fair value through profit or loss; loans and receivables; held to maturity; or available for sale. Financial liabilities are categorised as either at fair value through profit or loss, or other liabilities. The categorisation determines whether and where any remeasurement to fair value is recognised.
- Financial assets and financial liabilities classified at fair value through profit or loss are further subcategorised as held for trading or designated as such on initial recognition.
- All financial instruments are measured initially at fair value plus directly attributable transaction costs, except when the instrument is classified as at fair value through profit or loss, in which case it is measured initially at fair value.

- Financial assets are measured subsequently at fair value except for loans and receivables and held-to-maturity investments, which are measured at amortised cost, and unlisted equity instruments, which are measured at cost in the rare circumstances that fair value cannot be measured reliably.
- Changes in the fair value of available-of-sale financial assets are recognised in other comprehensive income, except that foreign exchange gains and losses on available-for-sale monetary items and impairment losses on all available for sale financial assets are recognised in profit or loss. On derecognition any gains or losses accumulated in other comprehensive income are reclassified to profit or loss.
- Financial liabilities, other than those held for trading or designated at fair value through profit or loss, are measured at amortised cost subsequent to initial recognition.
- All derivatives (including separated embedded derivatives) are measured at fair value. Fair value gains and losses on derivatives are recognised immediately in profit or loss unless they qualify as hedging instruments in a cash flow hedge or in a net investment hedge.
- An entity may reclassify a non-derivative financial asset out of the held-for-trading category in certain circumstances if it is no longer held for the purpose of being sold or repurchased in the near term. An entity also may reclassify, if certain conditions are met, a non-derivative financial asset from the available-for-sale category to loans and receivables.
- A financial asset is derecognised only when the contractual rights to the cash flows from the financial asset expire or when the financial asset is transferred and the transfer meets certain specified conditions.
- A financial asset is considered to have been transferred if an entity transfers the contractual rights to receive the cash flows from the financial asset, or enters into a qualifying “pass-through” arrangement. If a transfer meets the

conditions, then an entity evaluates whether or not it has retained the risks and rewards of ownership of the transferred financial asset.

- An entity derecognises a transferred financial asset if it has transferred substantially all of the risks and rewards of ownership, or if it has not retained substantially all of the risks and rewards of ownership and it has not retained control of the financial asset; otherwise it continues to recognise the asset.
- An entity continues to recognise a financial asset to the extent of its continuing involvement if it has neither retained nor transferred substantially all of the risks and rewards of ownership, and it has retained control of the financial asset.
- A financial liability is derecognised when it is extinguished or when its terms are modified substantially.
- When there is objective evidence that a financial asset measured at amortised cost, or at fair value with changes recognised in other comprehensive income, may be impaired, the amount of any impairment loss is recognised in profit or loss.

## **Forthcoming requirements**

### **IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments***

In November 2009 the IASB issued IFRIC 19, which provides guidance on accounting for debt for equity swaps. Under the interpretation equity instruments issued to a creditor to extinguish all or part of a financial liability are “consideration paid” in accordance with paragraph 41 of IAS 39 *Financial Instruments: Recognition and Measurement*. The equity instruments are measured initially at the fair value of those equity instruments unless that fair value cannot be reliably measured, in which case the equity instruments are measured to reflect the fair value of the financial liability extinguished. Any difference between the carrying amount of the financial liability and the initial measurement of the equity instruments is recognised as a gain or loss in profit or loss.

The interpretation does not address the accounting by the creditor and does not apply when:

- the creditor also is an existing direct or indirect shareholder and is acting in its capacity as such;
- the creditor and the entity are controlled by the same party or parties before and after the transaction and its substance includes an equity distribution from, or contribution to, the entity; and
- the extinguishment of the financial liability by issuing equity shares is in accordance with the original terms of the financial liability.

The interpretation is applicable for annual periods beginning on or after 1 July 2010; early application is permitted.

## 3.6A Financial instruments (IFRS 9)

- The first chapters of IFRS 9 *Financial Instruments* apply only to financial assets, and not to financial liabilities within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 is effective for annual periods beginning on or after 1 January 2013; early application is permitted.
- There are two primary measurement categories for financial assets: amortised cost and fair value. The IAS 39 categories of held to maturity, loans and receivables and available for sale are eliminated, and so are the existing tainting provisions for disposals before maturity of certain financial assets.
- 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.
- All other financial assets are measured at fair value.
- There is specific guidance on classifying non-recourse financial assets and contractually linked instruments that create concentrations of credit risk (e.g. securitisation tranches). Financial assets acquired at a discount that may include incurred credit losses are not precluded automatically from being classified at amortised cost.
- Entities have an option to classify financial assets that meet the amortised cost criteria as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.
- Embedded derivatives with host contracts that are financial assets within the scope of IAS 39 are not separated; instead the hybrid financial instrument is assessed as a whole for classification under IFRS 9. Hybrid instruments with

host contracts that are not financial assets within the scope of IAS 39 (e.g. financial liabilities and non-financial host contracts) are outside the scope of IFRS 9 and continue to be accounted for in accordance with IAS 39.

- If a financial asset is measured at fair value, then all changes in fair value are recognised in profit or loss. However, for investments in equity instruments which are not held for trading, an entity has the option, on an instrument-by-instrument basis, to recognise gains and losses in other comprehensive income with no reclassification of gains and losses into profit or loss and no impairments recognised in profit or loss. If an equity investment is so designated, then dividend income generally is recognised in profit or loss.
- There is no exemption allowing some unquoted equity investments and related derivative assets to be measured at cost. However, guidance is provided as to the limited circumstances in which the cost of such an instrument may be an appropriate approximation of fair value.
- The classification of a financial instrument is determined on initial recognition. Reclassifications are made only upon a change in an entity's business model that is significant to its operations. These are expected to be very infrequent. No other reclassifications are permitted.

## 3.7 Hedge accounting (IAS 39, IFRIC 16)

### Overview of currently effective requirements

- Hedge accounting allows an entity to selectively measure assets, liabilities and firm commitments on a basis different from that otherwise stipulated in IFRSs, or to defer the recognition in profit or loss of gains or losses on derivatives.
- Hedge accounting is voluntary; however, it is permitted only when strict documentation and effectiveness requirements are met.
- There are three hedge accounting models: fair value hedges of fair value exposures, cash flow hedges of cash flow exposures, and net investment hedges of currency exposure on a net investment in a foreign operation.
- Qualifying hedged items can be recognised assets, liabilities, unrecognised firm commitments, highly probable forecast transactions or net investments in foreign operations.
- In general, only derivative instruments entered into with an external party qualify as hedging instruments. However, for hedges of foreign exchange risk only, non-derivative financial instruments may qualify as hedging instruments.
- The hedged risk should be one that could affect profit or loss.
- Effectiveness testing is conducted on both a prospective and retrospective basis. In order for a hedge to be effective, changes in the fair value or cash flows of the hedged item attributable to the hedged risk should be offset by changes in the fair value or cash flows of the hedging instrument within a range of 80 – 125 percent.
- Hedge accounting is discontinued prospectively if the hedged transaction no longer is highly probable; the hedging instrument expires, is sold, terminated or exercised; the hedged item is sold, settled or otherwise disposed of; or the hedge is no longer highly effective.

## 3.8 Inventories (IAS 2)

### Overview of currently effective requirements

- Generally inventories are measured at the lower of cost and net realisable value.
- Cost includes all direct expenditure to get inventory ready for sale, including attributable overheads.
- Decommissioning and restoration costs incurred through the production of inventory are included in the cost of that inventory.
- The cost of inventory generally is determined using the FIFO (first-in, first-out) or weighted average method. The use of the LIFO (last-in, first-out) method is prohibited.
- Other cost formulas, such as the standard cost or retail method, may be used when the results approximate actual cost.
- The cost of inventory generally is recognised as an expense when the inventory is sold.
- Inventory is written down to net realisable value when net realisable value is less than cost.
- If the net realisable value of an item that has been written down subsequently increases, then the write-down is reversed.

## 3.9 Biological assets (IAS 41)

### Overview of currently effective requirements

- Biological assets are measured at fair value less costs to sell unless it is not possible to measure fair value reliably, in which case they are measured at cost.
- All gains and losses from changes in fair value less costs to sell are recognised in profit or loss.
- Agricultural produce harvested from a biological asset is measured at fair value less costs to sell at the point of harvest.

## 3.10 Impairment of non-financial assets (IAS 36, IFRIC 10)

### Overview of currently effective requirements

- IAS 36 *Impairment of Assets* covers the impairment of a variety of non-financial assets, including property, plant and equipment, intangible assets and goodwill; investment property and biological assets carried at cost less accumulated depreciation; and investments in subsidiaries, joint ventures and associates.
- Impairment testing is required when there is an indication of impairment.
- Annual impairment testing is required for goodwill and intangible assets that either are not yet available for use or have an indefinite useful life. This impairment test may be performed at any time during the year provided that it is performed at the same time each year.
- Goodwill is allocated to cash-generating units (CGUs) or groups of CGUs that are expected to benefit from the synergies of the business combination from which it arose. The allocation is based on the level at which goodwill is monitored internally, restricted by the size of the entity's operating segments.
- Whenever possible an impairment test is performed for an individual asset. Otherwise, assets are tested for impairment in CGUs. Goodwill always is tested for impairment at the level of a CGU or a group of CGUs.
- A CGU is the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups thereof.
- The carrying amount of goodwill is grossed up for impairment testing if the goodwill arose in a transaction in which non-controlling interests were measured initially based on their proportionate share of identifiable net assets.

- An impairment loss is recognised if an asset's or CGU's carrying amount exceeds the greater of its fair value less costs to sell and value in use, which is based on the net present value of future cash flows.
- Estimates of future cash flows used in the value in use calculation are specific to the entity, and need not be the same as those of market participants.
- The discount rate used in the value in use calculation reflects the market's assessment of the risks specific to the asset or CGU.
- An impairment loss for a CGU is allocated first to any goodwill and then *pro rata* to other assets in the CGU.
- An impairment loss generally is recognised in profit or loss. However, an impairment loss on a revalued asset is recognised in other comprehensive income, and presented in the revaluation reserve within equity, to the extent that it reverses a previous revaluation surplus related to the same asset. Any excess is recognised in profit or loss.
- Reversals of impairment are recognised, other than for impairments of goodwill.
- A reversal of an impairment loss generally is recognised in profit or loss. However, a reversal of an impairment loss on a revalued asset is recognised in profit or loss only to the extent that it reverses a previous impairment loss recognised in profit or loss related to the same asset. Any excess is recognised in other comprehensive income and presented in the revaluation reserve.

