Presentation of Financial Statements

(Revised August 1997)

General

The objective of this Standard is to prescribe the basis of presentation of financial statements in order to ensure comparability both with the enterprise's own financial statements of previous periods and with the financial statements of other enterprises. The standard should be applied in the presentation of all financial statements prepared and presented in according with International Accounting Standards.

The standard replaces International Accounting Standards IAS 1, *Disclosure of Accounting Polices*, IAS 5, *Information to be Disclosed in Financial Statements*, and IAS 13, *Presentation of Current Assets and Current Liabilities*.

Effective date - For financial statements covering periods beginning on or after 1 July 1998.

Specific Provisions

1. The standard requires a set of financial statement to include the following components:

   - balance sheet
   - income statement
   - statement showing either (i) all changes in equity, or (ii) changes in equity other than those arising from capital transactions with owners and distributions to owners
   - cash flow statement
   - accounting policies and explanatory notes.

Fair Presentation and Compliance with IASs

2. Financial Statements should present fairly the financial position, financial performance and cash flows of an enterprise. The appropriate application of International Accounting Standards, with additional disclosure when necessary, results, in virtual all circumstances, in financial statements that achieve a fair presentation.

3. An enterprise whose financial statements comply with International Accounting Standards should disclose that fact. Financial statements should not be described as complying with International Accounting Standards unless they comply with all the requirements of each applicable Standard and each applicable interpretation of the Standing Interpretations Committee.

4. Inappropriate accounting treatments are not rectified either by disclosure of the accounting policies used or by notes or explanatory material.

5. Management should select and apply an enterprise's accounting policies so that the financial statements comply with all the requirements of each applicable International Accounting Standards. Where there is no specific requirements, management should develop policies to ensure that the financial statements provide information that is:

   (a) relevant to the decision-making needs of users; and

   (b) reliable in that they:

      - Represent faithfully the results and financial position of the enterprise

      - Reflect the economic substance of events and transactions and not merely the legal form

      - Are neutral, that is free from bias

      - Are prudent

      - Are complete in all material in all material respects.

6. When preparing financial statements, management should make an assessment of the enterprise's ability to continue as a going concern. Financial statements should be prepared on a going concern basis unless management either intends to liquidate the enterprise or to cease trading or has no realistic alternative but to do so.

7. An enterprise should prepare its financial statements, except for the cash flow information, under the accrual basis of accounting.

8. The presentation and classification of items in the financial statements should be retained from one period to the next unless:

   (a) A significant change in the nature of the operations of the enterprise or a review of its financial statement presentation demonstrate that the change will result in a more appropriate presentation of events or transactions; or

   (b) A change in presentation is required by an International Accounting Standard or an interpretation of the Standing Interpretations Committee.

9. Each material item should be presented separately in the financial statements. Immaterial amounts should be aggregated with amounts of a similar nature or function and need not be presented separately.

10. Assets and liabilities should not be offset except when offsetting is required or permitted by another International Accounting Standard. Items of income and expenses should be offset when, and only when:

   (a) An International Accounting Standard requires or permits it; or

   (b) Gains, losses and related expenses arising from the same or similar transactions and events are not material.

11. Comparative information should be disclosed in respect of the previous period for all numerical information in the financial statements. Comparative information should be included in narrative and descriptive information when it is relevant to an understanding of the current period's financial statements. Comparative amounts should be reclassified, unless its impracticable to do so, to ensure the comparability with the current period and the nature, amount of, and reason for, any reclassification should be disclosed. When its impracticable to reclassify comparative amounts, an enterprise should disclose the reason for not

reclassifying and the nature of the changes that would been made if amounts were reclassified.

Structure and Content of Financial Statements

12. The financial statements should be clearly identified and distinguished from any other information in the same published document.

13. When, in exceptional circumstances, an enterprise's balance sheet date changes and annual financial statements are presented for a period longer or shorter than one year, an enterprise should disclose, in addition to the period covered by the financial statements:

    (a) The reason for a period other than one year being used

    (b) The fact that comparative amounts for the income statement, changes in equity, cash flows and related notes are not comparable.

14. Each enterprise should determine, based on the nature of its operations, whether or not to present current and non-current assets and current and non-current liabilities as separate classifications on the face of the balance sheet. Guidance is given in the standard on how to determine whether an asset or liability is current or not. When an enterprise chooses not make this classification, assets and liabilities should be presented broadly in order of their liquidity.

15. The notes to the financial statements of an enterprise should:

    (a) Present information about the basis of preparation of the financial statements and the specific accounting policies selected and applied for significant transactions and events

    (b) Disclose the information required by International Accounting Standards that is not presented elsewhere in the financial statements

    (c) Provided additional information which is not presented on the face of the financial statements but that is necessary for a fair presentation.

    Notes to the financial statements should be presented in a systematic manner. Each item on the face of the balance sheet, income statement and cash flow statement should be cross-referenced to any related information in the notes.

16. The accounting policies section of the notes to the financial statement should describe the following:

    (a) The measurement basis (or bases) used in the preparing the financial statements

    (b) Each specific accounting policy that is necessary for proper understanding of the financial statements.

17. The standard outlines substantial disclosure requirements. These are detailed in the Disclosure Checklist.

Refer to SIC 8: *First Time Application of IASs as the Primary Basis of Accounting*. Effective 1 August 1998.

Inventories

(Issued November 1993)

General

The standard prescribes the accounting treatment for inventories in financial statements prepared in the context of the historical cost system. Guidance is provided on the determination of costs, subsequent recognition as an expense, including the write-down to net realizable value and on the methods that may be applied to assign costs to inventories. The guidance does not apply to (i) work in progress arising under construction contracts (refer IAS 11, *Construction Contracts*), (ii) financial instruments, or (iii) livestock, agricultural products and mineral ores, which are valued in accordance with well established practices.

Effective date - For financial statements covering periods beginning on or after 1 January 1995.

Specific Provisions

1. Inventories should be measured at the lower of cost and net realizable value.

2. Cost should comprise those costs of purchase and conversion, and other costs incurred, to bring the inventory to its present location and condition. The background material of the standard provides further details on the determination of these costs.

3. (a) Costs should be assigned using the FIFO or weighted average cost methods (benchmark treatment).

   (b) The use of the LIFO method is an allowed alternative treatment (see 5f below).

   (c) Inventory items that relate to a specific project and are clearly segregated should have specific costs assigned.

4. (a) The cost of inventory should be recognized as an expense in the period in which the related revenue is recognized.

   (b) Any loss of inventory or write-downs to net realizable value should be recognized when the loss or write-down occurs. Any reversal of a write-down should be credited to income by reducing the inventory expense for the period.

5. Requirements for disclosures with regard to inventories are as follows:

   (a) The accounting policies adopted in measuring inventories, including the cost formula used.

   (b) The total carrying amount of inventories in classifications appropriate to the enterprise.

   (c) The carrying amount of inventories carried at net realizable value.

(d) The amount of any reversal of a write-down and the circumstances or events that led to the reversal.

(e) The carrying amount of inventories pledged as security for liabilities.

(f) When the cost of inventories is determined using the LIFO method the financial statements should disclose the difference between the amount of inventories as shown in the balance sheet and the amount which would have been shown if prepared in accordance with the benchmark treatment (see 3a above).

(g) The cost of inventories recognized as an expense during the period, or the operating costs, applicable to revenues, recognized as an expense during the period, classified by their nature.

Refer to SIC 1: *Consistency - Different Cost Formulas for Inventories*. Effective 1 January 1999.

(Superseded)

General

This standard on consolidated financial statements, issued in June 1978, was superseded by IAS 27, *Consolidated Financial Statements and Accounting for Investments in Subsidiaries,* and IAS 28, *Accounting for Investments in Associates*, which were issued in April 1989 and are effective for financial statements covering periods beginning on or after 1 January 1990.

Depreciation Accounting

(Issued October 1976)

General

IAS 38, *Intangible Assets*, will supersede IAS 4 with respect to the amortization (depreciation) of intangible assets. IAS 38 is effective for annual financial statements covering periods beginning on or after 1 July 1999. A synopsis of IAS 38 is included in a separate section.

Effective date - For financial statements covering periods beginning on or after 1 January 1977.

Specific Provisions

1. A depreciable asset should be depreciated on a systematic basis and its depreciable amount should be allocated to each accounting period during its useful life.

    (a) Estimates of useful life must consider expected wear and tear, obsolescence, and legal or other limits in the use of the asset.

    (b) The depreciation method selected should be applied consistently unless altered circumstances justify a change.

    (c) When a depreciation method is changed, the effect should be quantified and disclosed and the reasons for the change should be stated.

2. The useful lives of major depreciable assets or classes of depreciable assets should be reviewed periodically, and depreciation rates should be adjusted for the current and future periods if expectations are significantly different from previous estimates.

3. The valuation bases used for determining the amounts at which depreciable assets are stated should be disclosed (See IAS 1).

4. Disclosure requirements:

    (a) The depreciation method.

    (b) Useful lives or depreciation rates.

    (c) Depreciation expense for the period; and

    (d) Gross depreciable assets and accumulated depreciation

Superseded

General

This standard on information to be disclosed in the financial statements, issued in October 1976, was superseded by IAS 1, *Presentation of Financial Statements,* which was issued in August 1997 and became effective for financial statements covering periods beginning on or after 1 July 1998.

Superseded

General

This standard on accounting responses to changing prices, issued in June 1977, was superseded by IAS 15, *Information Reflecting the Effects of Changing Prices*, which was issued in November 1981 and took effect for financial statements covering periods beginning on or after 1 January 1983.

Cash Flow Statements

(Issued December 1992)

General

This statement deals with the preparation and presentation of a cash flow statement. The statement provides information about the historical changes in cash and cash equivalents of an enterprise classified by operating, investing and financing activities, and should be presented as an integral part of the financial statements. Cash equivalents are defined as:

- Short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Effective date - For financial statements covering the periods beginning on or after 1 January 1994.

Specific Provisions

1. Cash flows from operating activities should be reported by either:

   (a) The direct method - detailing the major classes of gross cash receipts (from sale of goods; rendering of services; fees, commissions, royalties; etc.) and payments (to suppliers; to employees; etc.); or

   (b) The indirect method - whereby the net profit or loss is adjusted for the effects of major non-cash items, e.g. depreciation, accruals, deferrals, etc., and changes in working capital items, e.g. inventory, accounts receivable, etc.

2. The major classes of gross cash receipts and payments arising from investing activities should be disclosed. These would generally include acquisition of property, plant, and equipment; acquisition or sale of equity or debt instruments of other enterprises; advances and loans made to, or repayments arising from, third parties.

3. The aggregate cash flows arising from both acquisitions and from disposals of subsidiaries should be separately disclosed as investing activities.

4. The major classes of gross cash receipts and payments arising from financing activities should be disclosed. These would generally be the proceeds arising from an issue of shares or other equity instrument, or payments made to redeem these; the proceeds arising from issuing debentures, loans, notes, etc., or repayments of amounts borrowed; etc.

5. Investing and financing transactions that do not give rise to cash flows should be excluded from the statement. Such transactions should be disclosed elsewhere in the financial statements.

6. Cash flows arising from interest and dividends received and paid should each be separately disclosed. However, there is no consensus as to how these should be classified. The only requirement is that classification is consistent from one period to another. Cash flows arising from taxes on income should be classified as an operating activity unless they can be specifically identified as financing or investing.

7. Cash flows arising from extraordinary items should be classified as operating, investing or financing, and be separately disclosed.

8. Cash flows arising from transactions in a foreign currency, and cash flows of a foreign subsidiary should be translated at the exchanges rates at the dates of the cash flows.

9. When the reporting enterprise is a financial services institution, the cash flows arising from the following activities may be reported on a net basis:

   (a) Cash receipts and payments for the acceptance and repayment of deposits with a fixed maturity date.

   (b) The placement of deposits with, and withdrawal of deposits from, other financial institutions.

   (c) Cash advances and loans made to customers and the repayment of those advances and loans.

10. Other disclosures required:

   (a) The components of cash and cash equivalents and a reconciliation of the amounts in the cash flow statement with the equivalent items reported in the balance sheet.

   (b) For both acquisitions and disposals of subsidiaries or other business units during the period:

      - The total purchase or disposal consideration.

      - The portion of the purchase or disposal consideration discharged by means of cash and cash equivalents.

      - The amount of cash and cash equivalents in the subsidiary or business unit acquired or disposed of.

      - The amount of the assets and liabilities other than cash or cash equivalents in the subsidiary or business unit acquired or disposed of, summarized by each major category.

   (c) The amount of significant cash and cash equivalent balances held by the enterprise that are not available for use by the group, together with a commentary by the management.

Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies

(Issued November 1993)

General

The standard prescribes the classification, disclosure and accounting treatment for the presentation in the income statement of profit or loss from ordinary activities and extraordinary items, and in accounting for changes in accounting estimates, fundamental errors and changes in accounting policies.

Effective date - For financial statements covering periods commencing on or after 1 January 1995.

Specific Provisions

1. All items of income and expense recognized in a period should be included in the determination of net profit or loss unless an IAS permits otherwise.

2. The face of the income statement should disclose (i) the profit or loss from ordinary activities, and (ii) extraordinary items. The background notes to the standard give examples of extraordinary items as natural disasters and expropriation of assets. The notes also provide examples of transactions that would generally be incorporated in the profit or loss from ordinary activities.

3. The nature and amount of each extraordinary item should be separately disclosed.

4. Items in the income statement arising from ordinary activities that by their size, nature or incidence are relevant to an understanding of the performance of the enterprise should be separately disclosed. The background notes to the standard give examples of such items.

5. Where an enterprise sells or abandons a separate, major line of business the following disclosures should be made of each discontinued operation:

   (a) The nature of the operation.

   (b) The segment in which it is reported in the financial statements, where applicable.

   (c) The effective date of discontinuance for accounting purposes.

   (d) The manner of discontinuance (sale or abandonment).

   (e) The gain or loss on discontinuance and the accounting policy used to measure that gain or loss.

   (f) The revenue and profit or loss from the ordinary activities of the operation for the period, together with the corresponding amounts for each prior period presented.

   This requirement is only necessary where the assets and performance can be distinguished physically and

operationally, and for financial reporting purposes.

6. (a) The effect of a change in accounting estimate should be included in the determination of net profit or loss in the period of the change. The effect on future periods should also be disclosed if relevant.

(b) Where relevant, the effect of a change in accounting estimate should be included in the same income statement classification - ordinary activities, extraordinary items - as was used previously for the estimate.

(c) The nature and amount of a change in accounting estimate should be disclosed. If it is impracticable to quantify the amount this fact should be disclosed. Changes that do not have a material effect on the current period but will do so in future periods should be disclosed in the current period.

7. (a) Where an error in a prior accounting period is discovered in the current period the error will generally be corrected in the current financial statements. However, where the error is of such significance that the prior period financial statements cannot be considered to have been reliable at the date of their issue, the error should be corrected by adjusting the opening retained earnings. Comparative figures should be restated unless it is impracticable to do so.

(b) The following information about a fundamental error should be disclosed:

- The nature.
- The amount of the correction for the current period and for each prior period presented.
- The amount of the correction relating to periods prior to the comparative information.
- The fact that comparative information has been restated or that it is impracticable to do so.

(c) An allowed alternative treatment is to correct the error in the income statement of the current year but provide the information required to be disclosed in pro forma. Information to be disclosed is outlined in the standard - this is very similar to that noted in 7(b).

8. (a) A change in accounting policy should only be made if required by statute, or by an accounting setting body, or if the change will result in a more appropriate presentation of events or transactions in the financial statements of the enterprise.

(b) The background notes explain that changes may be applied retrospectively, i.e. it is applied to all events and transactions as if the new policy had always been in use, or prospectively, i.e. it is applied only from the date of the change. A retrospective change will result in prior period figures and the opening retained earnings figure being adjusted.

The benchmark treatment is that any change should be accounted for retrospectively and any resulting adjustments reported as an adjustment to the opening retained earnings figure. Where the adjustments relating to prior periods cannot be reasonably determined the change may be accounted for prospectively.

(c) When a change in accounting policy has a material effect on the current period or any prior period presented, or may have a material effect in subsequent periods, an enterprise should disclose the following:

- The reasons for the change.
- The amount of the adjustments for the current period and for each period presented.

