

About this publication

IFRS: An overview is an executive summary of the key requirements of IFRSs. This edition is based on IFRSs in issue at 1 August 2008 that are applicable for financial periods beginning on or after 1 January 2008. A list of these standards and interpretations is included in Appendix I.

When a significant change will occur as a result of a standard or interpretation that is in issue at 1 August 2008, but which is not required to be adopted by an entity with an annual period ending 31 December 2008, the impact of these “forthcoming requirements” is discussed briefly. In addition, sections 2.2A, 2.6A and 5.2A are included as forthcoming requirements in their entirety. A list of the standards and interpretations in issue at 1 August 2008 that are forthcoming requirements is included in Appendix II.

This publication does not consider the requirements of IAS 26 *Accounting and Reporting by Retirement Benefit Plans*.

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

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This publication has been produced by the KPMG International Financial Reporting Group. We have a range of publications that can assist you further, including *Insights into IFRS: KPMG's practical guide to International Financial Reporting Standards*, illustrative financial statements for annual and interim reporting and an IFRS disclosure checklist.

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1. Background

1.1 Introduction

(IASB Foundation Constitution, Preface to IFRSs, IAS 1, IAS 8)

IFRSs is the term used to indicate the whole body of IASB authoritative literature.

IFRSs are designed for use by profit-oriented entities.

Any entity claiming compliance with IFRSs must comply with all standards and interpretations, including disclosure requirements.

Both the bold- and plain-type paragraphs of IFRSs have equal authority.

The overriding requirement of IFRSs is for the financial statements to give a fair presentation (or true and fair view).

A hierarchy of alternative sources is specified when IFRSs do not cover a particular issue.

Forthcoming requirements

The *Improvements to IFRSs 2008* amended IAS 8 to clarify that guidance accompanying IFRSs (e.g., implementation guidance) that is not an integral part of IFRSs is not mandatory, and that such guidance is mandatory if it is an integral part of IFRSs.

1.2 The Framework (IASB Framework, IAS 8)

The IASB uses its conceptual framework when developing new or revised IFRSs or amending existing IFRSs.

The Framework is a point of reference for preparers of financial statements in the absence of specific guidance in IFRSs.

IFRSs do not apply to items that are “immaterial”.

Transactions should be accounted for in accordance with their substance, rather than only their legal form.

Transactions with shareholders in their capacity as shareholders are recognised directly in equity.

2. General issues

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

The following is presented: balance sheet, income statement, statement of recognised income and expense or a statement of all changes in equity, statement of cash flows, and notes including accounting policies.

While IFRSs specify minimum disclosures to be made in the financial statements, they do not prescribe specific formats.

Comparative information is required for the preceding period only, but additional periods and information may be presented.

An entity presents consolidated financial statements unless specific criteria are met.

An entity without subsidiaries but with an associate or jointly controlled entity prepares individual financial statements unless specific criteria are met.

In its individual financial statements, generally an entity accounts for an investment in an associate using the equity method, and an investment in a jointly controlled entity using the equity method or proportionate consolidation.

An entity is permitted, but not required, to present separate financial statements in addition to consolidated or individual financial statements.

Forthcoming requirements

Under the revised version of IAS 1 a complete set of financial statements comprises:

- statement of financial position (see 3.1)
- statement of comprehensive income (see 4.1)

- statement of changes in equity (see 2.2A)
- statement of cash flows (see 2.3)
- notes to the financial statements, including significant accounting policies.

An entity should present either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or an income statement and a separate statement of comprehensive income. See section 2.2A.

In addition, a statement of financial position as at the beginning of the earliest comparative period should be presented following a change in accounting policy, the correction of an error, or the reclassification of items in the financial statements. In such cases three statements of financial position will be presented.

2.2 Changes in equity

(IAS 1, IAS 8)

Generally there is a choice of presenting as a primary statement either a statement of recognised income and expense or a statement of all changes in equity.

The statement of recognised income and expense presents profit or loss with all other non-owner movements recognised directly in equity.

A gain or loss may be recognised directly in equity only when a standard or interpretation permits or requires it.