## 3.11 Equity and financial liabilities

(IAS 32, IAS 39, IFRIC 2, IFRIC 17)

### Overview of currently effective requirements

- An instrument, or its components, is classified 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 or an equity instrument.
- A financial instrument is a financial liability if the issuer can be obliged to settle it in cash or by delivering another financial asset.
- A financial instrument also is a financial liability if it will or may be settled in a variable number of the entity's own equity instruments.
- An obligation for an entity to acquire its own equity instruments gives rise to a financial liability.
- As an exception to the general principle, certain puttable instruments and instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a *pro rata* share of the net assets of the entity only on liquidation are classified as equity instruments if certain conditions are met.
- The contractual terms of preference shares and similar instruments are evaluated to determine whether they have the characteristics of a financial liability. Such characteristics will lead to the classification of these instruments, or a component of them, as financial liabilities.
- The components of compound financial instruments, which have both liability and equity characteristics, are accounted for separately.
- A non-derivative contract that will be settled by an entity delivering its own equity instruments is an equity instrument if, and only if, it is settleable by delivering a fixed number of its own equity instruments. A derivative

contract that will be settled by the entity delivering a fixed number of its own equity instruments for a fixed amount of cash is an equity instrument. If it contains settlement options, it is an equity instrument only if all settlement alternatives lead to equity classification.

- Incremental costs that are directly attributable to issuing or buying back own equity instruments are recognised directly in equity.
- Treasury shares are presented as a deduction from equity.
- Gains and losses on transactions in an entity's own equity instruments are reported directly in equity, not in profit or loss.
- Dividends and other distributions to the holders of equity instruments, in their capacity as owners, are recognised directly in equity.
- Non-controlling interests are classified within equity, but separately from equity attributable to shareholders of the parent.

## **Forthcoming requirements**

### **IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments***

In November 2009 the IASB issued IFRIC 19. See 3.6 *Financial instruments* for further information.

### **Amendment to IAS 32 *Financial Instruments: Presentation – rights issues***

In October 2009 the IASB issued *Classification of Rights Issues – Amendment to IAS 32*, which addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer.

The amendment requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants

*pro rata* to all of its existing owners of the same class of its own non-derivative equity instruments.

The amendment is applicable for annual periods beginning on or after 1 February 2010; early application is permitted.

## 3.12 Provisions

(IAS 37, IFRIC 1, IFRIC 5, IFRIC 6)

### Overview of currently effective requirements

- A provision is recognised for a legal or constructive obligation arising from a past event, if there is a probable outflow of resources and the amount can be estimated reliably. *Probable* in this context means more likely than not.
- A constructive obligation arises when an entity's actions create valid expectations of third parties that it will accept and discharge certain responsibilities.
- A provision is measured at the "best estimate" of the expenditure to be incurred.
- If there is a large population, then the obligation generally is measured at its expected value.
- Provisions are discounted if the effect of discounting is material.
- A reimbursement right is recognised as a separate asset when recovery is virtually certain, capped at the amount of the related provision.
- A provision is not recognised for future operating losses.
- A provision for restructuring costs is not recognised until there is a formal plan and details of the restructuring have been communicated to those affected by the plan.
- Provisions are not recognised for repairs or maintenance of own assets or for self-insurance prior to an obligation being incurred.
- A provision is recognised for a contract that is onerous, i.e. one in which the unavoidable costs of meeting the obligations under the contract exceed the benefits to be derived.

## 3.13 Income taxes

(IAS 12, SIC-21, SIC-25)

### Overview of currently effective requirements

- Income taxes are taxes based on taxable profits, and taxes that are payable by a subsidiary, associate or joint venture upon distribution to investors.
- The total income tax expense recognised in a period is the sum of current tax plus the change in deferred tax assets and liabilities during the period, excluding tax recognised outside profit or loss (i.e. either in other comprehensive income or directly in equity) or arising from a business combination.
- Current tax represents the amount of income taxes payable (recoverable) in respect of the taxable profit (loss) for a period.
- Deferred tax is recognised for the estimated future tax effects of temporary differences, unused tax losses carried forward and unused tax credits carried forward.
- A temporary difference is the difference between the tax base of an asset or liability and its carrying amount in the financial statements.
- A deferred tax liability is not recognised if it arises from the initial recognition of goodwill.
- A deferred tax liability (asset) is not recognised if it arises from the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction affects neither accounting profit nor taxable profit.
- Deferred tax is not recognised in respect of investments in subsidiaries, associates and joint ventures if certain conditions are met.

- A deferred tax asset is recognised to the extent that it is probable that it will be realised.
- Income tax is measured based on rates that are enacted or substantively enacted at the reporting date.
- Deferred tax is measured based on the expected manner of settlement (liability) or recovery (asset).
- Deferred tax is measured on an undiscounted basis.
- Deferred tax is classified as non-current in a classified statement of financial position.
- Income tax related to items recognised outside profit or loss is itself recognised outside profit or loss.

## 3.14 Contingent assets and liabilities (IAS 37)

### Overview of currently effective requirements

- Contingent liabilities are present obligations with uncertainties about either the probability of outflows of resources or the amount of the outflows, and possible obligations whose existence is uncertain.
- Contingent liabilities are not recognised other than in connection with a business combination.
- Details of contingent liabilities are disclosed in the notes to the financial statements unless the probability of an outflow is remote.
- Contingent assets are possible assets whose existence is uncertain.
- Contingent assets are not recognised in the statement of financial position. If an inflow of economic benefits is probable, then details are disclosed in the notes.

## 4. Specific statement of comprehensive income items

### 4.1 General (IAS 1)

#### **Overview of currently effective requirements**

- A statement of comprehensive income is presented as either a single statement or an income statement (displaying components of profit or loss) with a separate statement of comprehensive income (beginning with profit or loss and displaying components of other comprehensive income).
- While IFRSs require certain items to be presented in the statement of comprehensive income, there is no prescribed format.
- An analysis of expenses is required, either by nature or by function, in the statement of comprehensive income or in the notes.
- Material items of income or expense are presented separately either in the notes or, when necessary, in the statement of comprehensive income.
- The presentation or disclosure of items of income and expense characterised as “extraordinary items” is prohibited.
- Items of income and expense are not offset unless required or permitted by another IFRS, or when the amounts relate to similar transactions or events that are not material.
- In our view, components of profit or loss should not be presented net of tax unless required specifically.
- Reclassification adjustments from other comprehensive income to profit or loss are disclosed in the statement of comprehensive income or in the notes to the financial statements.

- Amounts of income tax related to each component of other comprehensive income are disclosed in the statement of comprehensive income or in the notes.

## 4.2 Revenue

(Framework, IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18, SIC-27, SIC-31)

### Overview of currently effective requirements

- Revenue is recognised only if it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably.
- Revenue includes the gross inflows of economic benefits received by an entity for its own account. In an agency relationship, amounts collected on behalf of the principal are not recognised as revenue by the agent.
- When an arrangement includes more than one component, it may be necessary to account for the revenue attributable to each component separately.
- Revenue from the sale of goods is recognised when the entity has transferred the significant risks and rewards of ownership to the buyer and it no longer retains control or has managerial involvement in the goods.
- Revenue from service contracts is recognised in the period that the service is rendered, generally using the percentage of completion method.
- Construction contracts are accounted for using the percentage of completion method. The completed contract method is not permitted.
- Application of the guidance on accounting for sales of real estate may result in revenue being recognised on a percentage of completion basis, a continuous delivery basis, or at a single point in time.
- Revenue recognition does not require cash consideration. However, when goods or services exchanged are similar in nature and value, the transaction does not generate revenue.

## **Forthcoming requirements**

### **Improvements to IFRSs 2010 – customer loyalty programmes**

In May 2010 the IASB issued *Improvements to IFRSs 2010*, which clarifies the terminology used in respect of the values of awards and award credits in a customer loyalty programme and may impact the overall recognition of revenue. Prior to the amendment, IFRIC 13 *Customer Loyalty Programmes* used the term “fair value” in relation to both the value of award credits and the value the awards for which such award credits could be redeemed. IFRIC 13 as amended states that the fair value of award credits takes into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. This amendment is effective for annual periods beginning on or after 1 January 2011; early application is permitted.

## 4.3 Government grants

(IAS 20, IAS 41, SIC-10)

### Overview of currently effective requirements

- Government grants that relate to the acquisition of an asset, other than a biological asset measured at fair value less costs to sell, may be recognised either as a reduction in the cost of the asset or as deferred income, and are amortised as the related asset is depreciated or amortised.
- Unconditional government grants related to biological assets measured at fair value less costs to sell are recognised in profit or loss when they become receivable; conditional grants for such assets are recognised in profit or loss when the required conditions are met.
- Other government grants are recognised in profit or loss when the entity recognises as expenses the related costs that the grants are intended to compensate.
- When a government grant is in the form a non-monetary asset, both the asset and grant are recognised at either the fair value of the non-monetary asset, or at a nominal amount.

## 4.4 Employee benefits (IAS 19, IFRIC 14)

### Overview of currently effective requirements

- IFRSs specify accounting requirements for all types of employee benefits, and not just pensions. IAS 19 *Employee Benefits* deals with all employee benefits, except those to which IFRS 2 *Share-based Payment* applies.
- Post-employment benefits are employee benefits that are payable after the completion of employment (before or during retirement).
- Short-term employee benefits are employee benefits that are due to be settled within one year after the end of the period in which the services have been rendered.
- Other long-term employee benefits are employee benefits that are not due to be settled within one year after the end of the period in which the services have been rendered.
- Liabilities for employee benefits are recognised on the basis of a legal or constructive obligation.
- Liabilities and expenses for employee benefits generally are recognised in the period in which the services are rendered.
- Costs of providing employee benefits generally are expensed unless other IFRSs permit or require capitalisation, for example, IAS 2 *Inventories* or IAS 16 *Property, Plant and Equipment*.
- A defined contribution plan is a post-employment benefit plan under which the employer pays fixed contributions into a separate entity and has no further obligations. All other post-employment plans are defined benefit plans.

- Contributions to a defined contribution plan are expensed as the obligation to make the payments is incurred.
- A liability is recognised for an employer's obligation under a defined benefit plan. The liability and expense are measured actuarially using the projected unit credit method.
- Assets that meet the definition of plan assets, including qualifying insurance policies, and the related liabilities are presented on a net basis in the statement of financial position.
- Actuarial gains and losses of defined benefit plans may be recognised in profit or loss, or immediately in other comprehensive income. Amounts recognised in other comprehensive income are not reclassified to profit or loss.
- If actuarial gains and losses of a defined benefit plan are recognised in profit or loss, then as a minimum gains and losses that exceed a "corridor" are required to be recognised over the average remaining working lives of employees in the plan. Faster recognition (including immediate recognition) in profit or loss is permitted.
- Liabilities and expenses for vested past service costs under a defined benefit plan are recognised immediately.
- Liabilities and expenses for unvested past service costs under a defined benefit plan are recognised over the vesting period.
- If a defined benefit plan has assets in excess of the obligation, then the amount of any net asset recognised is limited to available economic benefits from the plan in the form of refunds from the plan or reductions in future contributions to the plan, and unrecognised actuarial losses and past service costs.
- Minimum funding requirements give rise to a liability if a surplus arising from the additional contributions, paid to fund an existing shortfall with respect

to services already received, is not fully available as a refund or reduction in future contributions.