- The amount of the adjustment relating to periods prior to those included in the comparative information.

- The fact that comparative information has been restated or that it is impracticable to do so.

(d) An allowed alternative treatment for any resulting adjustment arising from a retrospective change in accounting policy is to include it in the determination of the net profit or loss for the current period. If this treatment is used additional pro forma material should be presented which accords with the benchmark treatment unless it is impracticable to do so. The disclosure requirements for this treatment are described in the standard, and are very similar to those in 8(c).

(e) Where an enterprise changes an accounting policy to accord with an IAS, the change should be accounted for either:

- In accordance with the specific transitional provisions of the IAS, if any, or

- In accordance with the benchmark treatment or allowable alternative described above.

Research and Development Costs

(Issued November 1993)

General

The standard deals with the accounting treatment for research and development costs, primarily whether such costs should be recognized as an asset or as an expense. The standard does not apply to the costs of exploration and development of oil, gas and mineral deposits in the extractive industries.

Research is defined as the original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

Development is defined as the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services prior to the commencement of commercial production or use.

Effective date - For financial statements covering periods beginning on or after 1 January 1995.

The IASC board has issued the new International Accounting Standard, IAS 38, *Intangible Assets*, which will supersede IAS 9, *Research and Development Costs*, for accounting periods beginning on or after 1 July 1999. The new standard allows early adoption. A synopsis of IAS 38 is included in a separate section.

Specific Provisions

1. Research and development costs should comprise all costs that can be directly attributed to research and development activities that can be allocated on a reasonable basis. The background material in the standard provides specific examples of typical costs and activities.

2. Research costs should be recognized as an expense in the period in which they are incurred.

3. (a) Development costs of a project should be recognized as an asset only when all of the following criteria are met:

   - The product or process is clearly defined and the costs attributable to the product or process can be separately identified and measured reliably.

   - The technical feasibility of the product or process can be demonstrated.

   - The enterprise intends to produce and market, or use, the product or process.

   - The existence of a market for the product or process or, if it is to be used internally rather than sold, its usefulness to the enterprise, can be demonstrated.

- Adequate resources exist, or their availability can be demonstrated, to complete the project and market or use the product or process.

(b) Development costs recognized as an asset should not exceed the probable future economic benefit after deducting any further costs necessary to bring the product to the market, or into production if it is to be used internally.

(c) Development costs written off as an expense in one accounting period cannot be subsequently recognized as an asset in future periods.

4. (a) The development costs recognized as an asset should be amortized on a systematic basis. Due to the inherent uncertainties in estimating future economic benefits and the period for which they will occur the background notes to the standard note that the period of amortization would not normally exceed five years.

(b) The development costs recognized as an asset should be written down to the extent that the unamortized balance is no longer probable of being recovered from future economic benefits. The write down should be recognized in the period in which it occurs.

(c) If the circumstances giving rise to the write down of development costs are reversed the amounts may be written back by way of reducing the amount of development costs charged to income during the period.

5. Disclosures required:

(a) The accounting policies adopted for research and development costs.

(b) The amount of research and development costs recognized as an expense in the period.

(c) The amortization methods used.

(d) The useful lives or amortization rates used.

(e) A reconciliation of the balance of unamortized development costs at the beginning and end of the period showing:

- Development costs recognized as an asset.
- Development costs recognized as an expense.
- Development costs allocated to other asset accounts.
- Development costs written back.

Contingencies and Events Occurring after the Balance Sheet Date

(Issued October 1978)

General

This standard deals with the treatment in financial statements of contingencies and events occurring after the balance sheet date.

Excluded from the scope of this standard are contingencies which may arise from (a) liabilities of life assurance companies from policies issued, (b) obligations under retirement benefit plans, and (c) taxes on income.

Effective date - For financial statements covering periods beginning on or after 1 January 1980.

The IASC Board has issued the revised International Accounting Standard, IAS 10, *Events after the Balance Sheet Date*, which will become effective for financial statements covering accounting periods beginning on or after 1 January 2000. A synopsis of IAS 19 (revised) is included in a separate section.

Specific Provisions

1. A contingent loss should be accrued by a charge against income if:

   (a) It is probable that future events will confirm that an asset has been impaired or a liability incurred at the balance sheet date; and

   (b) The loss can be reasonably estimated.

   The amount of a possible loss should be calculated by taking into account any related probable recovery.

2. The existence of a contingent loss should be disclosed in cases where the conditions for accrual are not met, unless the possibility of a loss is remote.

3. Contingent gains should not be included in the determination of income. Disclosure is required in cases where it is probable that a gain will be realized.

4. In cases where disclosure is required, the following information should be provided:

   (a) The nature of the contingency;

   (b) The factors that are uncertain; and

   (c) An estimate of the financial effect of the contingency or a statement that such an estimate cannot be made.

5. Events occurring after the balance sheet date are distinguished between those which require adjustment of the financial statements and those which require disclosure only.

(a) Adjustment of assets and liabilities is required:

- If additional evidence becomes available to assist with the estimation of amounts relating to conditions existing at the balance sheet date; or
- If events after the balance sheet date indicate that the going concern assumption, in relation to the whole or part of the enterprise, is not appropriate.

(b) Disclosure is required for those events occurring after the balance sheet date that do not affect the condition of assets or liabilities at balance sheet date but are of such importance that non-disclosure would be misleading to the users of the financial statements.

In cases where disclosure is required, the following information should be provided:

- The nature of the event; and
- An estimate of the financial effect or a statement that such an estimate cannot be made.

Construction Contracts

(Issued November 1993)

General

The standard sets out criteria for identification of specific construction contracts and prescribes the accounting treatment of revenue and costs associated with contracts in the financial statements of contractors.

Effective date - For financial statements covering periods beginning on or after 1 January 1995.

Specific Provisions

1. (a) When a contract covers a number of assets, the construction of each asset should be treated as a separate construction contract when:

    - Separate proposals have been submitted for each asset,
    - Each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset, and
    - The costs and revenues of each asset can be identified.

   (b) A group of contracts, whether with a single customer or with several customers, should be treated as a single construction contract when:

    - The group of contracts is negotiated as a single package,
    - The contracts are so closely interrelated that they are, in effect, part of a single project with an overall profit margin, and
    - The contracts are performed concurrently or in a continuous sequence.

   (c) A contract may provide for the construction of an additional asset at the option of the customer or may be amended to include the construction of an additional asset. The construction of the additional asset should be treated as a separate construction contract when:

    - The asset differs significantly in design, technology or function from the asset or assets covered by the original contract, or
    - The price of the asset is negotiated without regard to the original contract price.

2. Contract revenue should comprise (i) the contract amount, and (ii) any variations, claims and incentive payments, to the extent that they are capable of being measured, and the revenue is reasonably certain - the

background information to the standard provides detailed guidance or when variations, claims and incentive payments would be recognized.

3. (a) Contract costs should comprise:

- Costs that relate directly to the specific contracts, e.g. site labor,
- Costs that are attributable to contract activity in general and can be allocated to the contract, e.g. insurance, costs of design and technical assistance that is directly related to a specific contract, contract overheads, etc. and
- Such other costs as are specifically chargeable to the customer under the terms of the contract.

(b) The background information to the standard notes that general contract costs such as contract overheads, etc. should be allocated on a consistent basis to contracts, and the allocation should be based on normal contract activity. General contract costs may include borrowing costs if the contractor adopts the allowed alternative treatment in IAS 23, *Borrowing Costs.*

(c) The background information to the standard also notes that costs incurred in obtaining the contract may be included as part of contract costs if they are separately identified, measured reliably, and it is probable the contract will be obtained. Such costs, if expensed in one period, cannot subsequently be included in contract costs if the contract is obtained in a future period.

4. (a) When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs should be recognized in the enterprise's financial statements as revenue and expenses respectively by reference to the stage of completion of the contract at the balance sheet date (known as the percentage-of-completion method).

(b) An expected loss on a contract should be immediately recognized as an expense.

(c) When the outcome of a construction contract cannot be estimated reliably revenue should be recognized only to the extent of contract costs incurred that it is probable will be recovered. Contract costs should be recognized as an expense in the period in which they are incurred.

5. The percentage-of-completion method is applied to the current estimates of contract revenues and costs. If either of these estimates change from one accounting period to another, the effects of any such change should be accounted for as a change in accounting estimate, in accordance with IAS 8, *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies.*

6. Disclosure requirements:

(a) The amount of contract revenue recognized as revenue in the period.

(b) The methods used to determine the contract revenue recognized in the period.

(c) The methods used to determine the stage of completion of contracts in progress.

(d) For contracts in progress at the balance sheet date:

- The aggregate amount of costs incurred and recognized profits (less recognized losses) to date.
- The amount of advances received.
- The amount of retentions.

(e) The gross amount due from customers for contract work as an asset.

(f) The gross amount due to customers for contract work as a liability.

Accounting for Taxes on Income

(Revised October 1996)

General

This standard deals with accounting for taxes on income in financial statements.

Effective date - For financial statements covering periods beginning on or after 1 January 1998.

Specific Provisions

1. Current tax for current and prior periods should, to the extent unpaid, be recognized as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess should be recognized as an asset.

2. The benefit relating to a tax loss that can be carried back to recover current tax of a previous period should be recognized as an asset.

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

   a) goodwill for which amortization is not deductible for tax purposes; or

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

4. A deferred tax asset should be recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized, unless the deferred tax asset arises from:

   a) negative goodwill which is treated as deferred income in accordance with IAS 22, *Business Combinations*; or

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

5. A deferred tax asset should be recognized for the carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized.

6. An enterprise should recognize a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, except to the extent that both of the following conditions are satisfied:

a) The parent, investor or venturer is able to control the timing of the reversal of the temporary difference; and

b) it is probable that the temporary difference will not reverse in the foreseeable future.

7. A deferred tax asset should be recognized for all deductible temporary differences arising from the investments in subsidiaries, branches and associates, and interests in joint ventures, to the extent that it is probable that:

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

   b) taxable profit will be available against which the temporary difference can be utilized

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

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

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

11. Deferred tax assets and liabilities should not be discounted.

12. The carrying amount of a deferred tax asset should be reviewed at each balance sheet date. An enterprise should reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized. Any such reduction should be reversed to the extent that it becomes probable that sufficient taxable profit will be available.

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

    a) a transaction or event which is recognized, in the same or a different period, directly in equity; or

    b) a business combination that is an acquisition.

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

15. Tax assets and tax liabilities should be presented separately from other assets and liabilities in the balance sheet. Deferred tax assets and liabilities should be distinguished from current tax assets and liabilities.

16. When a distinction is made between current and non-current assets and liabilities it should not classify deferred tax assets (liabilities) as current assets (liabilities).

17. Current tax assets and current tax liabilities should only be offset if the enterprise:

    a) has a legally enforceable right to set off the recognized amounts;

    b) intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously

18. Deferred tax assets and liabilities should only be offset if:

    a) the enterprise has a legally enforceable right to set off the recognized amounts;

    b) the deferred tax assets/ liabilities relate to income taxes levied by the same taxation authority.

19. The tax expense (income) should be presented on the face of the income statement.

20. The major components of the tax expense (income) should be disclosed separately. The following should also be disclosed:

    a) aggregate current and deferred tax relating to items that are charged or credited to equity;

    b) tax expense relating to extraordinary items;

    c) explanation of the relationship between tax expense (income) and accounting profit;

    d) explanation of changes in the applicable tax rate compared to the previous period;

    e) the amount of deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax asset is recognized in the balance sheet;

    f) the aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates in joint ventures, for which deferred tax liabilities have not been recognized;

    g) in respect of each of each type of temporary difference, and in respect of each type of unused tax losses and unused tax credits:

        h) the amount of the deferred tax assets and liabilities recognized in the balance sheet for each period presented;

        i) the amount of deferred tax income or expense recognized in the income statement, if this is not apparent from the changes in the amounts recognized in the balance sheet;

    j) in respect of discontinued operations, the tax expense relating to:

        k) the gain or loss on discontinuance

        l) the profit or loss from the ordinary activities of the discontinued operations

    m) amount of a deferred tax asset and the nature of the evidence supporting its recognition when:

        n) the utilization of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences; and

        ii) the enterprise has suffered a loss in either the current or preceding period in the tax jurisdiction to which the deferred tax asset relates.

Superseded

General

This standard on presentation of current assets and current liabilities, issued in November 1979, was superseded by IAS 1, *Presentation of Financial Statements*, which was issued in August 1997 and became effective for financial statements covering periods beginning on or after 1 July 1998.

Reporting Financial Information by Segment

(Revised August 1997)

General

This standard deals with the reporting of financial information by segment - information about the different types of products and services an enterprise produces and the different geographical areas in which it operates. The standard should be applied by enterprises whose equity or debt securities are publicly traded and by enterprises that are in the process of issuing equity or debt securities in public securities markets.

If an enterprise whose securities are not publicly traded chooses to disclose segment information voluntarily in financial statements that comply with IASs, that enterprise should comply fully with the requirements of this standard.

The standard defines two separate segments:

(a) A Business Segment - which is a component of the enterprise providing an individual product or service, and

(b) A Geographical Segment - which is a component of the enterprise providing product or services within a particular economic environment.

The Standard also defines a "reportable segment" as a business or geographic segment for which segment information is required to be disclosed.

Effective date - For financial statements covering periods beginning on or after 1 July 1998.

Specific Provisions

1. The dominant source and nature of an enterprise's risk and returns should govern whether its primary segment reporting format will be business segments or geographical segments. If the enterprise's risks and rates of return are affected predominantly by differences in the products and services it produces, its primary format for reporting segment information should be business segments, with secondary information reported geographically. Similarly, if the enterprise's risks and rates of return are affected predominantly by the fact that it operates in different countries or other geographical areas, its primary format for reporting segment information should be geographical segments, with secondary information reported for groups of related products and services.

2. An enterprise's internal organizational and management structure and its system of internal financial reporting to the board of directors and the chief executive officer should normally be the basis for identifying the dominant source and nature of risk and differing rates of return facing the enterprise. This would apply unless:

   (a) An enterprise's risk and rates of return are strongly affected both by differences in the products and services it produces and by differences in the geographical areas in which it operates then the enterprise should use business segments as its primary segment reporting format and geographical

segments as its secondary reporting format.

(b) An enterprises internal organizational and management structure and its system of internal financial reporting are based neither on individual products or services or on groups of related products/services nor on geography, the directors and management should determine whether the enterprise's risks and returns are related more to the products and services it produces or more to the geographical areas in which it operates and, as a consequence should choose either business segments or geographical segments as the enterprises primary segment reporting format, with the other as its secondary reporting format.

3. An enterprise's business and geographical segments for external reporting purposes should, in general, be those organizational units for which information is reported to the board of directors and to the chief executive officer for the purpose of evaluating the unit's past performance and for making decisions about future allocations of resources.

4. Two or more internally reported business segments or geographical segments that are substantially similar may be combined as a single business segment or geographical segment. They are substantially similar if:

(a) They exhibit similar long term financial performance.

(b) They are similar in all factors in the appropriate definition of reportable business segment or reportable geographical segment.

5. Information should be reported for a business segment or geographical segment if the majority of its revenue is earned from sales to external customers and:

(a) Its revenue from sales to external customers and from transactions with other segments is 10 per cent or more of the total revenue, external and internal, of all segments; or

(b) Its segment result, whether profit or loss, is 10 per cent or more of the combined result of all segments in profit or the combined result of all segments in loss, whichever is the greater in absolute amount; or

(c) Its assets are 10 per cent or more of the total assets of all segments.

6. If total external revenue attributable to reportable segments constitutes less than 75 per cent of the total revenue, additional segments should be identified, even if they do not meet the 10 per cent thresholds, until 75 per cent of total revenue is included.

7. A segment identified as a reportable segment in the immediately preceding period because it satisfied the relevant 10 per cent thresholds should continue to be a reportable segment for the current period notwithstanding that its revenue, result and assets all no longer exceed the 10 per cent thresholds, if the management of the enterprise judges the segment to be of continuing significance.

8. If a segment is identified as a reportable segment in the current period because it satisfies the relevant 10 per cent thresholds, prior period segment data that is presented for comparative purposes should be restated to reflect the newly reportable segment as a separate segment, even if that segment did not satisfy the 10 per cent thresholds in the prior period, unless it is impracticable to do so.