Forthcoming requirements

The revised version of IAS 1 represents a fundamental change in the presentation of a complete set of financial statements. See section 2.2A.

2.2A Comprehensive income and changes in equity (IAS 1 (2007), IAS 8)

Forthcoming requirements

An entity presents both a statement of comprehensive income and a statement of changes in equity as part of a complete set of financial statements.

An entity presents either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or an income statement and a separate statement of comprehensive income.

All owner-related changes in equity are presented in the statement of changes in equity, separately from non-owner changes in equity.

An entity is not permitted to present components of comprehensive income in the statement of changes in equity.

2.3 Statement of cash flows (IAS 7)

The statement of cash flows presents cash flows during the period classified by operating, investing and financing activities.

Net cash flows from all three categories are totalled to show the change in cash and cash equivalents during the period, which then is used to reconcile opening and closing cash and cash equivalents.

Cash and cash equivalents includes certain short-term investments and, in some cases, bank overdrafts.

Cash flows from operating activities may be presented using either the direct method or the indirect method.

Foreign currency cash flows are translated at the exchange rates at the dates of the cash flows (or using averages when appropriate).

Generally all financing and investing cash flows are reported gross. Cash flows are offset in only limited circumstances.

2.4 Basis of accounting

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

Financial statements are prepared on a modified historical cost basis, with a growing emphasis on fair value.

When an entity's functional currency is hyperinflationary, its financial statements should be adjusted to state all items in the measuring unit current at the reporting date.

2.5 Consolidation

(IAS 27, SIC-12, IFRS 3)

Consolidation is based on control, which is the power to govern, either directly or indirectly, the financial and operating policies of an entity so as to obtain benefits from its activities.

The ability to control is considered separately from the exercise of that control.

The assessment of control may be based on either a power-to-govern or a *de facto* control model.

Potential voting rights that are currently exercisable are considered in assessing control.

A special purpose entity (SPE) is an entity created to accomplish a narrow and well-defined objective. SPEs are consolidated based on control. The determination of control includes an analysis of the risks and benefits associated with an SPE.

All subsidiaries are consolidated, including subsidiaries of venture capital organisations and unit trusts, and those acquired exclusively with a view to subsequent disposal.

A parent and its subsidiaries generally use the same reporting date when consolidated financial statements are prepared. If this is not practicable, then the difference between the reporting date of a parent and its subsidiary cannot be more than three months. Adjustments are made for the effects of significant transactions and events between the two dates.

Uniform accounting policies are used throughout the group.

Minority interests are recognised initially based on the minority's share of the amounts recognised in the purchase accounting, excluding goodwill.

An entity recognises a liability for the present value of the (estimated) exercise price of put options held by minority interests, but there is no detailed guidance on the accounting for such put options.

Losses in a subsidiary may create a debit balance in minority interests only if the minority has an obligation to fund the losses.

Minority interests in the balance sheet are classified as equity but are presented separately from the parent shareholders' equity.

Minority interests in profit or loss are presented as an allocation of the net profit or loss for the period.

Intra-group transactions are eliminated in full.

There is no guidance on accounting for acquisitions or disposals of minority interests.

There is no guidance on accounting for the dilution of a parent's interest in a subsidiary.

Forthcoming requirements

Amended IAS 27:

- replaces the term "minority interests" with "non-controlling interests", which is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent"
- requires that losses applicable to the non-controlling interests be allocated to the non-controlling interests even if doing so causes the non-controlling interests to be in a deficit position
- requires changes in a parent's ownership interest in a subsidiary after control is obtained that do not result in a loss of control, and the acquisition of non-controlling interests, to be accounted for as transactions with equity holders in their capacity as equity holders

- requires that when control of a subsidiary is lost, any resulting gain or loss is recognised in profit or loss and any retained non-controlling equity investment in the former subsidiary is remeasured to its fair value at the date that control is lost.

Under the revised version of IFRS 3 the acquirer can elect to measure any non-controlling (minority) interests at:

- fair value at the date of acquisition, which means that goodwill includes a portion attributable to the non-controlling interests; or
- its proportionate interest in the fair value of the identifiable assets and liabilities of the acquiree, which means that goodwill relates only to the controlling interest acquired by the parent.