- If insufficient information is available for a multi-employer defined benefit plan to be accounted for as a defined benefit plan, then it is treated as a defined contribution plan and additional disclosures are required.
- If an entity applies defined contribution plan accounting to a multi-employer defined benefit plan and there is an agreement that determines how a surplus in the plan would be distributed or a deficit in the plan funded, then an asset or liability that arises from the contractual agreement is recognised.
- If there is a contractual agreement or stated policy for allocating a group's net defined benefit cost, then participating group entities recognise the cost allocated to them. If there is no agreement or policy in place, then the net defined benefit cost is recognised by the entity that is the legal sponsor.
- The expense for long-term employee benefits is accrued over the service period.
- Redundancy costs are not recognised until the redundancy has been communicated to the group of affected employees.

## **Forthcoming requirements**

### **Amendment to IFRIC 14**

In November 2009 the IASB issued *Prepayments of a Minimum Funding Requirement (Amendments to IFRIC 14: IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction)* which addresses the treatment of prepayments when there is a minimum funding requirement.

The amendment removes unintended consequences arising from the treatment of prepayments when there is a minimum funding requirements, such prepayments of contributions are recognised as an asset rather than an expense in certain circumstances.

The amendment is effective for annual periods beginning on or after 1 January 2011; early application is permitted. The amendments are applied from the beginning of the earliest comparative period presented in the first financial statements in which the entity applies IFRIC 14.

## 4.5 Share-based payments (IFRS 2)

### Overview of currently effective requirements

- Goods or services received in a share-based payment transaction are measured at fair value.
- Goods are recognised when they are obtained and services are recognised over the period that they are received.
- Equity-settled transactions with employees generally are measured based on the grant-date fair value of the equity instruments granted.
- Equity-settled transactions with non-employees generally are measured based on the fair value of the goods or services received.
- For equity-settled transactions an entity recognises a cost and a corresponding increase in equity. The cost is recognised as an expense unless it qualifies for recognition as an asset.
- Market conditions for equity-settled transactions are reflected in the initial measurement of fair value. There is no “true up” (adjustment) if the expected and actual outcomes differ because of the market conditions.
- Like market conditions, non-vesting conditions are reflected in the initial measurement of fair value and there is no subsequent true up for differences between the expected and the actual outcome.
- Initial estimates of the number of equity-settled instruments that are expected to vest are adjusted to current estimates and ultimately to the actual number of equity-settled instruments that vest unless differences are due to market conditions.
- Choosing not to meet a non-vesting condition within the control of the entity or the counterparty is treated as a cancellation.

- For cash-settled transactions an entity recognises a cost and a corresponding liability. The cost is recognised as an expense unless it qualifies for recognition as an asset.
- The liability is remeasured, until settlement date, for subsequent changes in the fair value of the liability. The remeasurements are recognised in profit or loss.
- Modification of an equity-settled share-based payment results in the recognition of any incremental fair value but not any reduction in fair value. Replacements are accounted for as modifications.
- Cancellation of a share-based payment results in acceleration of vesting.
- Classification of grants in which the entity has the choice of equity or cash settlement depends on whether or not the entity has the ability and intent to settle in shares.
- Grants in which the counterparty has the choice of equity or cash settlement are accounted for as compound instruments. Therefore the entity accounts for a liability component and an equity component separately.
- A share-based payment transaction in which the receiving entity, the reference entity and the settling entity are in the same group from the perspective of the ultimate parent is a group share-based payment transaction and is accounted for as such by both the receiving and the settling entities.
- A share-based payment that is settled by a shareholder external to the group also is in the scope of IFRS 2 *Share-based Payment* from the perspective of the receiving entity, as long as the reference entity is in the same group as the receiving entity.
- A receiving entity without any obligation to settle the transaction classifies a share-based payment transaction as equity settled.

- A settling entity classifies a share-based payment transaction as equity settled if it is obliged to settle in its own equity instruments and as cash settled otherwise.

## **Forthcoming requirements**

### ***Improvements to IFRSs 2010 – acquiree awards***

In May 2010 the IASB issued *Improvements to IFRSs 2010*, which clarifies that the attribution guidance contained in IFRS 3 *Business Combinations* with respect to allocating the market-based measure of a replacement award to pre-combination service and post-combination service is also applicable to acquiree awards that the acquirer is not obliged to replace. In addition, the amendment adds attribution guidance for unreplaced acquiree awards to IFRS 3. The amendments are effective for annual periods beginning on or after 1 July 2010 and are required to be applied prospectively from the date that an entity applies IFRS 3. See 2.6 *Business combinations* for further details.

## 4.6 Finance income and finance costs (IAS 18, IAS 23, IAS 39)

### Overview of currently effective requirements

- Interest income and interest expense are calculated using the effective interest method, based on estimated cash flows which consider all contractual terms of the financial instrument at the date that the instrument is recognised initially, or at the date of any modification.
- Incremental transaction costs directly related to acquiring a financial asset or issuing a financial liability generally are included in the initial measurement of the instrument. However, if the instrument is classified as at fair value through profit or loss, then such costs are recognised in profit or loss.
- Interest, which is calculated using the effective interest method is expensed, except borrowing costs related to qualifying assets which are capitalised if certain conditions are met.
- Property, plant and equipment and internally-developed intangible assets can be qualifying assets. Investments other than investment property, including in our view investments in associates, jointly controlled entities and subsidiaries, are not qualifying assets.
- Borrowing costs on specific borrowing eligible for capitalisation are reduced by interest income from the temporary investment of borrowings.

## 5. Special topics

### 5.1 Leases

(IAS 17, IFRIC 4, SIC-15, SIC-27)

#### Overview of currently effective requirements

- An arrangement that at its inception can be fulfilled only through the use of a specific asset or assets, and which conveys a right to use that asset or assets, is a lease or contains a lease.
- A lease is classified as either a finance lease or an operating lease.
- Lease classification depends on whether substantially all of the risks and rewards incidental to ownership of the leased asset have been transferred from the lessor to the lessee.
- Lease classification is made at inception of the lease and is not revised unless the lease agreement is modified.
- Under a finance lease, the lessor recognises a finance lease receivable and the lessee recognises the leased asset and a liability for future lease payments.
- Under an operating lease, both parties treat the lease as an executory contract. The lessor and the lessee recognise the lease payments as income/expense over the lease term. The lessor recognises the leased asset in its statement of financial position, while the lessee does not.
- A lessee may classify a property interest held under an operating lease as an investment property. If this is done, then the lessee accounts for that lease as if it were a finance lease and it measures investment property using the fair value model.

- Lessors and lessees recognise incentives granted to a lessee under an operating lease as a reduction in lease rental income/expense over the lease term.
- A lease of land and a building is treated as two separate leases, a lease of the land and a lease of the building; the two leases may be classified differently.
- In determining whether the lease of land is an operating lease or a finance lease, an important consideration is that land normally has an indefinite economic life.
- Immediate gain recognition from the sale and leaseback of an asset depends on whether the leaseback is classified as an operating or finance lease and, if the leaseback is an operating lease, whether the sale takes place at fair value.
- A series of linked transactions in the legal form of a lease is accounted for based on the substance of the arrangement; the substance may be that the series of transactions is not a lease.
- Special requirements for revenue recognition apply to manufacturer or dealer lessors granting finance leases.

## 5.2 Operating segments (IFRS 8)

### Overview of currently effective requirements

- Segment disclosures are required by entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market.
- The standard is based on a “management approach”, which requires segment disclosures based on the components of the entity that management monitors in making decisions about operating matters.
- Such components (operating segments) are identified on the basis of internal reports that the entity’s chief operating decision maker (CODM) reviews regularly in allocating resources to segments and in assessing their performance.
- The aggregation of operating segments is permitted only when the segments have “similar” economics and meet a number of other specified criteria.
- Reportable segments are identified based on quantitative thresholds of revenue, profit or loss, or assets.
- The amounts disclosed for each reportable segment are the measures reported to the CODM, which are not necessarily based on the same accounting policies as the amounts recognised in the financial statements.
- Because disclosure of segment profit or loss, segment assets and segment liabilities as reported to the CODM is required rather than as they would be reported under IFRSs, disclosure of how these amounts are measured for each reportable segment also is required.

- Reconciliations between total amounts for all reportable segments and financial statements amounts are disclosed with a description of all material reconciling items.
- General and entity-wide disclosures are required, including information about products and services, geographical areas (including country of domicile and individual foreign countries, if material), major customers and factors used to identify an entity's reportable segments. Such disclosures are required even if an entity only has one segment.
- Comparative information normally is restated for changes in operating segments.

## **Forthcoming requirements**

### ***IAS 24 Related party disclosures (2009)***

In November 2009 the IASB issued a revised version of IAS 24 (2009), which amends IFRS 8 *Operating Segments* so that all government-related entities are no longer considered as a "single customer" by default for IFRS 8 disclosure purposes. Under the revised standard judgement is necessary in assessing whether a government, including government agencies and similar bodies whether local, national or international, and entities known to the reporting entity to be under the control of such government are considered a single customer. The amendment is effective for annual periods beginning on or after 1 January 2011; early application is permitted. If the entity applies IAS 24 (2009) for an earlier period, it also applies the amendment to IFRS 8 for that earlier period.

## 5.3 Earnings per share (IAS 33)

### Overview of currently effective requirements

- Basic and diluted earnings per share (EPS) is presented by entities whose ordinary shares or potential ordinary shares are traded in a public market or that file, or are in the process of filing, their financial statements for the purpose of issuing any class of ordinary shares in a public market.
- Basic and diluted EPS for both continuing and total operations are presented in the statement of comprehensive income, with equal prominence, for each class of ordinary shares.
- Separate EPS data is disclosed for discontinued operations, either in the statement of comprehensive income or in the notes to the financial statements.
- Basic EPS is calculated by dividing the earnings attributable to holders of ordinary equity of the parent by the weighted average number of ordinary shares outstanding during the period.
- To calculate diluted EPS, profit or loss attributable to ordinary equity holders, and the weighted average number of shares outstanding, are adjusted for the effects of all dilutive potential ordinary shares.
- Potential ordinary shares are considered dilutive only when they decrease EPS or increase loss per share from continuing operations. In determining if potential ordinary shares are dilutive, each issue or series of potential ordinary shares is considered separately rather than in aggregate.
- Contingently issuable ordinary shares are included in basic EPS from the date that all necessary conditions are satisfied and, when not yet satisfied, in diluted EPS based on the number of shares that would be issuable if the end of the reporting period were the end of the contingency period.

- When a contract may be settled in either cash or shares at the entity's option, it is treated as a potential ordinary share.
- When a contract may be settled in either cash or shares at the holder's option, the more dilutive of cash and share settlement is used to calculate diluted EPS.
- For diluted EPS, diluted potential ordinary shares are determined independently for each period presented.
- When the number of ordinary shares outstanding changes, without a corresponding change in resources, the weighted average number of ordinary shares outstanding during all periods presented is adjusted retrospectively.
- Adjusted basic and diluted EPS based on alternative earnings measures may be disclosed and explained in the notes to the financial statements.