9. Segment information should be prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the consolidated group or enterprise.

10. Assets that are jointly used by two or more segments should be allocated to segments if, and only if, their related revenues and expenses also are allocated to those segments.

Disclosures required:

Primary Reporting Format

(a) Segment revenue distinguishing between sales to external customers and revenue from the transactions with other segments.

(b) Segment results.

(c) Total carrying amount of the segment assets.

(d) Segment liabilities.

(e) The total cost incurred during the period for capital expenditure. (property, plant, equipment and intangible assets).

(f) The total amount of significant non cash expenses and the expenses included in segment results for depreciation and amortization of the segment assets. (however this disclosure requirement can be waived if the enterprise is giving cash flow disclosures according to IAS 7, *Cash Flow Statements*.)

(g) The aggregate of the enterprise's share of the net profit or loss of the associates, joint ventures or other investments accounted for under the equity method (along with the aggregate investments in those associates and joint ventures) if substantially all of those associates' operations are within the reportable segment.

(h) A reconciliation between the information disclosed for reportable segments and the aggregated information in the consolidated or enterprise financial statements.

Secondary Segment Information

(i) If an enterprise's primary format for reporting segment information is business segments, it should also report:

- segment revenue from external customers by geographical area based on the geographical location of its customers, for each geographical segment whose revenue from sales to external customers is 10 per cent or more of total enterprise revenue from sales to all external customers;

- the total carrying amount of segment assets by geographical location of assets, for each geographical segment whose segment assets are 10 per cent or more of the total assets of all geographical segments; and

- the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (property, plant, equipment, and intangible assets) by geographical location of assets, for each geographical segment whose segment assets are 10 per cent or more of the total assets of all geographical segments.

(j) If an enterprise's primary format for reporting segment information is geographical segments, it should also report the following segment information for each business segment whose revenue from sales to external customers is 10 per cent or more of total enterprise revenue from sales to all external customers or whose segment assets are 10 per cent or more of the total assets of all business segments:

- Segment revenue from external customers;

- The total carrying amount of segment assets; and

- The total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (property, plant, equipment, and intangible assets).

(k) If an enterprise's primary format for reporting segment information is geographical segments that are based on location of assets, and if the location of its customers is different from the location of its assets, then the enterprise should also report revenue from sales to external customers for each customer-based geographical segment whose revenue from sales to external customers is 10 per cent or more of total enterprise revenue from sales to all external customers.

(l) If an enterprise's primary format for reporting segment information is geographical segments that are based on location of customers, and if the enterprise's assets are located in different areas from its customers, then the enterprise should also report the following segment information for each asset-based geographical segment whose revenue from sales to external customers or segment assets are 10 per cent or more of related consolidated or total enterprise amounts.

- The total carrying amount of segment assets by geographical location of the assets; and

- The total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (property, plant, equipment, and intangible assets) by location of assets.

Other Disclosures

(m) If a business segment or geographical segment for which information is reported to the board of directors and chief executive officer is not a reportable segment because it earns a majority of its revenue from sales to other segments, but nonetheless its revenue from sales to external customers is 10 per cent or more of total enterprise revenue from sales to all external customers, the enterprise should disclose that fact and the amounts of revenue from (a) sales to external customers and (b) internal sales to other segments.

(n) In measuring and reporting segment revenue from transactions with other segments, inter-segment transfers should be measured on the basis that the enterprise actually used to price those transfers. The basis of pricing inter-segment transfers and any change therein should be disclosed in the financial statements.

(o) Changes in accounting policies adopted for segment reporting that have a material effect on segment information should be disclosed, and prior period segment information presented for comparative purposes should be restated unless it is impracticable to do so.

An enterprise should indicate the types of products and services included in each reported business segment and indicate the composition of each reported geographical segment, both primary and secondary, if not otherwise disclosed in the financial statements or elsewhere in the financial report.

Information Reflecting the Effects of Changing Prices

(Issued November 1981)

General

This standard deals with information reflecting the effects of changing prices on the measurements used in the determination of an enterprise's results of operation and financial position.

The standard supersedes IAS 6, *Accounting Responses to Changing Prices.*

In October 1989, the Board of the IASC decided that enterprises' need not disclose information required by the standard in order to comply with International Accounting Standards. However, compliance is encouraged.

Effective date - For financial statements covering periods beginning on or after 1 January 1983.

Specific Provisions

1. Enterprises whose levels of revenues, profits, assets or employment are economically significant in the environment in which they operate should present information disclosing the following items, using a method that adjusts for the effects of changing prices:

    (a) The amount of the adjustment to or the adjusted amount of depreciation on property, plant and equipment;

    (b) The amount of the adjustment to or the adjusted amount of cost of sales;

    (c) The adjustments relating to monetary items, the effect of borrowing or equity interests when such adjustments have been taken into account in determining income under the method adopted; and

    (d) The overall effect on results of the adjustments described in (a) and (b) and, where appropriate, (c), as well as any other items reflecting the effects of changing prices that are reported under the accounting method adopted.

2. When a current cost approach is adopted, the current cost of property, plant and equipment and of inventory should be disclosed.

3. Enterprises should describe the procedures adopted to compute the required information, including the nature of any indices used.

4. The information required should be provided on a supplementary basis unless it is presented in the primary financial statements.

Property, Plant and Equipment

(Issued November 1993)

General

The standard prescribes the accounting treatment for property, plant and equipment (PPE), in particular, the timing of recognition of the assets, the determination of their carrying amounts, and the depreciation charges to be recognized.

The standard does not apply to forests and similar regenerative natural resources, or to the rights to explore for and extract minerals. The standard does not deal with certain aspects of accounting reflecting the effects of changing prices. However, where an enterprise is reporting in accordance with either IAS 15, *Information Reflecting the Effects of Changing Prices*, or IAS 29, *Financial Reporting in Hyperinflationary Economies*, all aspects of the standard are valid except for those that deal with the measurement of PPE subsequent to its initial recognition.

The standard supersedes both IAS 16, *Property, Plant and Equipment*, and IAS 4, *Depreciation Accounting*. However, as the standard applies to only tangible assets, IAS 4 continues to be relevant for assets such as long term intangibles.

Effective date - For financial statements covering periods beginning on or after 1 January 1995.

The IASC Board has issued the revised IAS 16, *Property, Plant, and Equipment*, which will replace the current IAS 16 (revised 1993) for periods beginning on or after 1 July 1999. The revised standard allows early adoption if IAS 36, IAS 37 and IAS 38 are adopted at the same time. A synopsis of this revised standard is included in a separate section.

Specific Provisions

1. An item of PPE should be recognized as an asset when (i) it is probable that future economic benefits associated with the asset will flow to the enterprise, and (ii) the cost of the asset can be measured reliably.

2. The background notes to the standard note that:

   (a) Judgment is required in deciding what constitutes a separate item of PPE, and it may be permissible to aggregate individually insignificant items. Alternatively, in certain circumstances, it may be appropriate to allocate the total expenditure on an asset to its component parts, e.g. where they may have different useful lives.

   (b) Major spare parts and stand-by equipment may be classified as PPE if they are likely to be used for more than one accounting period.

   (c) Assets acquired which have no direct economic benefit e.g. those used for safety or environmental reasons, may be necessary in order for the enterprise to obtain future economic benefits from its other assets. Where this is the case such assets may be classified as PPE.

3. An item of PPE should be initially measured at cost. The background notes to the standard identify costs as ".... its purchase price, including import duties and non-refundable purchase taxes, and any directly

attributable costs of bringing the asset to working condition .....".

4. The background notes to the standard note that:

   (a) Administration and other general overheads do not comprise a component cost of PPE unless directly attributable to bringing the asset to its working condition. A similar principle applies to start-up and pre-production costs.

   (b) The cost of a self constructed asset should eliminate any internal profits.

   (c) Where an asset is acquired in an exchange transaction, the cost of such an item is measured at fair value. This will be determined by the fair value of the asset given up in the exchange.

   (d) Subsequent expenditure on an asset should only be added to the carrying amount when it is probable that future economic benefit, in excess of that originally assessed, will flow to the enterprise.

5. Subsequent to initial recognition as an asset, an item of property, plant and equipment should be:

   (a) Carried at its cost less any accumulated depreciation, subject to the requirement to write an asset down to its recoverable amount (benchmark treatment).

   (b) Carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation (allowed alternative treatment).

   Revaluations should be made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

6. (a) When an item of PPE is revalued, the entire class to which the asset belongs should be revalued.

   (b) When an asset's carrying amount is increased as a result of a revaluation, the increase should be credited to a revaluation surplus, unless it reverses a previous revaluation decrease that had been expensed in which case the increase should be recognized as income. When the carrying amount is reduced the reverse applies.

   (c) The background material to the standard notes that the revaluation surplus may be transferred directly to retained earnings when the surplus is realized on the retirement or disposal of the asset. This transfer is not made through the income statement.

7. The depreciable amount of an item of PPE should be allocated on a systematic basis over its useful life. The depreciation method should reflect the pattern in which the asset's economic benefits are consumed by the enterprise.

8. The useful life of an asset should be reviewed periodically, and the depreciation charge of current and future periods adjusted if appropriate.

9. The background notes to the standard identify the criteria to be considered in determining the useful life of an asset - expected usage; wear and tear; technical obsolescence; legal or other limits on the asset's use.

10. The background notes state that land normally has unlimited life and is not depreciated.

11. The background notes require any significant costs to be incurred by the enterprise at the end of the asset's useful life to be recognized for either by reducing the residual value of the asset, or charging an amount to income over the life of the asset.

12. (a) The standard does not specify or disallow any method of calculating depreciation. However, the background notes state that the method used should be consistently applied unless there is some change in the expected pattern of usage.

(b) The standard does require that the depreciation method applied to property, plant and equipment should be reviewed periodically and, if there has been a significant change in the expected pattern of economic benefits from those assets, the method should be changed to reflect the changed pattern. When such a change in depreciation method is necessary the change should be accounted for as a change in accounting estimate and the depreciation charge for the current and future periods should be adjusted.

13. (a) The carrying amount of an item or a group of identical items of property, plant and equipment should be reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount should be reduced to the recoverable amount. The amount of the reduction should be recognized as an expense immediately, unless it reverses a previous revaluation in which case it should be charged to the revaluation reserve.

(b) A subsequent increase in the recoverable amount of an asset, carried at cost less accumulated depreciation, should be written back when the circumstances and events that led to the write-down or write-off cease to exist. The amount written back should be reduced by the amount that would have been recognized as depreciation had the write-down or write-off not occurred.

14. (a) An item of property, plant and equipment should be eliminated from the balance sheet on disposal or when the asset is permanently withdrawn from use and no future economic benefits are expected from its disposal.

(b) Gains or losses arising from the retirement or disposal of an item of property, plant and equipment should be determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and should be recognized as income or expense in the income statement.

15. Disclosure requirements:

(a) For each class of PPE:

- The measurement bases used for determining the gross carrying amount. When more than one basis has been used, the gross carrying amount for that basis in each category should be disclosed.
- The depreciation methods used.
- The gross carrying amount and the accumulated depreciation at the beginning and end of the period.
- A reconciliation of the carrying amount at the beginning and end of the period showing:
    - additions
    - disposals
    - acquisitions through business combinations
    - increases or decreases resulting from reevaluations
    - reductions in carrying amount
    - amounts written back
    - depreciation
    - the net exchange differences arising on the translation of the financial statements of a

foreign entity

- other movements.

(b) General:

- Whether, in determining the recoverable amount of items of property, plant and equipment, expected future cash flows have been discounted to their present values.

- The existence and amounts of restrictions on title, and property, plant and equipment pledged as security for liabilities.

- The accounting policy for restoration costs relating to items of property, plant and equipment.

- The amount of expenditures on account of property, plant and equipment in the course of construction.

- The amount of commitments for the acquisition of property, plant and equipment.

(c) When items of property, plant and equipment are stated at revalued amounts:

- The basis used to revalue the assets.

- The effective dates of the revaluations.

- Whether an independent valuer was involved.

- The nature of any indices used to determine replacement cost.

- The carrying amount of each class of property, plant and equipment that would have been included in the financial statements had the assets been carried at cost less depreciation.

- The revaluation surplus, indicating the movement for the period and any restrictions on the distribution of the balance to shareholders.

Refer to SIC 14: *Property, Plant and Equipment - Compensation for Impairment or Loss of Items*. Effective 1 July 1999.

Accounting for Leases

(Revised December 1997)

General

This Standard deals with accounting for leases. It does not deal with (a) lease agreements to use natural resources, such as oil, gas, timber, metals and other mineral rights, and (b) licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights.

Effective date - For financial statements covering periods beginning on or after 1 January 1999.

Specific Provisions

1. **Accounting for leases in the financial statements of lessees: Finance Leases**

(a) A finance lease should at the inception of the lease be reflected in the balance sheet of a lessee by recording an asset and a liability equal to the lower of fair value of the leased property, or the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor is the interest rate implicit in the lease, if this is practical to determine; if not, the lessee's incremental borrowing rate should be used.

- A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred.

- Inception of the lease is the earlier of the date of the lease agreement or of a commitment by the parties to the principal provisions of the lease.

- Minimum lease payments are the payments that the lessee is or can be required to make under the lease (excluding costs for service and taxes to be paid by or be reimbursable to the lessor) together with any amounts guaranteed by him or by a party related to him. In cases where the lessee has the option to purchase the asset at a price which (a) is expected to be sufficiently lower than the fair value at the date the option become exercisable and (b) at the inception of the lease is reasonably certain to be exercised, the minimum lease payments comprise the minimum rentals payable over the lease term and the payment required to exercise this purchase option.

- The fair value is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable seller in an arm's length transaction.

- The interest rate implicit in the lease is the discount rate that, at the inception of the lease, causes the aggregate present value of the minimum lease payments (from the standpoint of the lessor) and the unguaranteed residual value to be equal to the fair value of the leased asset.

(b) Lease payments should be apportioned between the finance charge and the reduction of the outstanding liability. The finance charge should be allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Some form of approximation may be used.

- The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, which option at the inception of the lease it is reasonably certain that the lessee will exercise.

(c) A finance lease gives rise to a depreciation charge for the asset as well as a finance expense for each accounting period. The depreciation policy for leased assets should be consistent with that for depreciable assets which are owned, and the depreciation recognized should be calculated on the basis set out in IAS 4, *Depreciation Accounting*. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset should be fully depreciated over the shorter of the lease term or the useful life of the asset.

- Useful life is defined as either the estimated remaining period from the beginning of the lease term, without limitation by the lease term, over which the economic benefits embodied in the asset are expected to be consumed by the enterprise.

2. **Accounting for leases in the financial statements of lessees: Operating Leases**

An operating lease is a lease other than a finance lease. Lease payments should be recognized as an expense in the income statement on a straight line basis over the lease term unless another systematic basis is representative of the time pattern of the user's benefit.

3. **Accounting for leases in the financial statements of lessors: Finance Leases**

(a) Lessors should recognize assets held under a finance lease in their balance sheets and present them as a receivable at an amount equal to the net investment of the lease.

(b) The recognition of finance income should be based on a pattern reflecting a constant periodic rate of return on the lessor's net investment outstanding in respect of the finance lease.

(c) Manufacturer or dealer lessors should recognize selling profit or loss in income for the period, in accordance with the policy followed by the enterprise for outright sales. If artificially low rates of interest are quoted, selling profit should be restricted to that which would apply if a commercial rate of interest were charged. Initial direct costs should be recognized as an expense in the income statement at the inception of the lease.

4. **Accounting for leases in the financial statements of lessors: Operating Leases**

(a) Lessors should present assets subject to operating leases in their balance sheets according to the nature of the asset.

(b) Lease income should be recognized on a straight line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

(c) The depreciation of leased assets should be on a basis consistent with the lessor's normal depreciation policy for similar assets, and the depreciation charge should be calculated on the basis set out in IAS 4, *Depreciation Accounting,* and IAS 16, *Property, Plant and Equipment.*

5. Accounting for sale and leaseback transactions:

(a) If sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount should not be immediately recognized as income in the financial statements of the seller-lessee. Instead it should be deferred and amortized over the lease term.