Under the revised version of IAS 1 profit or loss and total comprehensive income attributable to non-controlling interests is presented separately in the statement of comprehensive income as an allocation of profit or loss and total comprehensive income for the period.

2.6 Business combinations (IFRS 3, IAS 38)

All business combinations are accounted for using the purchase method, with limited exemptions.

A business combination is the bringing together of separate entities or businesses into one reporting entity.

A business can be an operation managed for the purpose of providing a return to investors or lower costs. An entity in its development stage can meet the definition of a business.

In some cases the legal acquiree is identified as the acquirer for accounting purposes ("reverse acquisition").

The acquisition date is the date on which control is transferred to the acquirer.

The cost of acquisition is the amount of cash or cash equivalents paid, plus the fair value of other purchase consideration given, plus any costs directly attributable to the acquisition.

The fair value of securities issued by the acquirer is determined at the date of acquisition.

A liability for contingent consideration is recognised as soon as payment becomes probable and the amount can be measured reliably.

The assets acquired and liabilities and contingent liabilities assumed generally are recognised at fair value.

While there is general guidance on measuring fair values, there is no detailed guidance on valuation methodologies.

Acquired non-current assets (disposal groups) classified as held for sale are recognised at fair value less costs to sell.

An intangible asset is recognised separately from goodwill when it is identifiable, the entity has control over it, and its fair value can be measured reliably.

A restructuring provision is recognised only when it is an existing liability of the acquiree at the acquisition date.

Any change in the assessment of the recoverability of the acquirer's deferred tax assets as a result of the business combination is recognised in profit or loss.

Except in respect of goodwill, deferred tax is recognised on temporary differences arising from fair value adjustments recognised as part of the purchase accounting.

Subject to limited exceptions, adjustments to goodwill can be made only within 12 months of the acquisition.

If additional deferred tax assets of the acquiree that were not recognised at the date of acquisition are realised subsequently, then the adjustment is recognised in the income statement in the income tax line, and goodwill is adjusted with a corresponding amount recognised in profit or loss.

When the acquirer's interest in the net fair value of the assets acquired and liabilities and contingent liabilities assumed exceeds the cost of acquisition (negative goodwill), any excess is recognised in profit or loss immediately after reassessing the identification and measurement of the assets acquired.

"Push down" accounting, whereby fair value adjustments are recognised in the financial statements of the acquiree, is not permitted.

When an acquisition is achieved in successive share purchases, the assets acquired and liabilities and contingent liabilities assumed are recognised at full fair value when control is obtained, i.e., the share of the identifiable assets,

liabilities and contingent liabilities acquired in previous transactions is revalued. Each exchange transaction is considered separately in determining goodwill.

There is no guidance on accounting for common control transactions, combinations by contract alone or combinations involving two or more mutual entities.

Forthcoming requirements

The revised version of IFRS 3 supersedes the current version of the standard. See section 2.6A.

An amendment to IAS 27 specifies the accounting in the *separate* financial statements of a newly formed entity that becomes the new parent entity of another entity in a group when:

- the new parent entity issues equity instruments as consideration in the reorganisation
- there is no change in the group's assets or liabilities as a result of the reorganisation
- there is no change in the interest of the shareholder, either absolute or relative, as a result of the reorganisation.

In such cases, if the new parent entity elects to measure the cost of the investment in the subsidiary at cost, then cost is equal to its share of total equity shown in the separate financial statements of the subsidiary at the date of the reorganisation.

2.6A Business combinations (IFRS 3 (2008))

Forthcoming requirements

All business combinations are accounted for using the acquisition method, with limited exceptions.

A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses.

A business is an operation that is capable of being conducted and managed for the purpose of providing a return to investors (or other owners, members or participants) by way of dividends, lower costs, or other economic benefits.

An entity in its development stage can meet the definition of a business.

In some cases the legal acquiree is identified as the acquirer for accounting purposes ("reverse acquisition").