## 5.4 Non-current assets held for sale and discontinued operations

(IFRS 5, IFRIC 17)

### Overview of currently effective requirements

- Non-current assets and some groups of assets and liabilities (known as disposal groups) are classified as held for sale when their carrying amounts will be recovered principally through sale.
- Non-current assets and disposal groups held for sale generally are measured at the lower of carrying amount and fair value less costs to sell, and are presented separately on the face of the statement of financial position.
- Assets classified as held for sale are not amortised or depreciated.
- The comparative statement of financial position is not re-presented when a non-current asset or disposal group is classified as held for sale.
- The classification, presentation and measurement requirements that apply to items that are classified as held for sale also are applicable to a non-current asset or disposal group that is classified as held for distribution.
- A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale.
- Discontinued operations are limited to those operations that are a separate major line of business or geographical area, and subsidiaries acquired exclusively with a view to resale.
- Discontinued operations are presented separately on the face of the statement of comprehensive income, and related cash flow information is disclosed.
- The comparative statement of comprehensive income and cash flow information is re-presented for discontinued operations.

## 5.5 Related party disclosures (IAS 24)

### Overview of currently effective requirements

- Related party relationships are those involving control (direct or indirect), joint control or significant influence.
- Key management and their close family members are parties related to an entity.
- There are no special recognition or measurement requirements for related party transactions.
- The disclosure of related party relationships between a parent and its subsidiaries is required, even if there have been no transactions between them.
- No disclosure is required in the consolidated financial statements of intra-group transactions eliminated in preparing those statements.
- Comprehensive disclosures of related party transactions are required for each category of related party relationship.
- Key management personnel compensation is disclosed in total and is analysed by component.

## 5.5A Related party disclosures (IAS 24 (2009))

### Overview of currently effective requirements

- Related party relationships are those involving control (direct or indirect), joint control or significant influence.
- Key management personnel and their close family members are parties related to an entity.
- There are no special recognition or measurement requirements for related party transactions.
- The disclosure of related party relationships between a parent and its subsidiaries is required, even if there have been no transactions between them.
- No disclosure is required in the consolidated financial statements of intra-group transactions eliminated in preparing those statements.
- Comprehensive disclosures of related party transactions are required for each category of related party relationship.
- Key management personnel compensation is disclosed in total and is analysed by component.
- In certain instances, government-related entities are allowed to provide less detailed disclosures on related party transactions.

### Key differences to IAS 24 *Related Party Disclosures* (2003)

In November 2009 the IASB issued a revised version of IAS 24 *Related Party Disclosures* (2009), which is effective for annual periods beginning on or after 1 January 2011. The key amendments arising from IAS 24 (2009) include the following:

- Instead of a state-controlled entity, IAS 24 (2009) uses the term “government-related entities” and modifies the related party disclosure requirements for such entities to enable them to limit the extent of disclosures about related party transactions with the government or other government-related entities.
- IAS 24 (2009) introduces symmetry in the definition of a related party, i.e. if B is a related party of C for the purposes of C’s financial statements, then C is a related party of B for the purposes of B’s financial statements. In addition, certain aspects of the definition were clarified and therefore the new definition includes certain relationships that previously were excluded (e.g. the sponsoring employers of a post-employment benefit plan) and vice versa.
- IAS 24 (2009) includes a reference to “commitments” whenever it refers to transactions and balances.

## 5.6 Financial instruments: presentation and disclosure

(IFRS 7, IAS 1, IAS 32)

### Overview of currently effective requirements

- A financial asset and a financial liability are offset only when there is a legally enforceable right to offset, and an intention to settle net or to settle both amounts simultaneously.
- Disclosures are required to enable users to evaluate the significance of financial instruments for the entity's financial position and performance and the extent of risks arising from financial instruments.
- For disclosure of the significance of financial instruments, the overriding principle is to disclose sufficient information to enable users of financial statements to evaluate the significance of financial instruments for an entity's financial position and performance. Specific details required include disclosure of fair values and assumptions behind the calculations, information on items designated at fair value through profit or loss and on reclassification of financial assets between categories, and details of accounting policies.
- Risk disclosures require both qualitative and quantitative information.
- Qualitative disclosures describe management's objectives, policies and processes for managing risks arising from financial instruments.
- Quantitative data about the exposure to risks arising from financial instruments should be based on information provided internally to key management. However, certain disclosures about the entity's exposures to credit risk, liquidity risk and market risk arising from financial instruments are required, irrespective of whether this information is provided to management.

## **Forthcoming requirements**

### **IFRS 9 *Financial Instruments***

In November 2009 the IASB issued IFRS 9, which introduces consequential amendments to IAS 1 *Presentation of Financial Statements* to require two additional line items to be presented separately in the statement of comprehensive income:

- gains or losses arising from the derecognition of financial assets measured at amortised cost; and
- gains or losses, arising from re-measurement to fair value of financial assets due to a reclassification.

IFRS 9 also introduces consequential amendments to IFRS 7 *Financial Instruments: Disclosures* to require specific disclosures about equity investments designated as at fair value through other comprehensive income, about reclassified financial assets and of the impact of first application of IFRS 9. IFRS 9 is effective for annual periods beginning on or after 1 January 2013; early application is permitted.

### **Improvements to IFRSs 2010 – clarification of disclosures**

In May 2010 the IASB issued *Improvements to IFRSs 2010* to add an explicit statement that the interaction between qualitative and quantitative disclosures should enable users to better evaluate an entity's exposure to risks arising from financial instruments.

In addition, the existing disclosure requirements of IFRS 7 are amended as follows:

- Disclosure of the amount that best represents an entity's maximum exposure to credit risk without considering any collateral held is required only if the carrying amount of a financial asset does not reflect such exposure already.
- The financial effect of collateral held as security and other credit enhancements in respect of a financial instrument is required to be

disclosed in addition to the existing requirement to describe the existence and nature of such collateral.

- The requirement to disclose the nature and carrying amounts of collateral obtained, including policies for using the financial and non-financial assets when they cannot be converted into cash immediately, applies only to collateral held at the end of the reporting period.

The following requirements have been removed from IFRS 7:

- The requirement to disclose the carrying amount of financial assets that are not past due or are not impaired as a result of their terms having been renegotiated.
- The requirement to provide a description of collateral held as security and other credit enhancements in respect of financial assets that are past due or individually determined to be impaired, including an estimate of their fair value.

Additionally, the clause stating that quantitative disclosures are not required when a risk is not material has been removed from IFRS 7. The amendments are effective for annual periods beginning on or after 1 January 2011; early application is permitted.

## 5.7 Non-monetary transactions

(IAS 16, IAS 18, IAS 38, IAS 40, IFRIC 18, SIC-31)

### Overview of currently effective requirements

- Generally, exchanges of assets are measured at fair value and result in the recognition of gains or losses rather than revenue.
- Exchanged assets are recognised based on historical cost if the exchange lacks commercial substance or the fair value cannot be measured reliably.
- Revenue is recognised for barter transactions unless the transaction is incidental to the entity's main revenue-generating activities or the items exchanged are similar in nature and value.
- Property, plant and equipment that is used to provide access to a supply of goods or services is recognised as an asset if it meets the definition of an asset and the recognition criteria for property, plant and equipment.
- Other donated assets may be accounted for in a manner similar to government grants unless the transfer is, in substance, an equity contribution.

## 5.8 Accompanying financial and other information (IAS 1)

### **Overview of currently effective requirements**

- Supplementary financial and operational information may be presented, but is not required.
- An entity considers its particular legal or securities listing requirements in assessing what information is disclosed in addition to that required by IFRSs.

## 5.9 Interim financial reporting (IAS 34, IFRIC 10)

### Overview of currently effective requirements

- Interim financial statements contain either a complete or a condensed set of financial statements for a period shorter than a financial year.
- The following, as a minimum, are presented in condensed interim financial statements: condensed statement of financial position; condensed statement of comprehensive income, presented as either a condensed single statement or a condensed separate income statement and a condensed statement of comprehensive income; condensed statement of cash flows; condensed statement of changes in equity; and selected explanatory notes.
- Items, other than income tax, generally are recognised and measured as if the interim period were a discrete period.
- Income tax expense for an interim period is based on an estimated average annual effective income tax rate.
- Generally, the accounting policies applied in the interim financial statements are those that will be applied in the next annual financial statements.

### Forthcoming requirements

#### Improvements to IFRSs 2010 – significant events and transactions

In May 2010 the IASB issued *Improvements to IFRSs 2010*, which amends IAS 34 *Interim Financial Reporting* to add further examples of events or transactions that may require disclosure under IAS 34:

- changes in an entity's business or economic circumstances that have an impact on the fair value of financial items in the statement of financial position, regardless of whether such items are accounted for at fair value;

- transfers of financial instruments between levels of the fair value hierarchy; and
- changes in financial assets' classification (e.g. from available for sale to held to maturity) as a result of changes in their purpose or use.

The amendments are effective for annual periods beginning on or after 1 January 2011; early application is permitted.

## 5.10 Insurance contracts (IFRS 4)

### Overview of currently effective requirements

- Generally, entities that issue insurance contracts are required to continue their existing accounting policies with respect to insurance contracts except when IFRS 4 *Insurance Contracts* requires or permits changes in accounting policies.
- Changes in existing accounting policies for insurance contracts are permitted only if the new policy, or a combination of new policies, results in information that is more relevant or reliable, or both, without reducing either relevance or reliability.
- A financial instrument that does not meet the definition of an insurance contract (including investments held to back insurance liabilities) is accounted for under the general recognition and measurement requirements for financial instruments.
- Financial instruments that include discretionary participation features may be accounted for as insurance contracts although these are subject to the general financial instrument disclosure requirements.
- In some cases a deposit element should be “unbundled” (separated) from an insurance contract and accounted for as a financial instrument.
- Some derivatives embedded in insurance contracts should be separated from their host insurance contract and accounted for as if they were stand-alone derivatives.
- The recognition of catastrophe and equalisation provisions is prohibited for contracts not in existence at the reporting date.

- A liability adequacy test is required to ensure that the measurement of an entity's insurance liabilities considers all contractual cash flows, using current estimates.
- The application of "shadow accounting" for insurance liabilities is permitted for consistency with the treatment of unrealised gains or losses on assets.
- An expanded presentation of the fair value of insurance contracts acquired in a business combination or portfolio transfer is permitted.
- Significant disclosures are required of the terms, conditions and risks related to insurance contracts, consistent in principle with those required for financial assets and liabilities.

## 5.11 Extractive activities (IFRS 6)

### Overview of currently effective requirements

- Entities identify and account for pre-exploration expenditure, exploration and evaluation (E&E) expenditure and development expenditure separately.
- Each type of E&E cost can be expensed as incurred or capitalised, in accordance with the entity's selected accounting policy.
- Capitalised E&E costs are segregated and classified as either tangible or intangible assets, according to their nature.
- The test for recoverability of E&E assets can combine several cash-generating units, as long as the combination is not larger than an operating segment.
- There is no specific guidance on the recognition or measurement of pre-exploration expenditure or development expenditure. Pre-E&E expenditure generally is expensed as incurred.