(b) If a leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss is normally recognized immediately. If the sale price is below fair value, any profit or loss should be recognized immediately except that, if the deficiency is compensated by future rentals at below market price, it should be deferred and amortized in proportion to the rental payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value should be deferred and amortized over the period for which the asset is expected to be used.

(c) For operating leases, if the fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset, a loss equal to the amount of the difference between the carrying amount and fair value should be recognized immediately.

6. Disclosures required

For finance leases in the financial statements of lessees

Lessees should, in addition to the requirements of IAS 32, *Financial Instruments: Disclosure and Presentation,* make the following disclosures:

(a) For each class of asset, the net carrying amount at the balance sheet date;

(b) A reconciliation between the total of minimum lease payments at the balance sheet date, and their present value. In addition the total of minimum lease payments at the balance sheet date, and their present value, for (i) not later than one year; (ii) later than one year and not later than five years; (iii) later than five years;

(c) Contingent rents recognized in income for the period;

(d) The total of future minimum sublease payments expected to be received under non-cancellable subleases at the balance sheet date; and

(e) A general description of the leasee's significant leasing arrangements including, but not limited to, the following:

- the basis on which contingent rent payments are determined
- the existence and terms of renewal or purchase options and escalation clauses; and
- restrictions imposed by lease arrangements, such as those concerning dividends, additional debt, and further leasing.

For operating leases in financial statements of lessees

Lessees should, in addition to the requirements of IAS 32, *Financial Instruments: Disclosure and Presentation,* make the following disclosures for operating leases:

(f) The total of the minimum lease payments under non- cancellable operating lease for each of the following periods:

- not later than one year
- later than one year and not later than five years
- later than 5 years

(g) The total of the future minimum sublease payments expected to be received under non cancellable subleases at the balance sheet date.

(h) Lease and sublease payments recognized in income for the period with separate amounts for the minimum lease payments, contingent rents and sublease payments.

(i) A general description of the leasee's significant leasing arrangements including, but not limited to, the following:

- the basis on which contingent rent payments are determined
- the existence and terms of renewal or purchase options and escalation clauses; and
- restrictions imposed by lease arrangements, such as those concerning dividends, additional debt, and further leasing.

For finance leases in the financial statements of lessors

Lessors should, in addition to the requirements if IAS 32, *Financial Instruments: Disclosure and Presentation,* make the following disclosures for finance lease:

(j) A reconciliation between the total gross investment in the lease at the balance sheet date, and the present value of minimum lease payments receivable at the balance sheet date. In addition, an enterprise should disclose the total gross investment in the lease and the present value of minimum lease payments receivable at the balance sheet date, for each of the following periods: (i) not later than one year; (ii) later than one year and not later than five years; (iii) later than five years.

(k) Unearned finance income.

(l) Unguaranteed residual values accruing to the benefit of the lessor.

(m) The accumulated allowance for uncollectible minimum lease payments receivable.

(n) Contingent rents recognized in income.

(o) A general description of the lessor's significant leasing arrangements.

For operating leases in the financial statements of the lessor

(p) for each class of the asset, the gross carrying amount, the accumulated depreciation and accumulated impairment losses at the balance sheet date

- the depreciation recognized during the period.
- impairment losses recognized in the income or the period.
- impairment losses reversed in the income for the period.

(q) the future minimum lease payments under the non-cancellable operating leases in the aggregate and for each of the following periods: (i) not later than one year; (ii) later than one year and not later than five years; and (iii) later than five year.

(r) total contingent rents recognized in income

(s) a general description of the lessor's significant leasing arrangements.

Refer to SIC 15: *Operating Leases -Incentives*. Effective 1 January 1999.

Revenue

(Issued November 1993)

General

The standard prescribes the accounting treatment for revenue arising from the sale of goods or rendering of services, and the use by others of enterprise assets yielding interest, royalties and dividends to the enterprise. "Revenue" is income that arises in the ordinary course of business, whereas "Income" includes both revenue and gains.

The standard does not apply to revenue from construction contracts (refer IAS 11, *Construction Contracts*), lease agreements (refer IAS 17, *Accounting for Leases*), insurance contracts of insurance enterprises, changes in fair value of financial assets and liabilities, natural increases in herds, forests or agricultural products, or the extraction of mineral ores.

Effective date - For financial statements covering periods beginning on or after 1 January 1995.

Specific Provisions

1. (a) Revenue should be measured at the fair value of the consideration received or receivable, which in most cases will be cash.

   (b) The background notes to the standard state that:

   - Where the inflow of cash is sufficiently deferred e.g. a period of interest free credit is given, the fair value may be arrived at by discounting the proceeds. The difference between the nominal proceeds received and the fair value would be treated as interest revenue.

   - Where dissimilar goods are swapped or exchanged, the revenue is measured by the fair value of the goods or services received, or where this cannot be measured, by the fair value of goods or services given up.

2. Revenue from the sale of goods should be recognized when all the following conditions have been satisfied:

   (a) The enterprise has transferred to the buyer the significant risks and rewards of ownership of the goods.

   (b) The enterprise retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

   (c) The amount of revenue can be measured reliably.

   (d) It is probable that the economic benefits associated with the transaction will flow to the enterprise.

   (e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

3. The background notes to the standard note that:

   (a) When an enterprise retains only an insignificant risk of ownership the sale transaction can be recognized as revenue e.g. where legal title is retained solely to protect the collectibility of the amount due.

   (b) When applying the recognition criteria it may be necessary to review all the components of a transaction before recognizing the revenue e.g. when the selling price includes an amount for subsequent servicing this value should be deferred and recognized over the period of the service. Conversely, two or more transactions may need to be viewed together e.g. a sale of goods with an agreement to repurchase them at a future date.

   (c) Revenues and the related expenses should be matched. Where future related expenses cannot be measured reliably revenue cannot be recognized.

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

   (a) The amount of revenue can be measured reliably.

   (b) It is probable that the economic benefits associated with the transaction will flow to the enterprise.

   (c) The stage of completion of the transaction at the balance sheet date can be measured reliably.

   (d) The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

   However, the background notes accept that where services are performed by an indeterminate number of acts, for practical purposes, revenue may be recognized on a straight line basis.

5. Revenue arising from the use by others of enterprise assets yielding interest, royalties and dividends should be recognized when:

   (a) It is probable that the economic benefits associated with the transaction will flow to the enterprise.

   (b) The amount of the revenue can be measured reliably.

   Revenue should be recognized on the following bases:

   (a) Interest should be recognized on a time proportion basis that takes into account the effective yield on the asset.

   (b) Royalties should be recognized on an accruals basis in accordance with the substance of the relevant agreement.

   (c) Dividends should be recognized when the shareholder's right to receive payment is established.

6. Revenue is recognized only when it is probable that the economic benefit of the transaction will flow to the enterprise. Where revenue has been recognized but doubts exist regarding the collectibility of the amount due, this doubt would result in an expense e.g. bad debt, and not in the adjustment of the revenue figure.

7. Disclosure requirements:

   (a) The accounting policies adopted for the recognition of revenue, including the methods adopted to determine the stage of completion of transactions involving the rendering of services.

   (b) The amount of each significant category of revenue recognized during the period.

   (c) The amount of revenue arising from exchanges of goods or services included in each significant category of revenue.

Employee Benefits

(Issued February 1998)

General

The objective of this Standard is to prescribe the accounting and disclosure for employee benefits. The Standard requires an enterprise to recognize:

(a) a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and

(b) An expense when the enterprise consumes the economic benefit arising from the service provided by an employee in exchange for employee benefits.

This standard replaces IAS 19, *Retirement Benefit Costs*, (revised 1993).

Effective date - 1 January 1999

Specific Provisions

1. This standard should be applied by an employee in accounting for employee benefits

Short-term Employee Benefits

2. When an employee has rendered service to an enterprise during an accounting period, the enterprise should recognize the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

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

   (b) as an expense, unless another International Accounting Standard requires or permits the inclusion of the benefits in the cost of an asset (see, for example, IAS 2, *Inventories*, and IAS 16, *Property, Plant and Equipment*).

   Paragraphs 11, 14 and 17 of the Standard explain how an enterprise should apply this requirement to short-term employee benefits in the form of compensated absences and profit sharing and bonus plans.

3. An enterprise should recognize the expected cost of short-term employee benefits in the form of compensated absences payments under paragraph 2 of the synopsis as follows:

   (a) in the case of accumulating compensated absences, when the employees render service that

increases their entitlement to future compensated absences; and

(b) in the case of non-accumulating compensated absences, when the absences occur.

4. An enterprise should measure the expected cost of accumulating compensated absences as the additional amount that the enterprise expects to pay as a result of the unused entitlement that has accumulated at the balance sheet date.

5. An enterprise should recognize the expected cost of profit sharing and bonus payments when, and only when:

(a) the enterprise has a present legal or constructive obligation to make such payments as a result of past events; and

(b) a reliable estimate of the obligation can be made.

A present obligation exists when, and only when, the enterprise has no realistic alternative but to make the payments.

Post-employment Benefits

Multi-employer Plans

6. An enterprise should classify a multi-employer plan as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms). Where a multi-employer plan is a defined benefit plan, an enterprise should account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan and disclose the information required by paragraph 120 of the standard.

7. When sufficient information is not available to use defined benefit accounting for a multi-employer plan that is a defined benefit plan, an enterprise should:

(a) account for the plan as if it were a defined contribution plan;

(b) disclose:

- the fact that the plan is a defined benefit plan; and
- the reason why sufficient information is not available to enable the enterprise to account for the plan as a defined benefit plan; and

(c) to the extent that a surplus or deficit in the plan may affect the amount of future contributions, disclose in addition:

- any available information about that surplus or deficit;
- the basis used to determine that surplus or deficit; and
- the implications, if any, for the enterprise.

State Plans

8. An enterprise should account for a state plan in the same way as for a multi-employer plan.

Insured benefits

9. An enterprise may pay insurance premiums to fund a post-employment benefit plan. The enterprise should treat such a plan as a defined contribution plan unless the enterprise will have (either directly, or indirectly through the plan) a legal or constructive obligation to either:

   (a) pay the employee benefits directly when they fall due; or

   (b) pay further contributions if the insurer does not pay all future employee benefits relating to employee service in the current and prior periods.

   If the enterprise retains such a legal or constructive obligation, the enterprise should treat the plan as a defined benefit plan.

Defined Contribution Plans

10. When an employee has rendered service to an enterprise during a period, the enterprise should recognize the contribution payable to a defined contribution plan in exchange for that service:

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

    (b) as an expense, unless another International Accounting Standard requires or permits the inclusion of the contribution in the cost of an asset (see, for example, IAS 2, *Inventories*, and IAS 16, *Property, Plant and Equipment*).

11. Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the period in which the employees render the related service, they should be discounted using the discount rate specified in the Standard.

12. An enterprise should disclose the amount recognized as an expense for defined contribution plans.

Defined Benefit Plans

13. An enterprise should account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the enterprise's informal practices. Informal practices give rise to a constructive obligation where the enterprise has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the enterprise's informal practices would cause unacceptable damage to its relationship with employees.

14. The amount recognized as a defined benefit liability should be the net total of the following amounts:

    (a) the present value of the defined benefit obligation at the balance sheet date;

    (b) plus any actuarial gains (less any actuarial losses) not recognized because of the treatment;

    (c) minus any past service cost not yet recognized;

    (d) minus the fair value at the balance sheet date of plan assets (if any) out of which the obligations are to be settled directly.

15. An enterprise should determine the present value of defined benefit obligations and the fair value of any

plan assets with sufficient regularity that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the balance sheet date.

16. The amount determined above may be negative (an asset). An enterprise should measure the resulting asset at the lower of:

    (a) the amount determined above; and

    (b) the net total of:

        (i) any unrecognized actuarial losses and past service cost; and

        (ii) the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits should be determined using the discount rate specified in the Standard.

17. An enterprise should recognize the net total of the following amounts as expense or income, except to the extent that another International Accounting Standard requires or permits their inclusion in the cost of an asset:

    (a) current service cost

    (b) interest cost ;

    (c) the expected return on any plan assets;

    (d) actuarial gains and losses;

    (e) past service cost; and

    (f) the effect of any curtailments or settlements.

18. An enterprise should use the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost.

19. In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an enterprise should attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an enterprise should attribute benefit on a straight-line basis from:

    (a) the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until

    (b) the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

20. Actuarial assumptions should be unbiased and mutually compatible.

21. Financial assumptions should be based on market expectations, at the balance sheet date, for the period over which the obligations are to be settled.

22. The rate used to discount post-employment benefit obligations (both funded and unfunded) should be determined by reference to market yields at the balance sheet date on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields (at the balance sheet date) on government bonds should be used. The currency and term of the corporate bonds or government bonds

should be consistent with the currency and estimated term of the post-employment benefit obligations.

23. Post-employment benefit obligations should be measured on a basis that reflects:

    (a) estimated future salary increases;

    (b) the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the balance sheet date; and

    (c) estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:

        - those changes were enacted before the balance sheet date; or

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

24. Assumptions about medical costs should take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

25. In measuring its defined benefit liability, an enterprise should recognize a portion of its actuarial gains and losses as income or expense if the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceeded the greater of:

    (a) 10% of the present value of the defined benefit obligation at that date (before deducting plan assets); and

    (b) 10% of the fair value of any plan assets at that date.

    These limits should be calculated and applied separately for each defined benefit plan.

26. The portion of actuarial gains and losses to be recognized for each defined benefit plan is the excess determined above, divided by the expected average remaining working lives of the employees participating in that plan. However, an enterprise may adopt any systematic method that results in faster recognition of actuarial gains and losses, provided that the same basis is applied to both gains and losses and the basis is applied consistently from period to period. An enterprise may apply such systematic methods to actuarial gains and losses even if they fall within the limits specified in paragraph 92 of the Standard.

27. In measuring its defined benefit liability, an enterprise should recognize past service cost as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, an enterprise should recognize past service cost immediately.

28. An enterprise should recognize gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement should comprise:

    (a) any resulting change in the present value of the defined benefit obligation;

    (b) any resulting change in the fair value of the plan assets;

    (c) any related actuarial gains and losses and past service cost that had not previously been recognized.

29. Before determining the effect of a curtailment or settlement, an enterprise should remeasure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

30. An enterprise should offset an asset relating to one plan against a liability relating to another plan when, and only when, the enterprise:

    (a) has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan; and

    (b) intends either to settle the obligations on a net basis, or to realize the surplus in one plan and settle its obligation under the other plan simultaneously.

Disclosure

31. An enterprise should disclose the following information about defined benefit plans:

    (a) the enterprise's accounting policy for recognizing actuarial gains and losses;

    (b) a general description of the type of plan;

    (c) a reconciliation of the assets and liabilities recognized in the balance sheet, showing at least:

    - the present value at the balance sheet date of defined benefit obligations that are wholly unfunded;
    - the present value (before deducting the fair value of plan assets) at the balance sheet date of defined benefit obligations that are wholly or partly funded;
    - the fair value of any plan assets at the balance sheet date;
    - the net actuarial gains or losses not recognized in the balance sheet;
    - the past service cost not yet recognized in the balance sheet;
    - any amount not recognized as an asset; and
    - the amounts recognized in the balance sheet.

    (d) the amounts included in the fair value of plan assets for:

    - each category of the reporting enterprise's own financial instruments; and
    - any property occupied by, or other assets used by, the reporting enterprise.

    (e) a reconciliation showing the movements during the period in the net liability (or asset) recognized in the balance sheet;

    (f) the total expense recognized in the income statement for each of the following, and the line item(s) of the income statement in which they are included:

    - current service cost;

- interest cost;
- expected return on plan assets;
- actuarial gains and losses;
- past service cost; and
- the effect of any curtailment or settlement.

(g) the actual return on plan assets; and

(h) the principal actuarial assumptions used as at the balance sheet date, including, where applicable:

- the discount rates;
- the expected rates of return on any plan assets for the periods presented in the financial statements;
- the expected rates of salary increases (and of changes in an index or other variable specified in the formal or constructive terms of a plan as the basis for future benefit increases);
- medical cost trend rates; and
- any other material actuarial assumptions used.

An enterprise should disclose each actuarial assumption in absolute terms (for example as an absolute percentage) and not just as a margin between different percentages or other variables.

Other Long Term Benefits

32. The amount recognized as a liability for other long-term employee benefits should be the net total of the following amounts:

- the present value of the defined benefit obligation at the balance sheet date (see paragraph 64);
- minus the fair value at the balance sheet date of plan assets (if any) out of which the obligations are to be settled directly (see paragraphs 102 - 104).

In measuring the liability, an enterprise should apply paragraphs 49 - 91, excluding paragraphs 54 and 61.

33. For other long-term employee benefits, an enterprise should recognize the net total of the following amounts as expense or income, except to the extent that another International Accounting Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets;
- actuarial gains and losses, which should all be recognized immediately;

- past service cost, which should all be recognized immediately; and
- the effect of any curtailments or settlements.

Termination Benefits

34. An enterprise should recognize termination benefits as a liability and an expense when, and only when, the enterprise is demonstrably committed to either:

    - terminate the employment of an employee or group of employees before the normal retirement date; or
    - provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

35. An enterprise is demonstrably committed to a termination when, and only when, the enterprise has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan should include, as a minimum:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented. Implementation should begin as soon as possible and the period of time to complete implementation should be such that material changes to the plan are not likely.

36. Where termination benefits fall due more than 12 months after the balance sheet date, they should be discounted using the discount rate specified in paragraph 22 of this synopsis.

37. In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits should be based on the number of employees expected to accept the offer.

Equity Compensation Benefits

38. An enterprise should disclose:

(a) the nature and terms (including any vesting provisions) of equity compensation plans;

(b) the accounting policy for equity compensation plans;

(c) the amounts recognized in the financial statements for equity compensation plans;

(d) the number and terms (including, where applicable, dividend and voting rights, conversion rights, exercise dates, exercise prices and expiry dates) of the enterprise's own equity financial instruments which are held by equity compensation plans (and, in the case of share options, by employees) at the beginning and end of the period. The extent to which employees' entitlements to those instruments are vested at the beginning and end of the period should be specified;

(e) the number and terms (including, where applicable, dividend and voting rights, conversion rights, exercise dates, exercise prices and expiry dates) of equity financial instruments issued by the enterprise to equity compensation plans or to employees (or of the enterprise's own equity financial instruments distributed by equity compensation plans to employees) during the period and the fair value of any consideration received from the equity compensation plans or the employees;

(f) the number, exercise dates and exercise prices of share options exercised under equity compensation plans during the period;

(g) the number of share options held by equity compensation plans, or held by employees under such plans, that lapsed during the period; and

(h) he amount, and principal terms, of any loans or guarantees granted by the reporting enterprise to, or on behalf of, equity compensation plans.

39. An enterprise should also disclose:

(a) the fair value, at the beginning and end of the period, of the enterprise's own equity financial

instruments (other than share options) held by equity compensation plans; and

(b) the fair value, at the date of issue, of the enterprise's own equity financial instruments (other than share options) issued by the enterprise to equity compensation plans or to employees, or by equity compensation plans to employees, during the period.

If it is not practicable to determine the fair value of the equity financial instruments (other than share options), that fact should be disclosed.

Transitional Provisions (The Standard sets out detailed provisions for initial adoption of this Standard)

Accounting for Government Grants and Disclosure of Government Assistance

(Issued April 1983)

General

This standard deals with accounting for the disclosure of government grants and with disclosure of other forms of government assistance.

It does not deal with (a) the special problems arising in accounting for government grants in financial statements reflecting the effects of changing prices or in supplementary information of a similar nature, (b) government assistance provided in the form of benefits available in determining taxable income, or (c) government participation in the ownership of an enterprise.

Effective date - For financial statements covering periods beginning on or after 1 January 1984, subject to transitional provisions discussed in point 7 below.

Specific Provisions

1. Government grants, including non-monetary grants at fair value, should not be recognized until there is reasonable assurance that:

   (a) The enterprise will comply with the conditions attaching to them; and

   (b) The grants will be received.

   They should not be credited directly to shareholders' interests.

2. Government grants should be recognized in the income statement on a systematic basis over the periods necessary to match them with the related costs they are intended to compensate.

3. Government grants related to assets, including non-monetary grants at fair value, should be presented in the balance sheet either by setting the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.

4. A government grant that becomes receivable as compensation for expenses or losses already incurred, or as immediate financial support with no further related costs anticipated, should be recognized in the income statement of the period it becomes receivable, and if appropriate as an unusual item on the basis set out in IAS 8, *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies.*

5. A government grant that becomes repayable should be accounted for as a revision of an accounting estimate on the basis set out in IAS 8, *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies*. Repayment of a grant related to income should be applied first against any unamortized deferred credit set up in respect of the grant. To the extent that the repayment exceeds the remaining deferred

credit, or where no deferred credit exists, the asset should be recorded by increasing the carrying amount of the asset or reducing the related deferred income balance by the amount repayable. The cumulative additional depreciation that would have been charged to date in the absence of the grant should be charged immediately to income.

6. Disclosures required:

   (a) The accounting policy and method of presentation adopted in the financial statements for government grants.

   (b) The nature and extent of government grants recognized in the financial statements, and an indication of other forms of government assistance that had directly benefited the enterprise.

   (c) Unfulfilled conditions and other contingencies attaching to government assistance that has been recognized in the financial statements.

Refer to SIC 10: *Government Assistance - No Specific Relation to Operating Activities*. Effective 1 August 1998.

The Effects of Changes in Foreign Exchange Rates

(Issued November 1993)

General

The standard should be applied when accounting for transactions in foreign currencies, and also when translating the financial statements of foreign operations. The principal issues dealt with are which exchange rate to use, and how to recognize the effect of changes in exchange rates in the financial statements for the period.

Except for classification of exchange differences arising on a foreign currency liability accounted for as a hedge of a net investment in a foreign entity, the statement does not deal with foreign currency matters arising in presentation of a cash flow statement prepared under IAS 7.

Effective date - For financial statements covering periods beginning on or after 1 January 1995.

Specific Provisions

1. A foreign currency transaction should be recorded at the exchange rate in effect at the date of the transaction (often referred to as the spot rate). The background notes to the standard note that for practical reasons, a rate that approximates to the spot rate maybe used.

2. At each balance sheet date:

   (a) Foreign currency monetary items should be reported using the closing rate.

   (b) Non-monetary items which are carried in terms of historical cost denominated in a foreign currency should be reported using the exchange rate at the date of the transaction.

   (c) Non-monetary items which are carried at fair value denominated in a foreign currency should be reported using the exchange rates that existed when the values were determined.

3. Exchange differences arising on the settlement of monetary items, or on reporting monetary items, at rates that differ from when the original transaction occurred, should be, in general, recognized as income or an expense. (However, see also 4,5,6 below.)

4. (a) Exchange differences that arise on monetary items that are effectively part of an investment in a foreign entity should be classified as equity until the disposal of the investment.

   (b) The background notes to the standard note that when a foreign entity is consolidated, but not wholly owned, accumulated exchange differences attributable to minority interests are reported as part of minority interests.

(c) Any goodwill arising on the acquisition of a foreign entity and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign entity are treated as either:

- Assets and liabilities of the foreign entity and translated at the closing rate, or

- Assets and liabilities of the reporting entity which either are already expressed in the reporting currency or are non-monetary foreign currency items which are reported using the exchange rate at the date of transaction.

5. Exchange differences arising on a foreign currency liability held as a hedge against an investment in a foreign operation should be classified as equity until the disposal of the investment.

6. An allowed alternative treatment to that noted in 3 above is where exchange differences may result from a severe devaluation or depreciation of a currency against which there is no practical means of hedging and that creates liabilities which cannot be settled and which arise directly on the recent acquisition of an asset invoiced in a foreign currency. Such exchange differences should be included in the carrying amount of the related asset, provided that the adjusted carrying amount does not exceed the lower of the replacement cost and the amount recoverable from the sale or use of the asset.

7. The background notes to the standard provides definitions of the terms "foreign operation" and "foreign entity" and provide guidance in how to determine which classification is relevant to particular circumstances.

(a) The financial statements of a foreign operation that is an integral part of the operations of the reporting enterprise should be translated as if the transactions of the operation had been those of the reporting enterprise itself, i.e. in accordance with the provisions above.

(b) The financial statements of a foreign entity should be translated using the following procedures.

- The assets and liabilities, both monetary and non-monetary, of the foreign entity should be translated at the closing rate.

- Income and expense items of the foreign entity should be translated at exchange rates at the dates of the transactions, except when the foreign entity reports in the currency of a hyperinflationary economy, in which case income and expense items should be translated at the closing rate.

- All resulting exchange differences should be classified as equity until the disposal of the net investment.

- When drawn up to a different reporting date (up to 3 months), and it is not practical to prepare separate statements up to the reporting date of the reporting enterprise, the assets and liabilities of the foreign entity should be translated at the exchange rates at the balance sheet date of the foreign entity. However, adjustments should be made for significant movements in exchange rates up to the balance sheet date of the reporting enterprise.

- If reported in the currency of a hyperinflationary economy the financial statements should be restated in accordance with IAS 29 before they are translated into the reporting currency of the reporting enterprise.

(c) When there is a change of classification between foreign entity and operation, or vice versa, the amended translation procedures should be applied from the date of the change.

8. Disclosure requirements:

(a) The amount of exchange differences included in the net profit or loss for the periods.

(b) Net exchange differences classified as equity as a separate component of equity, and a reconciliation of the amount of such exchange differences at the beginning and end of the period.

(c) The amount of exchange differences arising during the period which is included in the carrying amount of an asset.

(d) When the reporting currency is different from the currency of the country in which the enterprise is domiciled, the reason for using a different currency should be disclosed. The reason for any change in the reporting currency should be disclosed.

(e) When there is a change in the classification of a significant foreign operation, an enterprise should disclose:

- The nature of the change in classification
- The reason for the change.
- The impact of the change in classification on shareholders' equity.
- The impact on net profit or loss for each prior period presented had the change in classification occurred at the beginning of the earliest period presented.

(f) The method selected in accordance to translate goodwill and a fair value adjustments arising on the acquisition of a foreign entity.

9 Transitional Provisions

On the first occasion that an enterprise applies this Standard, the enterprise should, except when the amount is not reasonably determinable, classify separately and disclose the cumulative balance, at the beginning of the period, of exchange differences deferred and classified as equity in previous periods.

Refer to SIC 7: *Introduction of the Euro*. Effective 1 June 1998.

Refer to SIC 11: *Foreign Exchange - Capitalization of Losses Resulting from Severe Currency Devaluations*. Effective 1 August 1998.

Business Combinations

(Issued November 1993)

General

The standard prescribes the accounting treatment for business combinations. It covers both an acquisition of one enterprise by another and also the rare situation of a uniting of interests when an acquirer cannot be identified. Accounting for an acquisition involves determination of the cost of the acquisition, allocation of the cost over the identifiable assets and liabilities of the enterprise being acquired and accounting for the resulting goodwill or negative goodwill, both at acquisition and subsequently. Other accounting issues include the determination of the minority interest amount, accounting for acquisitions which occur over a period of time, and subsequent changes in the cost of acquisition or in the identification of assets and liabilities.

A business combination may involve the purchase of the net assets, including any goodwill, of another enterprise rather than the purchase of the shares in the other enterprise. Such a business combination does not result in a parent-subsidiary relationship. In such circumstances, the acquirer applies this standard in its separate financial statements and consequently in its consolidated financial statements. Other than this situation the standard does not deal with the separate financial statements of the parent company. Nor does the standard deal with interests in joint ventures (refer IAS 31, *Financial Reporting of Interests in Joint Ventures)*.

Effective date - For financial statements covering periods beginning on or after 1 January 1995.

The IASC Board has issued a revised IAS 22. The revised standard will become effective for financial statements covering periods on or after 1 July 1999. Early adoption is allowed if an enterprise also early adopts IAS 36, IAS 37 and IAS 38 at the same time. A synopsis of the revised standard is included in a separate section.

Specific Provisions

1. The background notes to the standard note that an acquisition is different in substance from a uniting of interests, and accordingly a different accounting method is prescribed for each type of business combination. The background notes provide criteria against which a combination can be measured to ascertain which accounting method would be appropriate.

Acquisitions

2. The acquirer should recognize the results of the acquired operation and the relevant assets and liabilities, including goodwill, from the date of acquisition.

   The background notes to the standard define the date of acquisition as the date on which control of the net assets and operations of the acquiree is effectively transferred to the acquirer.

3. An acquisition should be accounted for at its cost at the date of acquisition plus any costs directly attributable to the acquisition.

4. When determining the cost of an acquisition the background notes state:

   (a) When an acquisition involves more than one exchange of consideration, the cost is the aggregate of the individual transactions, measured at the date of each transaction date.

   (b) Monetary assets given up and liabilities incurred are measured at their fair values.

   (c) When settlement of purchase consideration is deferred, cost of acquisition is the present value of consideration given.

   (d) Marketable securities issued by the acquirer are measured at their market value at the date of transaction. However, where fluctuations have occurred in the market, or if the market in the securities is restricted to a significant extent other factors may be considered. The standard identifies market price for a reasonable period before and after the announcement of the acquisition terms; the fair value of assets acquired; the proportional interest of the securities issued of the fair value of the acquirer's enterprise; the cash paid as part of the acquisition; as examples of such factors.

5. Individual assets and liabilities should be recognized separately when (i) it is probable economic benefits will flow to or from the acquirer, and (ii) a reliable measure is available of their cost or fair value. Such assets are termed identifiable assets and liabilities.

6. The background notes to the standard draw attention to the fact that the identifiable assets and liabilities may include items not previously recognized in the financial statements of the acquiree, e.g. a tax benefit, or those that arise directly as the result of an acquisition.

7. (a) The identifiable assets and liabilities should be valued as the aggregate of (i) their fair value at the date of the acquisition to the proportion of the acquirer's interest obtained, and (ii) the minority's proportion of pre-acquisition carrying amounts (benchmark treatment), or

   (b) The identifiable assets and liabilities are valued at their fair values at the date of acquisition irrespective of the proportion purchased by the acquirer. The minority interest is the proportion of the fair value (allowed alternative treatment).

8. The background notes to the standard provide the following guidance to be followed in determining fair values when an acquisition involves more than one exchange transaction.

   (a) Successive purchases of the acquiree's shares will result in separate determinations of fair value of assets and liabilities acquired.

   (b) Where the identifiable assets and liabilities are restated to fair values at each successive purchase, any adjustment relating to the previously held interest of the acquirer is a revaluation and should be accounted for as such.

   (c) If an acquisition has previously been accounted for as an investment in an associate, using the equity method, the determination of fair values and goodwill occurs notionally from the date when the equity method was applied.

   The notes provide detailed guidance on determining the fair values of assets and liabilities acquired.

9. Any excess of the cost of the acquisition over the fair value of assets and liabilities acquired should be recognized as goodwill.

10. Goodwill should be amortized by recognizing it as an expense over its useful life. In amortizing goodwill, the straight-line basis should be used unless another amortization method is more appropriate in the

circumstances. The amortization period should not exceed five years unless a longer period, not exceeding twenty years from the date of acquisition, can be justified.

11. The unamortized balance of goodwill should be reviewed at each balance sheet date and, to the extent that it is no longer probable of being recovered from the expected future economic benefits, it should be recognized immediately as an expense. Any write-down of goodwill should not be reversed in a subsequent period.

12. (a) When the cost of the acquisition is less than the acquirer's interest in the fair values of the identifiable assets and liabilities acquired, the fair values of the non-monetary assets acquired should be reduced proportionately until the excess is eliminated. When it is not possible to eliminate completely the excess by reducing the fair values of non-monetary assets acquired, the excess which remains should be described as negative goodwill and treated as deferred income. It should be recognized as income on a systematic basis over a period not exceeding five years unless a longer period, not exceeding twenty years from the date of acquisition, can be justified (benchmark treatment).

    (b) Any excess of the acquirer's interest in the fair values of the identifiable assets and liabilities acquired over the cost of the acquisition should be described as negative goodwill and treated as deferred income. It should be recognized as income on a systematic basis over a period not exceeding five years unless a longer period, not exceeding twenty years from the date of acquisition, can be justified (allowed alternative treatment).