## 5.12 Service concession arrangements (IFRIC 12, SIC-29)

### Overview of currently effective requirements

- IFRIC 12 *Service Concession Arrangements* provides guidance on the accounting by private sector entities (operators) for public-to-private service concession arrangements.
- IFRIC 12 applies only to those service concession arrangements in which the public sector (the grantor) controls or regulates the services provided with the infrastructure and their prices, and controls any significant residual interest in the infrastructure.
- In these circumstances the operator does not recognise the infrastructure as its property, plant and equipment if the infrastructure is existing infrastructure of the grantor, or if the infrastructure is constructed or purchased by the operator as part of the service concession arrangement. Depending on the conditions of the arrangement, the operator recognises either a financial asset or an intangible asset, or both, at fair value as compensation for any construction or upgrade services that it provides.
- If the grantor provides other items to the operator that the operator may retain or sell at its option, then the operator recognises those items as its assets together with a liability for unfulfilled obligations.
- The operator recognises and measures revenue for providing construction or upgrade services in accordance with IAS 11 *Construction Contracts* and revenue for other services in accordance with IAS 18 *Revenue*.
- The operator recognises consideration receivable from the grantor for construction or upgrade services, including upgrades of existing infrastructure, as a financial asset and/or an intangible asset.

- The operator recognises a financial asset to the extent that it has an unconditional right to receive cash (or another financial asset) irrespective of the usage of the infrastructure.
- The operator recognises an intangible asset to the extent that it has a right to charge for usage of the infrastructure.
- Any financial asset recognised is accounted for in accordance with the relevant financial instruments standards, and any intangible asset in accordance with IAS 38 *Intangible Assets*. There are no exemptions from these standards for operators.
- The operator recognises and measures obligations to maintain or restore infrastructure, except for any construction or upgrade element, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.
- The operator generally is required to capitalise attributable borrowing costs incurred during construction or upgrade periods to the extent it has a right to receive an intangible asset. Otherwise the borrowing costs are expensed as incurred.

## 5.13 Common control transactions and Newco formations

### Overview of currently effective requirements

- In our view, the acquirer in a common control transaction has a choice of applying either book value accounting or acquisition accounting in its consolidated financial statements.
- In our view, the transferor in a common control transaction that is a demerger has a choice of applying either book value accounting or fair value accounting in its consolidated financial statements. In other disposals, in our view judgement is required in determining the appropriate consideration transferred in calculating the gain or loss on disposal.
- In our view, generally an entity has a choice of accounting for a common control transaction using book value accounting, fair value accounting or exchange amount accounting in its separate financial statements when investments in subsidiaries are accounted for at cost.
- Common control transactions are accounted for using the same accounting policy to the extent that the substance of the transactions is similar.
- If a new parent is established within a group and certain criteria are met, then the cost of the acquired subsidiaries in the separate financial statements of the new parent is determined by reference to its share of total equity of the subsidiaries acquired.
- Newco formations generally fall into two categories: formations to effect a business combination involving a third party; or formations to effect a restructuring amongst entities under common control.
- In a Newco formation to effect a business combination involving a third party, generally acquisition accounting applies.

- In a Newco formation to effect a restructuring amongst entities under common control, in our view often it will be appropriate to account for the transaction using book values.

## 6. First-time adoption of IFRSs

### 6.1 First-time adoption of IFRSs (IFRS 1)

#### **Overview of currently effective requirements**

- IFRSs include a specific standard that sets out all transitional requirements and exemptions available on the first-time adoption of IFRSs.
- An opening statement of financial position is prepared at the date of transition, which is the starting point for accounting in accordance with IFRSs.
- The date of transition is the beginning of the earliest comparative period presented on the basis of IFRSs.
- Accounting policies are chosen from IFRSs in effect at the first annual reporting date.
- Generally those accounting policies are applied retrospectively in preparing the opening statement of financial position and in all periods presented in the first IFRS financial statements.
- A number of exemptions are available from the general requirement for retrospective application of IFRS accounting policies.
- Retrospective application of changes in accounting policy is prohibited in some cases, generally when doing so would require hindsight.
- At least one year of comparative financial statements are presented on the basis of IFRSs, including the opening statement of financial position.
- Detailed disclosures on the first-time adoption of IFRSs include reconciliations of equity and profit or loss from previous GAAP to IFRSs.

- The transitional requirements and exemptions on first-time adoption of IFRSs are applicable to both annual and interim financial statements.

## **Forthcoming requirements**

### **IFRS 9 *Financial Instruments***

In November 2009 the IASB issued IFRS 9, which includes consequential amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

If a first-time adopter applies IFRS 9, it assesses financial assets for classification on the basis of the facts and circumstances that exist at the date of initial application, i.e. retrospective application is prohibited. In addition, a first-time adopter may choose to:

- designate a financial asset as at fair value through profit or loss to avoid an accounting mismatch based on facts and circumstances at the date of transition;
- designate an equity investment as at fair value through other comprehensive income based on facts and circumstances at the date of transition; and
- not restate comparative information in accordance with IFRS 9.

IFRS 9 is effective for annual periods beginning on or after 1 January 2013; early application is permitted.

### **Amendment to IFRS 1 – limited exemption**

In January 2010 the IASB issued *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*, which provides a short-term optional exemption for first-time adopters from the requirement to provide comparative period disclosures for the information required to be presented by *Improving Disclosures about Financial Instruments – Amendments to IFRS 7*, published in March 2009. A first-time adopter may apply the optional exemption for any interim or annual comparative period for which the reporting date is before 31 December 2009.

### Improvements to IFRSs 2010 – deemed cost exemption

In May 2010 the IASB issued *Improvements to IFRS 2010*, which provides an additional optional deemed cost exemption. In particular for items of property, plant and equipment or intangible assets used in certain rate-regulated activities, the carrying amounts determined under previous GAAP may include amounts that do not qualify for capitalisation under IFRSs. The exemption results in such carrying amounts being permitted to be used as deemed cost at the date of transition to IFRSs. This exemption may be applied on an item-by-item basis, provided that each item to which this exemption is applied is tested for impairment in accordance with IAS 36 *Impairment of Assets* at the date of transition. Use of this exemption and the basis on which carrying amounts were determined under previous GAAP are required to be disclosed. The exemption is effective for annual periods beginning on or after 1 January 2011; early application is permitted.

### Improvements to IFRSs 2010 – event-driven fair value measurement

In May 2010 the IASB issued *Improvements to IFRSs 2010*, which amends IFRS 1 to extend the scope of paragraph D8 so that a first-time adopter is permitted to use an event-driven fair value measurement as deemed cost for some or all of its assets (e.g. revaluation of certain assets on the occurrence of an initial public offering) when such revaluation occurred *during* the reporting periods covered by its first IFRS financial statements. Currently such a revaluation is permitted only when the revaluation occurs *at or prior to* the date of transition. The event-driven fair value measurement would be recognised at the date that the event triggering such a revaluation occurred. In addition, the first-time adopter also will be required to determine an IFRS cost or deemed cost using paragraphs D5 – D7 of IFRS 1 as at the date of transition. The amendment is effective for annual periods beginning on or after 1 January 2011; early application is permitted.

### Improvements to IFRSs 2010 – changes in accounting policies

In May 2010 the IASB issued *Improvements to IFRSs 2010*, which amends IFRS 1 to clarify that IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* does not apply to the changes in accounting policies that occur during the period covered by their first IFRS financial statements. In addition, it provides

guidance for first-time adopters that publish interim financial information under IAS 34 *Interim Financial Reporting* and change their accounting policies or use of the IFRS 1 optional exemptions during the period covered by their first IFRS financial statements. In these circumstances:

- the first-time adopter should explain any such changes between the first interim and the first annual financial statements; and
- the first-time adopter should update reconciliations from previous GAAP to IFRSs included in the previous interim financial information for those changes in the interim period when the change is made.

The amendments are effective for annual periods beginning on or after 1 January 2011; early application is permitted.

## Appendix I: Currently effective requirements and future developments

Below is a list of standards and interpretations, including the latest effective amendment to the standards and interpretations, in issue at 1 August 2010 that are effective for annual reporting periods beginning on 1 January 2010. The list notes the principal related chapter(s) within which the requirements are discussed and future developments as a result of exposure drafts or active projects underway at 1 August 2010.

| Standard  | Principal related chapter(s) | Latest effective amendment  | Future developments                 |
|---|------------------------------|---|-------------------------------------|
| IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i>                    | 6.1                          | <i>Additional Exemptions for First-time Adopters</i> (Amendments to IFRS 1)<br><i>Issued:</i> July 2009<br><i>Effective:</i> 1 January 2010       | Refer (7)                           |
| IFRS 2 <i>Share-based Payments</i>  | 4.5                          | <i>Group Cash-settled Share-based Payment Transactions</i> (Amendments to IFRS 2)<br><i>Issued:</i> June 2009<br><i>Effective:</i> 1 January 2010 | Refer (14)                          |
| IFRS 3 <i>Business Combinations</i><br><i>Issued:</i> January 2008<br><i>Effective:</i> 1 July 2009 | 2.6, 3.3, 5.13               | -   | Refer (6), (9), (12), (17) and (18) |
| IFRS 4 <i>Insurance Contracts</i>   | 5.10                         | <i>Improving Disclosures about Financial Instruments</i> (Amendments to IFRS 7)<br><i>Issued:</i> March 2009<br><i>Effective:</i> 1 January 2009  | Refer (1)                           |

| Standard   | Principal related chapter(s)                     | Latest effective amendment   | Future developments            |
|--|--|--|--------------------------------|
| IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>   | 5.4  | <i>Improvements to IFRSs 2009</i><br>Issued: April 2009<br>Effective: 1 January 2010   | Refer (3) and (12)             |
| IFRS 6 <i>Exploration for and Evaluation of Mineral Resources</i>            | 5.11   | <i>Improvements to IFRSs 2009</i><br>Issued: April 2009<br>Effective: 1 January 2010   | Refer (2), (10), (14) and (19) |
| IFRS 7 <i>Financial Instruments: Disclosures</i>                             | 5.6  | <i>Improving Disclosures about Financial Instruments (Amendments to IFRS 7)</i><br>Issued: March 2009<br>Effective: 1 January 2009 | Refer (11) and (12)            |
| IFRS 8 <i>Operating Segments</i>   | 5.2  | <i>Improvements to IFRSs 2009</i><br>Issued: April 2009<br>Effective: 1 January 2010   | -                              |
| IAS 1 <i>Presentation of Financial Statements</i>                            | 1.1, 2.1, 2.2, 2.4, 2.8, 2.9, 3.1, 4.1, 5.6, 5.8 | <i>Improvements to IFRSs 2009</i><br>Issued: April 2009<br>Effective: 1 January 2010   | Refer (3), (12) and (15)       |
| IAS 2 <i>Inventories</i>   | 3.8  | <i>Improvements to IFRSs 2008</i><br>Issued: May 2008<br>Effective: 1 January 2009   | Refer (17)                     |
| IAS 7 <i>Statement of Cash Flows</i>   | 2.3  | <i>Improvements to IFRSs 2009</i><br>Issued: April 2009<br>Effective: 1 January 2010   | Refer (3)                      |
| IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> | 2.8  | <i>Improvements to IFRSs 2008</i><br>Issued: May 2008<br>Effective: 1 January 2009   | -                              |
| IAS 10 <i>Events after the Reporting Period</i>                              | 2.9  | IFRIC 17 <i>Distributions of Non-cash Assets to Owners</i><br>Issued: November 2008<br>Effective: 1 July 2009                      | -                              |