13. (a) When an acquisition provides for an adjustment to the purchase price dependent upon the outcome of future events, the cost of the acquisition should be adjusted if the outcome of the event is probable, and the amount can be measured reliably.

    (b) The same principle should be applied subsequent to the date of acquisition when an adjustment to the purchase price not previously accounted for becomes probable.

    (c) Assets and liabilities acquired which did not previously satisfy the criteria of identifiable assets and liabilities and which were not accounted for previously, should be adjusted for in the event of additional evidence indicating they should be accounted for.

Uniting of interests

14. A uniting of interests should be accounted for by use of the pooling of interests method. In applying the method:

    (a) The financial statements of the combined enterprise should be presented as if the combination had occurred at the beginning of the earliest period presented.

    (b) The financial statements of an enterprise should not incorporate a uniting of interests if this occurred after the date of the latest balance sheet included in the financial statements.

    (c) Any difference between the amount recorded as share capital issued plus any additional consideration paid should be adjusted against equity.

15. Disclosure requirements:

    (a) For all business combinations in the financial statements for the period during which the combination has taken place:

    - The names and descriptions of the combining enterprises.

- The method of accounting for the combinations.

- The effective date of the combination for accounting purposes.

- Any operations resulting from the business combination which the enterprise has decided to dispose of.

(b) For a business combination which is an acquisition in the financial statements for the period during which the acquisition has taken place:

- The percentage of voting shares acquired.
- The cost of acquisition and a description of the purchase consideration paid or contingency payable.
- The nature and amount of provisions for restructuring and other plant closure expenses arising as a result of the acquisition and recognized as at the date of the acquisition.

(c) The accounting treatment for goodwill and negative goodwill, including the period of amortization.

(d) When the useful life of goodwill or the amortization period for negative goodwill exceeds five years, justification of the period adopted.

(e) When goodwill or negative goodwill is not amortized on the straight-line basis, the basis used and reason why that basis is more appropriate than the straight-line basis.

(f) A reconciliation, in respect of both goodwill and negative goodwill, at the beginning and end of the period showing:

- The gross amount and the accumulated amortization at the beginning of the period.
- Any additional goodwill or negative goodwill recorded during the period.
- Amortization charged during the period.
- Adjustments resulting from subsequent identification or changes in value of assets and liabilities.
- Any other write-offs during the period.
- The gross amount and the accumulated amortization at the end of the period.

(g) In acquisition, if the fair values of the assets and liabilities or the purchase consideration can only be determined on a provisional basis at the end of the period in which the acquisition took place, this should be stated and reasons given. When there are subsequent adjustments to such provisional fair values, those adjustments should be disclosed.

(h) For a business combination which is a uniting of interests, the following additional disclosures should be made:

- Description and number of shares issued, together with the percentage of each enterprise's voting shares exchanged to effect the uniting of interests.
- Amounts of assets and liabilities contributed by each enterprise.
- Sales revenue, other operating revenues, extraordinary items and the net profit or loss of each enterprise prior to the date of the combination that are included in the net profit or loss shown by the combined enterprise's financial statements.

(i) For business combinations effected after the balance sheet date, the above information should be disclosed. If it is impracticable to disclose any of this information, this fact should be disclosed.

16. Transitional Provisions:

Retrospective application of this standard is encouraged but not required. If the standard is not applied retrospectively, the balance of any pre-existing goodwill or negative goodwill is deemed to have been properly determined and should be accounted for thereafter in accordance with the provisions of the standard. The amortization period of pre-existing goodwill or negative goodwill should be the shorter of the remaining life as specified in the enterprise's amortization policy and the amortization period specified in this standard.

Refer to SIC 9: *Business Combinations - Classifications either as Acquisitions or Uniting of Interests*. Effective 1 August 1998.

Borrowing Costs

(Issued November 1993)

General

The standard prescribes the accounting treatment for borrowing costs.

Effective date - For financial statements covering periods beginning on or after 1 January 1995.

Specific Provisions

1. Borrowing costs should be recognized as an expense in the period in which they occur (benchmark treatment).

2. Borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset (defined as an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) may be capitalized as part of the asset cost (allowed alternative treatment).

3. To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period.

4. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization should be determined by applying a capitalization rate to the expenditures on that asset. The capitalization rate should be the weighted average of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalized during a period should not exceed the amount of borrowing costs incurred during that period.

5. The background notes to the standard note that any investment income earned on funds borrowed for the purpose of acquisitions, construction or production of an asset, but temporarily invested elsewhere, should be deducted from the amount capitalized.

6. The capitalization of borrowing costs as part of the cost of a qualifying asset should commence when:

   (a) Expenditures for the assets are being incurred.

   (b) Borrowing costs are being incurred.

   (c) Activities that are necessary to prepare the asset for its intended use or sale are in progress.

7. Capitalization of borrowing costs should be suspended during extended periods in which active development is interrupted.

8. Capitalization of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

9. Disclosure requirements:

    (a) The accounting policy adopted for borrowing costs.

    (b) The amount of borrowing costs capitalized during the period.

    (c) The capitalization rate used to determine the amount of borrowing costs eligible for capitalization.

Refer to SIC 2: *Capitalization of Borrowing Costs*. Effective 1 January 1998.

Related Party Disclosures

(Issued July 1984)

General

This standard deals with the disclosure of related parties and transactions between a reporting enterprise and its related parties. Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

This standard deals only with the following related party relationships:

(a) Enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise.

(b) Associated enterprises.

(c) Individuals and close members of the family of any such individual owning directly or indirectly an interest in the voting power of the reporting enterprise that gives them significant influence over the enterprise (close members of the family of an individual are those that may be expected to influence or be influenced by that person in their dealings with the enterprise).

(d) Key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the reporting enterprise.

(e) Enterprises in which a substantial interest in the voting power is owned directly or indirectly by any person described in (c) or (d) above, or over which such a person is able to exercise significant influence.

In the context of this standard the following are deemed not to be related parties.

(a) Two companies simply because they have a director in common (but it is necessary to consider the possibility and to assess the likelihood that the director would be to affect the policies of both companies in their mutual dealings).

(b) Providers of finance, trade unions, public utilities, and government departments and agencies in the course of their normal dealing with an enterprise by virtue only of those dealings (although they may circumscribe the freedom of action of an enterprise in its decision-making process).

(c) A single customer, supplier, franchisor, distributor or general agent with whom an enterprise transacts a significant volume of business merely by virtue of the resulting economic dependence.

Effective date - For financial statements covering periods beginning on or after 1 January 1986.

Specific Provisions

1. Related party relationships where control exists should be disclosed irrespective of whether there have been transactions between the related parties.

2. If there have been transactions between related parties the reporting enterprise should disclose the nature of the related party relationships as well as the types of transactions and the elements of the transactions necessary for an understanding of the financial statements.

3. Items of similar nature may be disclosed in aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the reporting enterprise.

Accounting for Investments

(Issued March 1986)

General

This statement deals with accounting for investments in the financial statements of enterprises and with related disclosure requirements.

It does not deal with (a) the bases for recognition of interest, royalties, dividends and rentals earned on investments; (b) investments in subsidiaries; (c) investments in associates and joint ventures; (d) goodwill, patents, trademarks and similar assets; (e) finance leases; or (f) investments of retirement benefit plans and life insurance enterprises.

Effective date - For financial statements covering periods beginning on or after 1 January 1987

Specific Provisions

1. In the context of this statement, an investment is an asset held by an enterprise for the accretion of wealth through distribution (such as interest, royalties, dividends and rentals), for capital appreciation or for other benefits to the investing enterprise such as through trading relationships. Inventories and property, plant and equipment, except investment properties, are not investments.

2. Investment properties are investments in land or buildings that are not occupied substantially for use or operations of the investing enterprise or another enterprise in the same group as the investing enterprise.

3. An enterprise that distinguishes between current and long-term assets in its financial statements should present current investments as current assets and long-term investments as long-term assets. Enterprises that do not distinguish between current and long-term investments in their balance sheets should nevertheless make a distinction for measurement purposes to determine the carrying amount for investments.

4. Investments classified as current assets should be carried in the balance sheet at either:

   (a) Market value; or

   (b) The lower of cost and market value, determined either on an aggregate portfolio basis, in total or by category of investment, or on an individual investment basis.

5. Investments classified as long-term assets should be carried in the balance sheet at either:

   (a) Cost; or

   (b) Revalued amounts, in which case a policy for the frequency of revaluations should be adopted and an entire category of long-term investments should be revalued at the same time; or

   (c) In the case of marketable equity securities, the lower of cost and market value determined on a

portfolio basis.

The carrying amount of all long-term investments should be reduced to recognize a decline other than temporary in the value of the investments, such reduction being determined and made for each investment individually.

6. An enterprise holding investment properties should either:

   (a) Treat them as property in accordance with the provisions of IAS 16, *Accounting for Property, Plant and Equipment*, and depreciate them in accordance with the provisions of IAS 4, *Depreciation Accounting*; or

   (b) Account for them as long-term investments.

7. An increase in carrying amount arising from revaluation of long-term investments should be credited to owners' equity as a revaluation surplus, except to the extent that it relates to a previous decrease in carrying amount for the same investment that was charged to income, in which case it should be credited to income. Conversely, a decrease in carrying amount should be charged to income except to the extent that such decrease is directly related to a previous increase, for the same investment, credited to a revaluation surplus which has not subsequently been reversed or utilized, in which case the decrease should be charged to revaluation surplus.

8. Increases or decreases in the carrying amount of current investments stated at market value should either be included in income or be accounted for in accordance with paragraph 7 above. Whichever method is adopted should be consistently applied.

9. On disposal of an investment the difference between net disposal proceeds and the carrying amount should be charged or credited to income. If the investment was part of a portfolio carried as a current asset at the lower of cost and market value, the profit or loss on sale should be based on cost. If the investment was previously revalued, or was carried at market value with an increase in carrying amount having been transferred to revaluation surplus, the enterprise should adopt a policy either of crediting the amount of any remaining related revaluation surplus to income or of transferring it to retained earnings, and such policy should be applied consistently in accordance with IAS 8, *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies.*

10. On reclassification of long-term investments as current investments, transfers should be made at:

    (a) The lower of cost and carrying amount if current investments are carried at the lower of cost and market value. If the investment was previously revalued any remaining related revaluation surplus should be reversed on the transfer; and

    (b) Carrying amount if current investments are carried at market value. If changes in market value of current investments are included in income any remaining related revaluation surplus should be transferred to income.

11. Investments reclassified from current to long-term should each be transferred at the lower of cost and market value, or at market value if they were previously stated at that value.

12. The following should be included in income:

    (a) Investment income arising from:

        - Interest, royalties, dividends and rentals on long-term and current investments.

        - Profits and losses on disposal of current investments.

- Unrealized gains and losses on current investments carried at market value, where that policy is adopted.

- Reductions to market value and reversals of such reductions required to state current investments at the lower of cost and market value.

(b) Reductions of the carrying amount for other than a temporary decline in value of long-term investments, and reversals of such reductions.

(c) Profits and losses on disposal of long-term investments.

13. Specialized investment enterprises which are prohibited from distributing profits on the disposal of investments may exclude from income realized and unrealized changes in the value of investments, provided they carry their investments at fair value. Such enterprises should include in the financial statements a summary of all the movements in value of their investments for the period.

14. Disclosures required:

(a) The accounting policies for:

- The determination of carrying amount of investments.

- The treatment of changes in market value of current investments carried at market value.

- The treatment of a revaluation surplus on the sale of a revalued investment.

(b) The significant amounts included in income for:

- Interest, royalties, dividends and rentals on long-term and current investments.

- Profits and losses on disposal of current investments, and changes in value of such investments.

(c) The market value of marketable investments if they are not carried at market value.

(d) The fair value of investment properties if they are accounted for as long-term investments and not carried at fair value.

(e) Significant restrictions on the realizability of investments or the remittance of income and proceeds of disposal.

(f) For long-term investments stated at revalued amounts:

- The policy for the frequency of revaluations.

- The date of the latest revaluation.

- The basis of revaluation and whether an external valuer was involved.

(g) The movements for the period in revaluation surplus and the nature of such movements.

(h) For enterprises whose main business is the holding of investments, an analysis of the portfolio of investments.

Accounting and Reporting by Retirement Benefit Plans

(Issued January 1987)

General

This standard deals with the contents of reports by retirement benefit plans to all the participants of the plan as a group. It does not relate to the situation where the plan reports to participants about their individual retirement benefit rights.

The standard considers the retirement benefit plan to be a reporting entity separate from the employer of the participants. IAS 19, *Retirement Benefits Costs*, deals with the accounting for the cost of retirement benefit plans in the financial statements of the employer.

The standard does not deal with employment termination indemnities, deferred compensation arrangements, long service leave benefits, special early retirement or redundancy plans, health and welfare plans, bonus plans and government social security-type arrangements.

Effective date - For financial statements covering periods beginning on or after 1 January 1988.

Specific Provisions

1. The report of a defined retirement benefit plan should contain either:

   (a) A statement that shows the:

   - Net assets available for benefits;
   - Actuarial present value of promised retirement benefits;
   - Resulting excess or deficit; or

   (b) A statement of net assets available for benefits including either a note disclosing the actuarial present value of promised benefits or a reference to this information in an accompanying actuarial report.

2. The actuarial present value of promised benefits should be based on service rendered to date using either current or projected salary levels. The basis used for this valuation should be disclosed. The effect of any changes in actuarial assumptions from the previous year should also be disclosed, if significant.

3. The relationship between the actuarial present value of promised retirement benefits, the net assets available for benefits, and their funding should be explained.

4. The report of a defined contribution plan should contain a statement of net assets available for benefits, and a description of the funding policy.

5. Investments made by the plan should be carried at fair value. In the case of marketable securities this would be market value.

6. Disclosures required:

   (a) A statement of changes of net assets available for benefits.

   (b) A summary of significant accounting policies.

   (c) A description of the plan and the effect of any changes in the plan during the period.

Consolidated Financial Statements and Accounting for Investments in Subsidiaries

(Issued April 1989)

General

This standard deals with the preparation and presentation of consolidated financial statements for a group of enterprises under the control of a parent. It also deals with the accounting for investments in subsidiaries in the parent's separate financial statements.

The standard supersedes the provisions of IAS 3, *Consolidated Financial Statements*, relating to consolidated financial statements and investments in subsidiaries.

The standard does not deal with methods of accounting for business combinations and their effects on consolidation (see IAS 22, *Business Combinations*), accounting for investments in associate companies (see IAS 28, *Accounting for Investments in Associates*), or accounting for investments in joint ventures.

Effective date - For financial statements covering periods beginning on or after 1 January 1990.

Specific Provisions

1. Consolidated financial statements should be presented by a parent company unless it is itself a wholly or virtually wholly owned subsidiary. A virtually wholly owned subsidiary should prepare consolidated financial statements unless its parent has obtained the approval of the minority interest not to do so.

2. A parent company which has not produced consolidated financial statements should disclose the reasons and also the bases on which subsidiaries are accounted in its separate financial statements.

3. A parent which issues consolidated financial statements should consolidate all subsidiaries except where:

   (a) Control is temporary; or

   (b) Control is impaired by restrictions on the transfer of funds to the parent.

4. When preparing consolidated financial statements:

   (a) Intragroup balances and transactions, and any resulting unrealized profits should be eliminated. Unrealized losses should also be eliminated unless cost cannot be recovered.

   (b) A standard reporting date should be used. If this is not practicable and subsidiary financial statements are drawn up at different reporting dates this period should not exceed three months. Adjustments should be made for significant transactions between these reporting dates and the date of consolidation.

(c) Uniform accounting policies should be prepared for like transactions. Where this is not practicable this should be disclosed together with the proportion of items in the consolidated financial statements to which the different policies have been applied.

(d) Minority interests should be presented separately in both the income statement and balance sheet.

5. When preparing the parent's separate financial statements investment in subsidiaries should be either:

(a) Accounted for using the equity method (refer IAS 28, *Accounting for Investments in Associates*); or

(b) Carried at cost or revalued amounts (refer IAS 25, *Accounting for Investments*).

6. Disclosures required:

(a) A listing of significant subsidiaries including the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held.

(b) The reasons for not consolidating a subsidiary.