| Standard   | Principal related chapter(s) | Latest effective amendment   | Future developments      |
|--|------------------------------|--|--------------------------|
| IAS 11 <i>Construction Contracts</i>   | 4.2                          | IAS 1 <i>Presentation of Financial Statements</i><br>Issued: September 2007<br>Effective: 1 January 2009   | Refer (6) and (12)       |
| IAS 12 <i>Income Taxes</i>   | 3.13                         | IFRS 3 <i>Business Combinations</i><br>Issued: January 2008<br>Effective: 1 July 2009  | Refer (3) and (4)        |
| IAS 16 <i>Property, Plant and Equipment</i>  | 3.2, 5.7                     | <i>Improvements to IFRSs 2008</i><br>Issued: May 2008<br>Effective: 1 January 2009   | Refer (12)               |
| IAS 17 <i>Leases</i>   | 3.4, 5.1                     | <i>Improvements to IFRSs 2009</i><br>Issued: April 2009<br>Effective: 1 January 2010   | Refer (5), (11) and (12) |
| IAS 18 <i>Revenue</i>  | 4.2, 4.6, 5.7                | <i>Improvements to IFRSs 2009</i><br>Issued: April 2009<br>Effective: April 2009   | Refer (6) and (12)       |
| IAS 19 <i>Employee Benefits</i>  | 4.4                          | <i>Improvements to IFRSs 2008</i><br>Issued: May 2008<br>Effective: 1 January 2009   | Refer (7), (12) and (14) |
| IAS 20 <i>Accounting for Government Grants and Disclosure of Government Assistance</i> | 4.3                          | <i>Improvements to IFRSs 2008</i><br>Issued: May 2008<br>Effective: 1 January 2009   | Refer (8), (12) and (17) |
| IAS 21 <i>The Effects of Changes in Foreign Exchange Rates</i>                         | 2.4, 2.7, 3.6                | <i>Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i> (Amendments to IFRS 1 and IAS 27)<br>Issued: May 2008<br>Effective: 1 July 2009 | Refer (12)               |
| IAS 23 <i>Borrowing Costs</i>  | 4.6                          | <i>Improvements to IFRSs 2008</i><br>Issued: May 2008<br>Effective: 1 January 2009   | Refer (11)               |

| Standard  | Principal related chapter(s)                     | Latest effective amendment   | Future developments |
|---|--|--|---------------------|
| IAS 24 <i>Related Party Disclosures</i>                             | 5.5, 5.5A  | IAS 1 <i>Presentation of Financial Statements</i><br>Issued: September 2007<br>Effective: 1 January 2009   | -                   |
| IAS 26 <i>Accounting and Reporting by Retirement Benefits Plans</i> | Not covered; see <i>About this publication</i> . |  |                     |
| IAS 27 <i>Consolidated and Separate Financial Statements</i>        | 2.1, 2.5, 5.13                                   | <i>Improvements to IFRSs 2008</i><br>Issued: May 2008<br>Effective: 1 January 2009   | Refer (3) and (9)   |
| IAS 28 <i>Investments in Associates</i>                             | 3.5  | <i>Improvements to IFRSs 2008</i><br>Issued: May 2008<br>Effective: 1 January 2009   | Refer (10)          |
| IAS 29 <i>Financial Reporting in Hyperinflationary Economies</i>    | 2.4, 2.7   | <i>Improvements to IFRSs 2008</i><br>Issued: May 2008<br>Effective: 1 January 2009   | Refer (12)          |
| IAS 31 <i>Interests in Joint Ventures</i>                           | 3.5  | <i>Improvements to IFRSs 2008</i><br>Issued: May 2008<br>Effective: 1 January 2009   | Refer (10)          |
| IAS 32 <i>Financial Instruments: Presentation</i>                   | 3.6, 3.11, 5.6                                   | <i>Improvements to IFRSs 2008</i><br>Issued: May 2008<br>Effective: 1 January 2009   | Refer (11) and (12) |
| IAS 33 <i>Earnings per Share</i>                                    | 5.3  | IFRS 3 <i>Business Combinations</i> and IAS 27 <i>Consolidated and Separate Financial Statements</i><br>Issued: January 2008<br>Effective: 1 July 2009 | Refer (13)          |

| Standard  | Principal related chapter(s) | Latest effective amendment   | Future developments            |
|---|------------------------------|--|--------------------------------|
| IAS 34 <i>Interim Financial Reporting</i>   | 5.9                          | <i>Improvements to IFRSs 2008</i><br><i>Issued: May 2008</i><br><i>Effective: 1 January 2009</i>                       | Refer (3)                      |
| IAS 36 <i>Impairment of Assets</i>  | 3.10                         | <i>Improvements to IFRSs 2009</i><br><i>Issued: April 2009</i><br><i>Effective: 1 January 2010</i>                     | Refer (12)                     |
| IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i>                  | 3.12, 3.14                   | IFRS 3 <i>Business Combinations</i><br><i>Issued: January 2008</i><br><i>Effective: 1 July 2009</i>                    | Refer (1), (6), (14) and (17)  |
| IAS 38 <i>Intangible Assets</i>   | 3.3, 5.7                     | <i>Improvements to IFRSs 2009</i><br><i>Issued: April 2009</i><br><i>Effective: 1 July 2009</i>                        | Refer (6), (12), (17) and (18) |
| IAS 39 <i>Financial Instruments: Recognition and Measurement</i>                        | 3.6, 3.6A, 3.7, 3.11, 4.6    | <i>Improvements to IFRSs 2009</i><br><i>Issued: April 2009</i><br><i>Effective: 1 January 2009 and 2010</i>            | Refer (11) and (12)            |
| IAS 40 <i>Investment Property</i>   | 3.4, 5.7                     | <i>Improvements to IFRSs 2008</i><br><i>Issued: May 2008</i><br><i>Effective: 1 January 2009</i>                       | Refer (5) and (12)             |
| IAS 41 <i>Agriculture</i>   | 3.9, 4.3                     | <i>Improvements to IFRSs 2008</i><br><i>Issued: May 2008</i><br><i>Effective: 1 January 2009</i>                       | Refer (12)                     |
| IFRIC 1 <i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i> | 3.2, 3.12                    | IAS 1 <i>Presentation of Financial Statements</i><br><i>Issued: September 2007</i><br><i>Effective: 1 January 2009</i> | Refer (12) and (14)            |

| Standard   | Principal related chapter(s) | Latest effective amendment  | Future developments |
|--|------------------------------|---|---------------------|
| IFRIC 2 <i>Members' Shares in Co-operative Entities and Similar Instruments</i>  | 3.11                         | <i>Puttable Financial Instruments and Obligations Arising on Liquidation</i> (Amendments to IAS 32 and IAS 1)<br><i>Issued:</i> February 2008<br><i>Effective:</i> 1 January 2009 | Refer (11)          |
| IFRIC 4 <i>Determining whether an Arrangement contains a Lease</i>   | 5.1                          | IFRIC 12 <i>Service Concession Arrangements</i><br><i>Issued:</i> November 2006<br><i>Effective:</i> 1 January 2008   | Refer (5)           |
| IFRIC 5 <i>Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i>  | 3.12                         | IAS 1 <i>Presentation of Financial Statements</i><br><i>Issued:</i> September 2007<br><i>Effective:</i> 1 January 2009  | Refer (12) and (14) |
| IFRIC 6 <i>Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment</i><br><i>Issued:</i> September 2005<br><i>Effective:</i> 1 December 2005 | 3.12                         | -   | Refer (12) and (14) |
| IFRIC 7 <i>Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies</i>   | 2.4                          | IAS 1 <i>Presentation of Financial Statements</i><br><i>Issued:</i> September 2007<br><i>Effective:</i> 1 January 2009  | Refer (12)          |
| IFRIC 9 <i>Reassessment of Embedded Derivatives</i>  | 3.6                          | <i>Improvements to IFRSs 2009</i><br><i>Issued:</i> April 2009<br><i>Effective:</i> 1 July 2009   | Refer (11)          |
| IFRIC 10 <i>Interim Financial Reporting and Impairment</i>   | 3.10, 5.9                    | IAS 1 <i>Presentation of Financial Statements</i><br><i>Issued:</i> September 2007<br><i>Effective:</i> 1 January 2009  | Refer (3) and (12)  |

| Standard   | Principal related chapter(s) | Latest effective amendment   | Future developments           |
|--|------------------------------|--|-------------------------------|
| IFRIC 12 <i>Service Concession Arrangements</i>  | 5.12                         | IAS 1 <i>Presentation of Financial Statements</i><br>Issued: September 2007<br>Effective: 1 January 2009 | Refer (16)                    |
| IFRIC 13 <i>Customer Loyalty Programmes</i><br>Issued: June 2007<br>Effective: 1 July 2008                                     | 4.2                          | -  | Refer (6) and (12)            |
| IFRIC 14 <i>The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>                       | 4.4                          | IAS 1 <i>Presentation of Financial Statements</i><br>Issued: September 2007<br>Effective: 1 January 2009 | Refer (7), (12) and (14)      |
| IFRIC 15 <i>Agreements for the Construction of Real Estate</i><br>Issued: July 2008<br>Effective: 1 January 2009               | 4.2                          | -  | Refer (6) and (12)            |
| IFRIC 16 <i>Hedges of a Net Investment in a Foreign Operation</i>  | 3.7                          | <i>Improvements to IFRSs 2009</i><br>Issued: April 2009<br>Effective: 1 July 2009                        | Refer (11)                    |
| IFRIC 17 <i>Distributions of Non-cash Assets to Owners</i><br>Issued: November 2008<br>Effective: 1 July 2009                  | 3.11, 5.4, 5.13              | -  | Refer (3), (9), (11) and (12) |
| IFRIC 18 <i>Transfers of Assets from Customers</i><br>Issued: January 2009<br>Effective: 1 July 2009                           | 3.2, 4.2, 5.7                | -  | Refer (6) and (12)            |
| IFRIC 19 <i>Extinguishing Financial Liabilities with Equity Instruments</i><br>Issued: November 2009<br>Effective: 1 July 2009 | 3.6, 3.11                    | -  | Refer (11) and (12)           |