(c) The nature of the relationship between the parent and a subsidiary of which the parent does not own, directly or indirectly through subsidiaries, more than one half of the voting power.

(d) The name of an enterprise in which more than one half of the voting power is owned, directly or indirectly through subsidiaries, but which, because of the absence of control, is not a subsidiary.

(e) The effect of the acquisition and disposal of subsidiaries on the financial position at the reporting date, the results for the reporting period and on the corresponding amounts for the preceding period.

(f) The fact that uniform accounting policies have not been used and the proportion of the items in the consolidated financial statements to which the different accounting policies have been applied.

(g) In the parent's separate financial statements, a description of the method used to account for subsidiaries.

Refer to SIC 12: *Consolidation - Special Purpose Entities*. Effective 1 July 1999.

Accounting for Investments in Associates

(Issued April 1989)

General

This standard deals with accounting by an investor for investments in associates. In the context of the standard an associate is defined as an enterprise in which the investor has significant influence and which is neither a subsidiary nor a joint venture of the investor. Where an investor holds, directly or indirectly through subsidiaries, 20% or more of the voting power, it is presumed that the investor has significant influence.

The standard supersedes the provisions of IAS 3, *Consolidated Financial Statements*, relating to accounting for investments in associates.

Effective date - For financial statements covering periods beginning on or after 1 January 1990.

Specific Provisions

1. An investment in an associate should be accounted for in consolidated financial statements under the equity method of accounting. However, where the investment is acquired and held exclusively with a view to its disposal in the near future it should be accounted for under the cost method.

   (a) Under the equity method of accounting, the investment account of the investor is adjusted in the consolidated financial statements for the change in the investor's share of net assets of the investee. The income statement reflects the investor's share of the results of operations of the investee.

   (b) Under the cost method of accounting, an investor records the investment at cost. The only income recognized by the investor is distributions made by the investee out of accumulated profits.

2. An investor should discontinue the use of the equity method from the date that:

   (a) It ceases to have significant influence in the associate but retains, either in whole or in part, its investment; or

   (b) The associate operates under long term restrictions that impair its ability to transfer funds to the investor.

3. The carrying amount of an investment in an associate should be reduced to recognize a decline, other than temporary, in the value of the investment, such reduction being determined and made for each investment individually.

4. In the separate financial statements of the parent, an investment in an associate should be accounted for using either:

   (a) The equity or cost method, as appropriate; or

(b) Carried at cost or revalued amounts under the accounting policy for long term investments (see IAS 25, *Accounting for Investments*).

5. Disclosures required:

(a) An appropriate listing and descriptions of significant associates including the proportion of ownership interest and, if different, the proportion of voting power held.

(b) The methods used to account for such investments.

(c) If the equity method would be the appropriate accounting method for the associate if the investor issued consolidated financial statements, but the investment is accounted for using the cost method, the investor should disclose what would have been the effect had the equity method been applied.

6. Investments in associates accounted for using the equity method should be classified as long-term assets and disclosed as a separate item in the balance sheet. The investor's share of the profits or losses of such investments should be disclosed as a separate item in the income statement. The investor's share of any unusual or prior period items should also be separately disclosed.

Refer to SIC 3: *Elimination of Unrealized Profit and Losses on Transactions with Associates*. Effective 1 January 1998.

Financial Reporting in Hyperinflationary Economies

(Issued July 1989)

General

This standard applies to the primary financial statements, including the consolidated financial statements, of any enterprise that reports in the currency of a hyperinflationary economy.

The standard is based on the premise that such financial statements are only useful if they are expressed in terms of the measuring unit current at the balance sheet date. Balance sheet and income statement items are therefore restated by applying a general price index, where appropriate.

Effective date - For financial statements covering periods beginning on or after 1 January 1990.

Specific Provisions

1. The financial statements of an enterprise that reports in the currency of a hyperinflationary economy should:

   (a) Be stated in terms of the measuring unit current at the balance sheet date. Any information relating to earlier amounts, including comparative amounts, should also be stated in terms of the measuring unit at the current balance sheet date.

   (b) Separately disclose any gain or loss on the net monetary position arising from the restatement of amounts into the measuring unit current at the balance sheet date. The gain or loss should be included in net income.

   (c) Present the statement of changes in financial position in terms of cash and cash equivalents.

2. Disclosures required:

   (a) The fact that amounts in the financial statements are stated in terms of the measuring unit current at the balance sheet date.

   (b) Whether the financial statements are based on the historical or current cost approach.

   (c) The identity and level of the price index at the balance sheet date and the movement in the index during the current and the previous reporting period.

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

Disclosures in the Financial Statements of Banks and Similar Financial Institutions

(Issued August 1990)

General

This standard is the first issued by the IASC for adoption by a specific industry grouping. Banks and similar financial institutions (subsequently referred to as banks) represent a significant and influential sector of business worldwide, and play a major role in maintaining confidence in the monetary system. Accordingly the IASC has issued a standard that deals with disclosures in the financial statements of banks, and also encourages the presentation of a commentary on matters such as the management and control of the liquidity and risk.

Effective date - For financial statements covering periods on or after 1 January 1991.

Specific Provisions

1. The financial statements of a bank should present an income statement that:

    (a) Groups income and expense by nature and discloses the amounts of the principal types of income and expense.

    (b) Does not offset income and expense items, except for (i) those relating to hedges, and (ii) assets and liabilities where a legal right of set off exists (see 2c below).

    (c) Treats any amounts set aside in respect of losses on loans and advances in addition to those losses that have been specifically identified, or potential losses which experience indicates are present in the portfolio of loans and advances, as appropriations of retained earnings. (Any credits resulting from the reduction of such amounts result in an increase in retained earnings and are not included in the determination of net income).

2. The financial statements of a bank should present a balance sheet that:

    (a) Groups assets and liabilities by nature.

    (b) Lists assets and liabilities in an order that reflects their relative liquidity.

    (c) Does not offset assets and liabilities unless a legal right of set off exists and the offsetting represents the expected realization of the asset or liability.

3. In addition to complying with the disclosure requirements of other International Accounting Standards, the following income statement and balance sheet items should be disclosed as a minimum:

    (a) Income and expenditure

    - Interest and similar income

- Interest expense and similar charges
- Dividend income
- Fee and commission income
- Fee and commission expense
- Gains less losses arising from dealing securities
- Gains less losses arising from investment securities
- Gains less losses arising from dealing in foreign currencies
- Other operating income
- Losses on loans and advances
- General administrative expenses
- Other operating expenses.

(b) Assets

- Cash and balances with the central bank
- Treasury bills and other bills eligible for rediscounting with the central bank
- Government and other securities held for dealing purposes
- Placements with, and loans and advances to, other banks
- Other money market placements
- Loans and advances to customers
- Investment securities.

(c) Liabilities

- Deposits from other banks
- Other money market deposits
- Amounts owed to other depositors
- Certificates of deposits
- Promissory notes and other liabilities evidenced by paper
- Other borrowed funds.

4. The financial statements of a bank should disclose the following contingencies and commitments required by International Accounting Standard 10, *Contingencies and Events Occurring After the Balance Sheet Date*:

   (a) The nature and amount of commitments to extend credit that are irrevocable because they cannot be withdrawn at the discretion of the bank without the risk of incurring significant penalty or expense.

   (b) The nature and amount of contingencies and commitments arising from off balance sheet items including those relating to:

   - Direct credit substitutes including general guarantees of indebtedness, bank acceptance guarantees and standby letters of credit serving as financial guarantees for loans and securities.

   - Certain transaction-related contingencies including performance bonds, bid bonds, warranties and standby letters of credit related to particular transactions.

   - Short-term self-liquidating trade-related contingencies arising from the movement of goods, such as documentary credits where the underlying shipment is used as security.

   - Those sale and repurchase agreements not recognized in the balance sheet.

   - Interest and foreign exchange rate related items including swaps, options and futures.

   - Other commitments, note issuance facilities and revolving underwriting facilities.

5. The financial statements of a bank should disclose the following information relating to losses on loans and advances:

   (a) The accounting policy which describes the basis on which uncollectible loans and advances are recognized as an expense and written off.

   (b) Details of the movements in the provision for losses on loans and advances during the period.

   (c) The amount charged/credited to income in the period for:

   - Losses on uncollectible loans and advances.

   - Loans and advances written off.

   - Loans and advances previously written off that have been recovered.

   (d) The aggregate amount of the provision for losses on loans and advances at the balance sheet date.

   (e) The aggregate amount included in the balance sheet for loans and advances on which interest is not being accrued and the basis used to determine the carrying amount of such loans and advances.

6. (a) An analysis of assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

   (b) Any significant concentrations of its assets, liabilities and off balance sheet items. Such disclosures should be made in terms of geographical areas, customer or industry groups or other concentrations of risk.

   (c) The amount of significant net foreign currency exposures.

(d) The market value of both dealing and marketable investment securities if different from the carrying amount.

(e) Any amounts set aside in respect of general banking risks, including future losses and other unforeseeable risks or contingencies. (These should be separately disclosed as appropriations of retained earnings. Any credits resulting from the reduction of such amounts result in an increase in retained earnings and are not included in the determination of net income).

(f) The aggregate amount of secured liabilities and the nature and carrying amount of the assets pledged as security.

Financial Reporting of Interests in Joint Ventures

(Issued December 1990)

General

This standard deals with accounting for interests in joint ventures and the reporting of joint venture assets, liabilities, income and expenses in the financial statements of both venturers and investors, regardless of the structure or form under which the joint venture activities take place. The standard recognizes three broad categories of joint venture:

(a) Jointly controlled operations.

(b) Jointly controlled assets.

(c) Jointly controlled entities.

A venturer is a party to a joint venture who has joint control over the joint venture, whereas an investor is a party who does not have such joint control.

Effective date - For financial statements covering periods beginning on or after 1 January 1992.

Specific Provisions

1. In reporting interests in jointly controlled operations the venturer should recognize in its own financial statements:

   (a) The assets that it controls and the liabilities that it incurs; and

   (b) The expenses that it incurs and its share of the income that it earns from the sale of goods or services by the joint venture.

2. In reporting interests in jointly controlled assets the venturer should recognize in its own financial statements:

   (a) Its share of the jointly controlled assets.

   (b) Any liabilities which it has incurred.

   (c) Its share of any liabilities incurred jointly with the other venturers.

   (d) Any income from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture.

   (e) Any expenses which it has incurred in respect of its interest in the joint venture.

3. In the venturer's consolidated financial statements, the preferred treatment is that it should report its interest in a jointly controlled entity using proportionate consolidation. This requires the venturer's share of each of the assets, liabilities, income and expenses of the joint venture to be combined on a line-by-line basis with similar items in the venturer's own financial statements, or reported as separate line items. The equity method, however, is allowed as an alternative treatment (refer IAS 28, *Accounting for Investments in Associates*).

4. When a venturer contributes or sells assets to a joint venture, recognition of any portion of a gain or loss from the transaction should reflect the substance of the transaction i.e.:

   (a) While the assets are retained by the joint venture the venturer should recognize only that portion of the gain which is attributable to the interests of the other venturers.

   (b) Should recognize the full amount of any loss when the contribution or sale provides evidence of a reduction in the net realizable value of current assets or a decline, other than temporary, in the carrying amount of a long term asset.

5. When a venturer purchases assets from a joint venture, the venturer should:

   (a) Not recognize its share of the profits of the joint venture from the transaction until it resells the assets to an independent party.

   (b) Recognize any loss immediately when it represents a reduction in the net realizable value of current assets or a decline, other than temporary, in the carrying amount of long term assets.

6. An investor in a joint venture which does not have joint control, should report its interest as an investment (refer IAS 25, *Accounting for Investments*). If it has significant influence in the joint venture it should account for this as an associate (refer IAS 28, *Accounting for Investments in Associates*).

7. Disclosure requirements:

   (a) Any contingencies that the venturer has incurred in relation to its interests in joint ventures and its share in each of the contingencies which have been incurred jointly with other venturers.

   (b) Its share of the contingencies of the joint ventures themselves for which it is contingently liable.

   (c) Those contingencies that arise because the venturer is contingently liable for the liabilities of the other venturers of a joint venture.

   (d) Any capital commitments of the venturer in relation to its interests in joint ventures and its share in the capital commitments that have been incurred jointly with other venturers.

   (e) Its share of the capital commitments of the joint ventures themselves.

   (f) A listing and description of interests in significant joint ventures and the proportion of ownership interest held in jointly controlled entities.

   (g) A venturer which reports its interests in jointly controlled entities using the line-by-line reporting format for proportionate consolidation or the equity method should disclose aggregate amounts of each of current assets, long-term assets, current liabilities, long-term liabilities, income and expenses related to its interests in joint ventures.

Refer to SIC 13: *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. Effective 1 January 1999.

Financial Instruments: Disclosure and Presentation

(Issued June 1995)

General

This Standard deals with presenting and disclosing information about all types of financial instruments, both recognized (on balance sheet) and unrecognized (off balance sheet).

- A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.
- A financial asset is any asset that is: (a) cash; (b) a contractual right to receive cash or another financial asset from another enterprise; (c) a contractual right to exchange financial instruments with another enterprise under conditions that are potentially favorable; or (d) an equity instrument of another enterprise.
- A financial liability is any liability that is a contractual obligation to: (a) deliver cash or another financial asset to another enterprise; or (b) exchange financial instruments with another enterprise under conditions that are potentially unfavorable.
- An equity instrument is any contract that evidences a residual interest in the assets of an enterprise after deducting all of its liabilities.

This Standard does not deal with (a) interests in subsidiaries; (b) interests in associates; (c) interests in joint ventures; (d) employers' and plans' obligations for post-employment benefits of all types; (e) employers' obligations under employee stock option and stock purchase plans; or (f) obligations arising under insurance contracts.

It also does not specify the format or the location of the information to be disclosed in the financial statements, although guidance is provided in the explanatory paragraphs accompanying each section.

Effective date - For financial statements covering periods beginning on or after 1 January 1996.

Specific Provisions

1. The issuer of a financial instrument should classify the instrument, or its component parts, as a liability or as equity in accordance with the substance of the contractual arrangement.
2. The issuer of a financial instrument that contains both a liability and an equity element should classify the instrument's component parts separately in accordance with the above paragraph.
3. Interest, dividends, losses and gains relating to a financial instrument, or a component part, classified as a financial liability should be reported in the income statement as expense or income. Distributions to holders of a financial instrument classified as an equity instrument should be debited by the issuer directly to equity.

4. A financial asset and a financial liability should be offset and the net amount reported in the balance sheet when an enterprise:

   (a) has a legally enforceable right to set off the recognized amounts; and

   (b) intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

5. Disclosures required:

   (a) Information about the extent and nature of the financial instruments, including significant terms and conditions that may affect the amount, timing and certainty of future cash flows.

   (b) Accounting policies and methods adopted, including the criteria for recognition and the basis of measurement applied.

   (c) Information about exposure to interest rate risk, including:

   - Contractual repricing or maturity dates, whichever dates are earlier.

   - Effective interest rates, when applicable.

   (d) Information about exposure to credit risk, including:

   - The amount that best represents its maximum credit risk exposure at the balance sheet date, without taking account of the fair value of any collateral, in the event other parties fail to perform their obligations under financial instruments.

   - Significant concentrations of credit risk.

   (e) Information about fair value.

   When it is not practicable within constraints of timeliness or cost to determine the fair value of a financial asset or financial liability with sufficient reliability, that fact should be disclosed together with information about the principal characteristics of the underlying financial instrument that are pertinent to its fair value.

   (f) When an enterprise carries one or more financial assets at an amount in excess of their fair value, the enterprise should disclose:

   - The carrying amount and the fair value of either the individual assets or appropriate groupings of those individual assets.

   - The reasons for not reducing the carrying amount, including the nature of the evidence that provides the basis for management's belief that the carrying amount will be recovered.

   (g) When an enterprise has accounted for a financial instrument as a hedge of risks associated with anticipated future transactions, it should disclose:

   - A description of the anticipated transactions, including the period of time until they are expected to occur.

   - A description of the hedging instruments.

   - The amount of any deferred or unrecognized gain or loss and the expected timing of

recognition as income or expense.

6. Optional disclosures:

(a) A commentary on the following:

- The extent to which financial instruments are used, the associated risks and the business purposes served.