| Standard   | Principal related chapter(s) | Latest effective amendment  | Future developments           |
|--|------------------------------|---|-------------------------------|
| SIC-7 <i>Introduction of the Euro</i>  | none                         | IAS 27 <i>Consolidated and Separate Financial Statements</i><br><i>Issued: January 2008</i><br><i>Effective: 1 July 2009</i>                                  | -                             |
| SIC-10 <i>Government Assistance – No Specific Relation to Operating Activities</i>         | 4.3                          | IAS 1 <i>Presentation of Financial Statements</i><br><i>Issued: September 2007</i><br><i>Effective: 1 January 2009</i>  | Refer (8), (12) and (17)      |
| SIC-12 <i>Consolidation – Special Purpose Entities</i>                                     | 2.5                          | IFRIC Amendment to SIC-12 <i>Scope of SIC-12 Consolidation – Special Purpose Entities</i><br><i>Issued: November 2004</i><br><i>Effective: 1 January 2005</i> | Refer (9)                     |
| SIC-13 <i>Jointly Controlled Entities – Non-Monetary Contributions by Venturers</i>        | 3.5                          | IAS 1 <i>Presentation of Financial Statements</i><br><i>Issued: September 2007</i><br><i>Effective: 1 January 2009</i>  | Refer (10)                    |
| SIC-15 <i>Operating Leases – Incentives</i>  | 5.1                          | IAS 1 <i>Presentation of Financial Statements</i><br><i>Issued: September 2007</i><br><i>Effective: 1 January 2009</i>  | Refer (5)                     |
| SIC-21 <i>Income Taxes – Recovery of Revalued Non-Depreciable Assets</i>                   | 3.13                         | IAS 1 <i>Presentation of Financial Statements</i><br><i>Issued: September 2007</i><br><i>Effective: 1 January 2009</i>  | Refer (4)                     |
| SIC-25 <i>Income Taxes – Changes in the Tax Status of an Entity or its Shareholders</i>    | 3.13                         | IAS 1 <i>Presentation of Financial Statements</i><br><i>Issued: September 2007</i><br><i>Effective: 1 January 2009</i>  | Refer (4)                     |
| SIC-27 <i>Evaluating the Substance of Transactions Involving the Legal Form of a Lease</i> | 4.2, 5.1                     | IAS 1 <i>Presentation of Financial Statements</i><br><i>Issued: September 2007</i><br><i>Effective: 1 January 2009</i>  | Refer (5), (6), (11) and (12) |
| SIC-29 <i>Service Concession Arrangements: Disclosures</i>                                 | 5.12                         | IAS 1 <i>Presentation of Financial Statements</i><br><i>Issued: September 2007</i><br><i>Effective: 1 January 2009</i>  | Refer (16)                    |

| Standard   | Principal related chapter(s) | Latest effective amendment   | Future developments            |
|--|------------------------------|--|--------------------------------|
| SIC-31 <i>Revenue – Barter Transactions Involving Advertising Services</i> | 4.2, 5.7                     | IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i><br>Issued: December 2003<br>Effective: 1 January 2005 | Refer (6) and (12)             |
| SIC-32 <i>Intangible Assets – Web Site Costs</i>                           | 3.3                          | IAS 1 <i>Presentation of Financial Statements</i><br>Issued: September 2007<br>Effective: 1 January 2009                           | Refer (6), (12), (17) and (18) |

## Future developments

### (1) Insurance contracts

In July 2010 the IASB issued ED/2010/8 *Insurance Contracts* as part of its joint project with the FASB to develop a common, high-quality standard that will address recognition, measurement, presentation and disclosure requirements for insurance contracts. The key proposals in the exposure draft (ED) include:

- scope that focuses on insurance contracts, financial guarantees and certain investment contracts with a discretionary participation feature;
- a fulfilment value-based net measurement approach for insurance and reinsurance contracts, which incorporates an estimate of future cash flows including incremental acquisition costs, the effect of the time value of money, an explicit risk adjustment and a residual margin;
- an unearned premium approach for short duration contracts which requires discounting if the effect is material;
- new unbundling criteria for non-derivative components;
- revised accounting guidance for business combinations and portfolio transfers; and
- insurance liabilities would not be permitted to be measured through other comprehensive income.

The ED does not address policyholder accounting other than in the context of reinsurance contracts.

Given the current divergent accounting practices relating to insurance contracts, any final standard resulting from this project will have a significant impact. The final standard is scheduled for the second quarter of 2011.

## **(2) Extractive activities**

In April 2010 the IASB published a discussion paper (DP) *Extractive Activities*, which is based on the work of a group of national standard-setters. The proposals focus on upstream activities for minerals, oil and natural gas, addressing the following principal topics:

- definitions of reserves and resources for financial reporting
- asset recognition criteria for exploration assets
- unit of account selection for asset recognition
- asset measurement of exploration assets
- impairment testing requirements for exploration assets
- disclosure requirements
- “publish what you pay” disclosure proposals.

A decision whether to add this project to the IASB’s active agenda is expected no earlier than the first half of 2011.

## **(3) Financial statement presentation**

The overall objective of the comprehensive financial statement presentation project is to establish a global standard that prescribes the basis for presentation of financial statements of an entity that are consistent over time, and that promote comparability between entities. The financial statement presentation project is conducted in three phases:

- Phase A was completed in September 2007 with the release of a revised IAS 1;
- Phase B is in progress and addresses the more fundamental issues related to financial statement presentation; and
- Phase C has not been initiated, but is expected to address issues related to interim financial statements.

In July 2010 the IASB posted a staff draft of a proposed ED reflecting tentative decisions made to date in respect of phase B to obtain further stakeholder feedback. An ED is scheduled for the first quarter of 2011.

### **Statement of comprehensive income**

In May 2010 the IASB published ED/2010/5 *Presentation of Items of Other Comprehensive Income – Proposed Amendments to IAS 1*. The ED proposes to present comprehensive income and its components in a single statement of profit or loss and other comprehensive income, and present separately the items of other comprehensive income that would be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss

The final amendments are scheduled for the fourth quarter of 2010.

### **Discontinued operations**

In October 2008 the IASB issued an ED *Discontinued Operations – Proposed Amendments to IFRS 5*, which contained a new definition of discontinued operations. In considering the responses to the ED, the IASB and FASB decided to adopt a common definition of a discontinued operation based on the current definition in IFRS 5, and decided to re-expose their proposals, including related disclosures, for public comment. In May 2010, the IASB and the FASB decided to align the project timetable with the main financial statement presentation project. An ED is scheduled for the first quarter of 2011.

### **(4) Income tax**

In March 2009 the IASB published ED/2009/2 *Income Tax*, in which it proposed to replace IAS 12 with a new IFRS. In light of responses to the ED, the IASB narrowed the scope of the project to focus on resolving problems in practice under IAS 12, without changing the fundamental approach under IAS 12 and preferably without increasing divergence with US GAAP. An ED is scheduled for the second half of 2010.

### **(5) Leases**

In July 2006 the IASB announced a project to reconsider the accounting requirement for leasing arrangements. The project is being conducted jointly

with the FASB. In March 2009 the IASB and FASB published a DP *Leases – Preliminary Views*. The DP proposes, for lessees, to eliminate the requirement to classify a lease contract as an operating or finance lease, and to require a single accounting model to be applied to all leases. The DP proposes that a lessee recognise in its financial statements a “right-of-use” asset representing its right to use the leased asset, and a liability representing its obligation to pay lease rentals. The DP includes a high-level discussion of lessor accounting issues, but expresses no preliminary views on lessor accounting.

An ED is scheduled for the third quarter of 2010. Unlike the DP, the ED is expected to address both lessee and lessor accounting. The proposals for lessee accounting will reflect the “right-of-use” model described in the DP. The proposals for lessor accounting will feature a “hybrid” approach under which a lessor will account for leases using either the performance obligation model or the partial derecognition model, depending on the nature of the lease. Under the performance obligation model, the lessor will continue to recognise the leased asset and will also recognise an asset for its right to receive lease rentals and a liability for its obligation to allow the lessee to use the leased asset. Under the derecognition model, the lessor will derecognise the leased asset and recognise an asset for its right to receive lease rentals and a residual value asset representing its interest in the leased asset at the end of the lease term. The IASB proposed an exemption from these requirements for lessors of investment property measured at fair value.

## **(6) Revenue recognition**

The IASB and the FASB are working on a joint project, the objective of which is to develop a comprehensive set of principles for revenue recognition. In June 2010 the IASB published ED/2010/6 *Revenue from Contracts with Customers*, which would replace IAS 11, IAS 18 and a number of interpretations, including IFRIC 18 and SIC-31. The ED proposes a single revenue recognition model in which an entity recognises revenue as it satisfies a performance obligation by transferring control of promised goods or services to a customer. The ED does not propose to retain current requirements that revenue is not recognised if the goods or services exchanged are of a similar nature and value. The model would be applied to all contracts with customers except leases, financial instruments,

insurance contracts and non-monetary exchanges between entities in the same line of business to facilitate sales to customers other than the parties to the exchange. A final standard is scheduled for the second quarter of 2011.

## **(7) Employee benefits**

In July 2006 the IASB announced a project to revisit fundamentally the accounting for employee benefits under IAS 19. The project is divided into two phases, with the first phase focusing on improvements in employers' accounting for defined benefit plans.

In April 2010 the IASB published ED/2010/3 *Defined Benefit Plans – Proposed Amendments to IAS 19* as part of the first phase of the project. The ED proposes significant changes to the recognition, presentation and disclosure of defined benefit plans and also changes to their measurement. The proposals in the ED would apply equally to all long-term employee benefits and would require all changes in the value of the defined benefit obligation and in the value of plan assets to be recognised in the financial statements in the period in which they occur. The proposals would remove both the option of using the "corridor method" for recognising actuarial gains and losses and deferred recognition of non-vested past service costs.

The changes in the net defined benefit liability (asset) would be split into the following components:

- service costs – to be recognised in profit or loss;
- net interest income or expense – to be recognised in profit or loss as part of finance costs; and
- remeasurements of the defined benefit liability (asset) – to be recognised in other comprehensive income.

The finance costs component would comprise net interest on the net defined benefit liability (asset), determined by applying the discount rate that is used to discount the defined benefit obligation to the net defined benefit liability (asset) – any return on plan assets in excess or below that discount rate would be recognised as a remeasurement in other comprehensive income.

A final standard is scheduled for the first quarter of 2011.

### **(8) Government grants**

The IASB is considering amending IAS 20 in order to resolve inconsistencies between the standard's recognition requirements and the Framework. Work on this project has been deferred pending the completion of work on other related projects such as revenue recognition and emissions trading schemes.

### **(9) Consolidation** **Comprehensive standard**

The IASB has a consolidation project on its agenda, the objective of which is to develop a basis for consolidation that will apply to all entities, including "structured entities". In December 2008 the IASB published ED 10 *Consolidated Financial Statements*, which proposed a single *de facto* control model for all entities, including structured entities. A final standard is scheduled for the fourth quarter of 2010.

### **Disclosures**

As a result of its redeliberations following comments received on the ED, the IASB has decided to publish a separate comprehensive standard that is expected to require extensive disclosures in respect of an entity's involvement with consolidated and unconsolidated entities, including structured entities. A final standard is scheduled for the fourth quarter of 2010.