- Management's policies for controlling the risks associated with financial instruments including policies on matters such as hedging of risk exposures, avoidance of undue concentrations of risk and requirements for collateral to mitigate credit risks.

(b) Regarding interest rate risk:

- Information about expected repricing or maturity dates when they differ significantly from the contractual dates, e.g., early loan repayments (where predictable). This information includes disclosure of the fact that it is based on management's expectations of future events and explains the assumptions made and how those assumptions differ from the contractual dates.

- The effect of a hypothetical change in the prevailing level of market interest rates (say 1%) on the fair value of financial instruments and future earnings and cash flows. The basis of preparation together with any significant assumptions should also be disclosed.

(c) Total amount of the change in the fair value of financial assets and financial liabilities that has been recognized as income or expense for the period.

(d) Total amount of deferred or unrecognized gain or loss on hedging instruments other than those relating to hedges of anticipated future transactions.

(e) Average aggregate amount during the year of each of the following:

- Carrying amount of recognized financial assets and financial liabilities.

- Principal, notional, or other similar amount, of unrecognized financial assets and financial liabilities.

- Fair value of all financial assets and financial liabilities.

This is particularly relevant when the amounts on hand at the balance sheet date are unrepresentative of amounts on hand during the year.

7. Transitional provision:

When comparative information for prior periods is not available when this International Accounting Standard is first adopted, such information need not be presented.

Refer to SIC 5: *Classification of Financial Instruments - Contingent Settlement Provisions*. Effective 1 July 1998.

Refer to SIC 16: *Share Capital - Reacquired own Equity Instruments (Treasury Shares)*. Effective 1 July 1999.

Earnings Per Share

(Issued February 1997)

General

The standard prescribes principles for the determination and presentation of earnings per share. It applies to (i) enterprises whose ordinary shares (or potential ordinary shares) are publicly traded, and (ii) enterprise that are in the process of issuing ordinary shares (or potential ordinary shares) in public securities markets. The standard also applies to those enterprises which have no ordinary shares (or potential ordinary shares) which are publicly traded, but which disclose earnings per share.

When both parent and consolidated financial statements are presented, the information called for by this standard need be presented only on the basis of consolidated information.

Note: The standard defines a potential ordinary share as a financial instrument or other contract that may entitle its holder to ordinary shares.

Effective date - For financial statements covering periods beginning on or after 1 January 1998.

Specific Provisions

Basic Earnings Per Share

1. Basic earnings per share should be calculated by dividing the net profit or loss for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

2. All items of income and expense which are recognized in a period, including tax expense, extraordinary items and minority interests, are included in the determination of the net profit or loss for the period. The profit or loss for the period should be after deducting the amounts attributable to preference shareholders.

3a. For the purpose of calculating basic earnings per share, the number of ordinary shares should be the weighted average number of ordinary shares outstanding during the period. The number of ordinary shares to be used in the calculation is the amount outstanding at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighting factor (refer to the standard for details).

3b. In most cases, shares are included in the weighted average number of shares from the date consideration is receivable. For example:

(a) Ordinary shares issued in exchange for cash are included when the cash is receivable.

(b) Ordinary shares issued as part of the purchase consideration of a business combination which is an acquisition are included as of the date of the acquisition.

(c) Ordinary shares issued as part of a business combination (which is a uniting of interests) are included for all periods presented in the financial statements.

(d) Where ordinary shares are issued in partly paid form, these partly paid shares are treated as a fraction of an ordinary share.

(e) Ordinary shares which are issuable upon the satisfaction of certain conditions are considered outstanding and included from the date when all necessary conditions have been satisfied. The same principle is applied to ordinary shares which are returnable.

The standard gives several other examples.

The timing of the inclusion of each class of ordinary shares is determined by the specific terms and conditions attaching to their issue.

4a. The weighted average number of ordinary shares outstanding should be adjusted for events (other than the conversion of potential ordinary shares) that have changed the number of ordinary shares outstanding without a corresponding change in resources. For example, a capitalization or bonus issue, a bonus element, a share split, or a reverse share split

4b. The number of ordinary shares outstanding before the event is adjusted for the proportionate change in the number of ordinary shares outstanding as if the event had occurred at the beginning of the earlier period reported in the financial statements (refer to the standard for details of the calculation).

Diluted Earnings Per Share

5. To calculate diluted earnings per share, the profit attributable to ordinary shareholders and the weighted average number of shares outstanding should be adjusted for the effect of all dilutive potential ordinary shares (see 9 below) being converted. Thereafter, the calculation is consistent with that of basic earnings per share.

6. To calculate diluted earnings per share, the amount of net profit or loss for the period attributable to ordinary shareholders should be adjusted by the after-tax effect of:

   (a) Any dividends on dilutive potential ordinary shares which have been deducted in arriving at the net profit attributable to ordinary shareholders.

   (b) Interest recognized in the period for the dilutive potential ordinary shares.

   (c) Any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares.

7. To calculate diluted earnings per share, the number of ordinary shares should be the weighted average number of ordinary shares plus the weighted average number of ordinary shares which would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. Dilutive potential ordinary shares should be deemed to have been converted into ordinary shares at the beginning of the period or, if later, the date of the issue of the potential ordinary shares. Reference should be made to the standard for further guidance on how to determine the weighted average number of ordinary shares.

8. To calculate diluted earnings per share an enterprise should assume the exercise of dilutive options and other dilutive potential ordinary shares of the enterprise. The standard requires:

   (a) The assumed proceeds from these issues should be considered to have been received from the issue of shares at fair value.

   (b) The difference between the number of shares issued and the number of shares that would have been issued at fair value should be treated as an issue of ordinary shares for no consideration.

   (c) Fair value for this purpose is calculated on the basis of the average price of the ordinary shares during the period.

9. Potential ordinary shares should be treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings (or increase the net loss) per share. Potential ordinary shares are anti-dilutive when their conversion to ordinary shares would increase earnings per share from continuing ordinary operations. The effects of anti-dilutive potential ordinary shares are ignored in calculating diluted earnings per share. Accordingly, each issue of potential ordinary shares must be considered separately to identify which are anti-dilutive.

Others

10. If the number of ordinary (or potential ordinary) shares outstanding increases as a result of capitalization, bonus issue, or share split, or decreases as a result of a reverse share split, the calculation of basic and diluted earnings per share for all periods presented in the financial statements should be adjusted retrospectively. The standard requires that:

    (a) If these changes occur after the balance sheet date but before issue of the financial statements, the per share calculations for those and any prior period financial statements presented should be based on the new number of shares.

    (b) When per share calculations reflect such changes in the number of shares that fact should be disclosed.

11. In addition, basic and diluted earnings per share of all periods presented should be adjusted for:

    (a) The effects of fundamental errors, and adjustments resulting from changes in accounting policies, dealt with in accordance with the benchmark treatment in IAS 8, *Net Profit or Loss for the Period, Financial Errors and Changes in Accounting Policies.*

    (b) The effects of a business combination which is a uniting of interests.

12. Diluted earnings per share are not restated for changes in the assumptions used or for the conversion of potential ordinary shares into ordinary shares outstanding.

13. An enterprise is encouraged to disclose a description of ordinary share transactions or potential ordinary share transactions of significance to the users of the financial statements, which occur after the balance sheet date. This does not apply to capitalization issues and share splits. Earnings per share amounts are not adjusted for such transactions.

14. Disclosures required.

(a) Basic and diluted earnings per share on the face of the income statement for each class of ordinary shares that has a different right to share in the net profit for the period. These should be presented with equal prominence for all periods.

(b) The amounts used as the numerators in calculating basic and diluted earnings per share, and a reconciliation of those amounts to the net profit or loss for the period.

(c) The weighted average number of ordinary shares used as the denominator in calculating basic and diluted earning per share, and a reconciliation of these denominators to each other.

(d) Financial instruments and other contracts generating potential ordinary shares may incorporate terms and conditions which affect the measurement of basic and diluted earnings per share. Whether or not the disclosure of the terms and conditions is required by IAS 32 such disclosure is encouraged.

(e) Where more earnings per share information is disclosed then required by the standard, a reconciliation should be provided, where necessary, between the components used in any calculation and a line which is reported in the financial statements.

Interim Financial Reporting

(Issued February 1998)

General

The objective of this Standard is to prescribe the minimum content of an interim financial report and to prescribe the principles for recognition and measurement in complete or condensed-financial statements for an interim period.

The Standard only applies if an enterprise is required by any regulatory authority or elects to publish an interim financial report in accordance with International Accounting Standards.

Interim financial report means a financial report containing either a complete set of financial statements (as described in IAS 1, *Presentation of Financial Statements*) or a set of condensed financial statements (as described in this standard) for an interim period, which is a financial reporting period shorter than a full financial year.

Effective date - For financial statements covering periods beginning on or after 1 January 1999.

Specific Provisions

1. If an enterprise publishes a complete set of financial statements in its interim financial report, the form and contents of those statements should conform to the requirements of IAS 1, *Presentation of Financial Statements,* for a complete set of financial statements.

2. If an enterprise publishes a set of condensed financial statements in its interim financial report, those condensed statements should include, as a minimum, each of the headings and subtotals that were included in its most recent annual financial statements and the selected explanatory notes as required by this standard. Additional line items or notes should be included if their omission would make the condensed interim financial statements misleading.

3. The condensed financial statements should include, as a minimum, the following components:

   (a) Condensed balance sheet;

   (b) Condensed income statement;

   (c) Condensed statement showing either (i) all changes in equity, or (ii) changes in equity other than those arising from capital transactions with owners and distributions to owners;

   (d) Condensed cash flow statement; and

   (e) Selected explanatory notes.

For the definition of the condensed components reference should be made to the standard.

4. Basic and diluted earnings per share should be presented on the face of an income statement, complete or condensed, for an interim period.

5. Interim reports should include interim financial statements for periods as follows:

   (a) Balance sheet as of the end of the current interim period and a comparative balance sheet as of the end of the immediately preceding financial year.

   (b) Income statements for the current interim period and cumulatively for the current financial year to date, with comparative income statements for the comparable interim periods (current and year-to-date) of the immediately preceding financial year.

   (c) Statement showing changes in equity cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-year period of the immediately preceding financial year.

   (d) Cash flow statement cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year.

6. In deciding how to recognize, measure, classify, or disclose an item for interim financial reporting purposes, materiality should be assessed in relation to the interim period financial data.

7. The frequency of reporting (annual, half-yearly, or quarterly) should not affect the measurement of its annual results. To achieve that objective, measurements for interim reporting purposes should be made on a year-to-date basis;

8. Disclosures required:

   (a) A statement that the same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements or, if those policies or methods have been changed, a description of the nature and effect of the change.

   (b) Explanatory comments about the seasonality or cyclicality of interim operations.

   (c) The nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidence.

   (d) The nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years, if those changes have a material effect in the current interim period.

   (e) Issuances, repurchases, and repayments of debt and equity securities.

   (f) Dividends paid (aggregate or per share) separately for ordinary shares and other shares.

   (g) If the enterprise discloses segment data in its annual financial statements then segment revenue and segment results should be disclosed in the interim financial report.

   (h) Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period.

   (i) The effect of changes in the composition of the enterprise during the interim period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations.

(j) Changes in contingent liabilities or contingent assets since the last annual balance sheet date.

(k) The nature and amount of that change in estimate should be disclosed in a note to the annual financial statements for that financial year.

(l) If an enterprise's interim financial report is in compliance with all of the requirements of all applicable International Accounting Standards and each applicable Interpretation of the Standing Interpretations Committee, that fact should be disclosed.

9. The Standard provides detailed guidance on the following issues:

(a) Changes in accounting policy

(b) Accounting for seasonal or cyclical revenues.

(c) Accounting for costs that are incurred unevenly during the financial period.

(d) Significant changes in estimated amounts.

Discontinuing Operations

(Issued June 1998)

General

The objective of this Standard is to establish principles for reporting information about discontinuing operations, thereby enhancing the ability of users of financial statements to make projections of an enterprise's cash flows, earning-generating capacity, and financial position by segregating information about discontinuing operations from information continuing operations.

Effective date - For financial statements covering periods beginning on or after 1 January 1999.

Specific Provisions

1. This Standard applies to all discontinuing operations of all enterprises.

2. A "discontinuing operation" is a component of an enterprise:

   (a) that the enterprise is:

   - disposing of substantially in its entirety;

   - disposing of piecemeal; or

   - terminating through abandonment.

   (b) that represents a separate major line of business or geographical area of operations; and

   (c) that can be distinguished operationally and for financial reporting purposes.

3. With respect to a discontinuing operation, the "initial disclosure event" is the occurrence of one of the following whichever occurs earlier:

   (a) the enterprise's board of directors or similar governing body approving a detailed formal plan for the discontinuance and made an announcement of the plan; or

   (b) the enterprise has entered into a binding sale agreement for substantially all of the assets attributable to the operation.

4. An enterprise should apply the principles of recognition and measurement that are set out in other International Accounting Standards for the purpose of deciding when and how to recognize and measure the changes in assets and liabilities and the income, expenses, and cash flows relating to a discontinuing operation.

Disclosures

5. An enterprise should include the following information relating to a discontinuing operation in its financial statements beginning with the financial statements for the period in which the initial disclosure event occurs:

- a description of the discontinuing operation;
- the business or geographical segment(s) in which it is reported in accordance with IAS 14; *Segment Reporting*
- the date that the plan for discontinuance was announced;
- the date or period in which the discontinuance is expected to be completed if known or determinable;
- the carrying amounts, as of the balance sheet date, of the total assets and the total liabilities to be disposed of;
- the amounts of revenue, expenses, and pre-tax profit or loss from ordinary activities attributable to the discontinuing operation during the current financial reporting period, and the income tax expense relating thereto as required by IAS 12; *Accounting for Taxes on Income*, and
- the amounts of net cash flows attributable to the operating, investing, and financing activities of the discontinuing operation during the current financial reporting period.

6. An enterprise should include in its financial statements for periods subsequent to the one in which the initial disclosure event occurs a description of any significant changes in the amount or timing of cash flows relating to the assets and liabilities to be disposed of or settled and the events causing those changes.

7. When an enterprise disposes of assets or settles liabilities attributable to a discontinuing operation or enters into binding agreements for the sale of such assets or the settlement of such liabilities, it should include in its financial statements the following information when the events occur:

- for any gain or loss that is recognized on the disposal of assets or settlement of liabilities attributable to the discontinuing operation, (i) the amount of the pre-tax gain or loss and (ii) income tax expense relating to the gain or loss, as required by IAS 12*, Accounting for Taxes on Income*; and
- the net selling price or range of prices (which is after deducting the expected disposal costs) of those net assets for which the enterprise has entered into one or more binding sale agreements, the expected timing of receipt of those cash flows, and the carrying amount of those net assets.

8. If an initial disclosure event occurs after the end of an enterprise's financial reporting period but before the financial statements for that period are approved by the board of directors or similar governing body, those financial statements should include the disclosures specified in (a) above for the period covered by those financial statements.

9. The disclosures required above should continue in financial statements for periods up to and including the period in which the discontinuance is completed. A discontinuance is completed when the plan is substantially completed or abandoned, though payments from the buyer(s) to the seller may not yet be completed.

10. If an enterprise abandons or withdraws from a plan that was previously reported as a discontinuing operation, that fact and its effect should be disclosed.

11. Any disclosures required by this Standard should be presented separately for each discontinuing operation.

12. The disclosures requirements noted above may be presented either in the notes to the financial statements or on the face of the financial statements except that the disclosure of the amount of the pre-tax gain or loss recognized on the disposal of assets or settlement of liabilities attributable to the discontinuing operation should be shown on the face of the income statement.

13. A discontinuing operation should not be presented as an extraordinary item.

14. A restructuring, transaction, or event that does not meet the definition of a discontinuing operation in this Standard should not be called a discontinuing operation.

15. Comparative information for prior periods that is presented in financial statements prepared after the initial disclosure event should be restated to segregate continuing and discontinuing assets, liabilities, income, expenses, and cash flows in a manner similar to that the disclosure requirements noted above.

16. The notes to an interim financial report should describe any significant activities or events since the end of the most recent annual reporting report relating to a discontinuing operation and any significant changes in the amount or timing of cash flows relating to the assets and liabilities to be disposed of or settled.