### **Investment entity exemption**

The IASB and the FASB have added a joint project in respect of investment entities to their agendas, the objective of which is to exempt investment companies (as defined) from the requirement to consolidate controlled entities in the investment companies' consolidated financial statements, but not in the consolidated financial statement of an investment company's parent. An ED is scheduled for the fourth quarter of 2010.

### **Common control transactions**

The IASB's project on common control is expected to examine the definition of common control and the methods of accounting for business combinations

amongst entities under common control. This project is intended to provide guidance in respect of the consolidated and separate financial statements of the acquiring entity. The project also will examine the accounting for de-mergers. Work on this project has been suspended while the Board completes its work on other projects.

### **(10) Joint ventures**

The IASB is working on a short-term convergence project with the FASB, partly to reduce the main differences between IAS 31 and US GAAP. In September 2007 the IASB published an ED *Joint Arrangements*, which proposed accounting for joint arrangements based on the contractual rights and obligations agreed to by the parties to joint arrangements; the legal form of the arrangement would no longer be the most significant consideration in determining the accounting for joint arrangements. The ED proposed that an entity recognise an interest in a joint venture, previously a "jointly controlled entity," using the equity method. Unlike IAS 31, proportionate consolidation would not be permitted. A final standard is scheduled for the second half of 2010.

### **(11) Financial instruments**

In March 2008 the IASB published a DP *Reducing Complexity in Reporting Financial Instruments*. The objectives of the DP were to gather information to assist the IASB in its decision on how to proceed with developing a less complex and principles-based standard on the accounting for financial instruments, which is consistent with the IASB and FASB's long-term objective of measuring all financial instruments at fair value; and to simplify or eliminate the need for special hedge accounting requirements.

Following the comment period, and recommendations from various stakeholders, including the Financial Crisis Advisory Group (FCAG) and the Group of Twenty (G20), the IASB and the FASB subsequently added projects to replace the current financial instruments standards to their agendas.

The IASB's project to replace IAS 39 includes the following phases:

- classification and measurement

- impairment
- hedging.

The IASB and FASB are also considering aspects of derecognition, balance sheet offsetting and financial instruments with characteristics of equity.

### **Classification and measurement of financial liabilities**

In May 2010 the IASB published ED/2010/4 *Fair Value Option for Financial Liabilities*, which proposed to amend the fair value option so that changes in the fair value of financial liabilities due to own credit risk would not be reflected in profit or loss. Except for this amendment the IASB has decided generally to retain the current requirements in IAS 39 in respect of the classification and measurement of financial liabilities. A final standard is scheduled for the second quarter of 2011.

### **Impairment**

In November 2009 the IASB published ED/2009/12 *Financial Instruments: Amortised Cost and Impairment*, which proposed to replace the incurred loss method for impairment of financial assets with a method based on expected losses (i.e. expected cash flow or ECF approach) and to provide a more principles-based approach to measuring amortised cost. The proposals in the ED would apply to all financial instruments within the scope of IAS 39 that are measured at amortised cost.

### **Hedging**

The IASB and FASB are working jointly on a project to replace the current accounting requirements for hedge accounting with the goal of substantially simplifying the existing requirements. An ED is scheduled for the third quarter of 2010.

### **Derecognition**

In March 2009 the IASB published ED/2009/3 *Derecognition*. The proposals in the ED aimed to simplify the derecognition model for financial assets. In June 2010 the IASB decided that its near-term priority should be on increasing the transparency and comparability of its standards by improving and converging

US GAAP and IFRS disclosure requirements for financial assets transferred to another entity. As a result, the IASB plans to finalise the disclosure requirements that were included in the ED. The final revised disclosure requirements are scheduled for the third quarter of 2010.

### **Balance sheet offsetting**

In early 2010, in response to stakeholder concerns, the IASB and the FASB added a joint project to address differences between IFRSs and US GAAP for balance sheet offsetting of derivative contracts and other financial instruments that can result in material differences in financial reporting by financial institutions, to their agendas. This project is still in its preliminary stages and therefore no significant decisions have been made. An ED is scheduled for the fourth quarter of 2010.

### **Financial instruments with characteristics of equity**

The objective of the IASB and FASB's joint project on the distinction between liabilities and equity is to have more relevant, understandable and comparable requirements for determining the classification of financial instruments that have the characteristics of liabilities, equity or both. In February 2008 the IASB published a DP *Financial Instruments with Characteristics of Equity*. An ED of proposed new requirements for classifying financial instruments as equity or an asset/liability, which would replace IAS 32 as a whole, is scheduled for the first quarter of 2011.

The final standard to replace IAS 39 as a whole is scheduled for the second quarter of 2011.

### **(12) Fair value measurement**

In May 2009 the IASB published ED/2009/5 *Fair Value Measurement* (the 2009 ED). The 2009 ED proposed to replace the fair value measurement guidance contained in individual IFRSs with a single, unified definition of fair value, as well as provide further authoritative guidance on the application of fair value measurement in inactive markets. The 2009 ED proposed to explain how to measure fair value when it already is required or permitted by existing IFRSs; it

did not propose new fair value measurements, or to eliminate the practicability exceptions to fair value measurements that exist currently in certain standards.

In June 2010 the IASB published a limited re-exposure draft of proposed disclosure ED/2010/7 *Measurement Uncertainty Analysis Disclosure for Fair Value Measurements* (the 2010 ED). The 2010 ED expands on the proposal in the 2009 ED for an entity to disclose a measurement uncertainty analysis (or sensitivity analysis) for assets and liabilities measured at fair value categorised within Level 3 of the fair value hierarchy. The 2010 ED proposes that an entity consider the effect of correlation between unobservable inputs, if relevant.

A final standard on fair value measurement and disclosure, which is expected to be converged with a forthcoming amended standard under US GAAP, is scheduled for the first quarter of 2011.

### **(13) Earnings per share**

In August 2008 the IASB published an ED *Simplifying Earnings Per Share – Proposed Amendments to IAS 33*. The ED proposed to simplify the denominator for the earnings per share calculation. In addition, it proposed the use of a fair value model to replace the treasury share method in certain circumstances, and to require the two-class method for computing basic earnings per share for mandatorily convertible instruments with stated participation rights. The IASB does not expect to discuss this project until the second half of 2010.

### **(14) Liabilities**

In June 2005 the IASB published an ED of *Proposed Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IAS 19 Employee Benefits*. The proposed amendments would result in significant changes from current practice in accounting for provisions, contingent liabilities and contingent assets. As part of its redeliberations of the proposals in the 2005 ED, some of the main decisions that the IASB has reaffirmed are that:

- the existence of a present obligation distinguishes a liability from a business risk; and

- the term “stand ready obligation” would be used to describe situations when there is uncertainty about the outflow of economic benefits required to settle a present obligation, but not when there is an uncertainty about its existence.

The IASB also determined that its final conclusions about the probability recognition criterion (i.e. “more likely than not”) would depend on further redeliberations of the measurement requirements. However, the IASB indicated its intention to remove the recognition threshold by adopting a model in which probability would be factored into the measurement of a provision, not into whether or not it is recognised.

In January 2010 the IASB published ED/2010/1 *Measurement of Liabilities in IAS 37* (the 2010 ED) which is a limited re-exposure of the 2005 ED focused on:

- a high-level measurement objective for liabilities and certain aspects of application of that measurement objective; and
- the measurement of obligations involving services, e.g. decommissioning. The 2010 ED proposes that service-related obligations would be measured by reference to the price that a contractor would charge to undertake the service, i.e. including a profit margin. This would be irrespective of the entity’s intentions with regard to settling the obligation, i.e. irrespective of whether the entity intends that the work will be carried out by an in-house team or by external contractors.

A final standard is scheduled for the first half of 2011.

### **(15) Conceptual framework**

In April 2004 the IASB and the FASB added a joint project for the development of a common conceptual framework to their agendas.

The IASB and FASB have identified the following phases of this project:

- A. Objectives and qualitative characteristics;
- B. Elements and recognition;

- C. Measurement;
- D. Reporting entity;
- E. Presentation and disclosure;
- F. Purpose and status;
- G. Application to not-for-profit entities; and
- H. Remaining issues, if any.

Of the phases noted, only phases A – D are active projects.

In May 2008, as a result of phase A of the project, the IASB published an ED of *An improved Conceptual Framework for Financial Reporting Chapter 1: The Objective of Financial Reporting Chapter 2: Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information*. The ED proposed new guidance on the objective of general purpose financial reporting for business entities in the private sector and the qualitative characteristics and constraints of decision-useful information. The ED proposed that the objective of general purpose financial reporting is to provide financial information that is useful to all decisions to be made by present and potential capital providers. In this context capital providers consist of all parties who have a claim on the entity's resources such as equity investors and lenders. A final chapter as a result of phase A is expected in the third quarter of 2010.

The IASB and the FASB have started deliberating issues in phase B of the project, including focusing on the working definitions for "asset" and "liability". The expected timing of this phase is yet to be determined.

In December 2009, as a result of phase C of the project, the IASB and the FASB considered a staff paper outlining the measurement concepts for possible inclusion in a DP. A DP on phase C is scheduled for the fourth quarter of 2010/ first quarter of 2011.

In March 2010, as a result of phase D of the project, the IASB published ED/2010/2 *Conceptual Framework for Financial Reporting: The Reporting Entity*. The objective of the ED is to develop a reporting entity concept consistent with the objective of general purpose financial reporting. A final chapter as a result of phase D is scheduled for the fourth quarter of 2010.

### **(16) Rate-regulated activities**

In July 2009 the IASB issued ED/2009/8 *Rate-regulated Activities*, which proposes definitions of regulatory assets and regulatory liabilities, and that regulatory assets and regulatory liabilities are measured at the present value of expected future cash flows, both on initial recognition and for subsequent remeasurement.

In the ED, the IASB noted that an entity with an arrangement within the scope of IFRIC 12 would have to consider whether it has rate-regulated activities that are under the scope of the proposed standard. If it does, the entity would apply both the IFRIC 12 and the proposed standard on rate-regulated activities. The requirements of the proposed ED are applicable solely to the operational phase of the concession agreement in which rates charged by the operator will be regulated and may create additional assets/liabilities. There are no changes in the requirements of IFRIC 12 for the recognition of the revenues for the construction services. A final standard has been deferred pending further research and analysis to permit future deliberations by the IASB as time and resources permit.

### **(17) Emissions trading schemes**

In December 2007 the IASB and the FASB added a joint project on the underlying accounting for emissions trading schemes to their agendas. An ED is scheduled no earlier than the second half of 2011.

### **(18) Intangible assets**

A group of national standard-setters is carrying out research for a possible future IASB project on intangible assets. No decisions have yet been made as to whether this work will develop into an active project of the IASB.

### **(19) Deferred stripping**

The IFRS Interpretations Committee is preparing a draft interpretation on deferred stripping costs incurred in surface mine activity during the production phase of a mine; the draft is expected to propose that such costs be accounted for as a component of the related asset. The draft is scheduled to be issued in the third quarter of 2010.

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