The acquisition date is the date on which control is transferred to the acquirer.

Consideration transferred is the sum of the fair values of the assets transferred, liabilities incurred to the previous owners of the acquiree, equity interests issued, and contingent consideration.

The fair value of securities issued by the acquirer is determined at the date of acquisition.

Consideration transferred does not include acquisition-related costs.

Transaction costs, other than share and debt issue costs, are expensed as incurred.

Contingent consideration is recognised initially at fair value. Contingent consideration classified as a liability generally is remeasured to fair value each

period until settlement, with changes recognised in profit or loss. Contingent consideration classified as equity is not remeasured.

An intangible asset is recognised separately from goodwill when it is identifiable. An intangible asset is identifiable if it meets either the separability criterion, or the contractual-legal criterion.

A restructuring provision is recognised only when it is an existing liability of the acquiree at the acquisition date.

Any change in the assessment of the recoverability of the acquirer's deferred tax assets as a result of the business combination is recognised in profit or loss.

If additional deferred tax assets of the acquiree that were not recognised at the date of acquisition are realised subsequently, then the adjustment is recognised in profit or loss.

The measurement principle in accounting for the identifiable assets acquired and liabilities assumed in a business combination is fair value, with limited exceptions.

While there is general guidance on measuring fair values, there is no detailed guidance on valuation methodologies.

Acquired non-current assets (disposal groups) classified as held for sale are recognised at fair value less costs to sell.

At the acquisition date the acquirer measures any non-controlling interest at fair value, or at its proportionate interest in the fair value of the identifiable assets and liabilities assumed in the acquisition accounting.

When the sum of the fair value of the consideration transferred, the fair value of any previously held equity interest in the acquiree and the recognised amount of non-controlling interests exceeds the fair value of the identifiable assets acquired and liabilities assumed, the excess is recognised as goodwill. Any deficit is

a bargain purchase that is recognised in profit or loss after reassessing the identification and measurement of the above-listed items.

When an acquisition is achieved in stages (step acquisition), the identifiable assets and liabilities are recognised at full fair value when control is obtained, and a gain or loss is recognised in profit or loss for the difference between the fair value and the carrying amount of the previously held equity interest in the acquiree.

Adjustments to provisionally determined amounts in a business combination can be made only within the “measurement period”, which cannot exceed 12 months from the acquisition date. Adjustments are made retrospectively and comparative information is revised.

There is no guidance on accounting for common control transactions.

2.7 Foreign currency translation (IAS 21, IAS 29)

An entity measures its assets, liabilities, revenues and expenses in its functional currency, which is the currency of the primary economic environment in which it operates.

An entity may present its financial statements in a currency other than its functional currency.

All transactions that are not denominated in an entity's functional currency are foreign currency transactions; exchange differences arising on translation generally are recognised in profit or loss.

The financial statements of foreign operations are translated for the purpose of consolidation as follows: assets and liabilities are translated at the closing rate, revenues and expenses are translated at actual rates or appropriate averages, and equity components (excluding the current year movements, which are translated at actual rates) are not retranslated.

If the functional currency of a foreign operation is hyperinflationary, then current purchasing power adjustments are made to its financial statements prior to translation. The financial statements then are translated at the closing rate at the end of the current period.

When an investment in a foreign operation is disposed of, the exchange differences previously recognised directly in equity are transferred to profit or loss.

When financial statements are translated into a presentation currency other than the entity's functional currency, the entity uses the same method as for translating the financial statements of a foreign operation. There are special requirements for translation when financial statements have been restated for changes in price levels.

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

An accounting policy is changed in response to a new or revised standard or interpretation, or on a voluntary basis if the new policy is more appropriate.

Generally accounting policy changes and corrections of prior period errors are made by adjusting opening equity and restating comparatives unless this is not practicable.

Changes in accounting estimates are accounted for prospectively.

When it is difficult to determine whether a change is a change in accounting policy or a change in estimate, it is treated as a change in estimate.

Comparatives are restated unless impracticable if the classification or presentation of items in the financial statements is changed.

Forthcoming requirements

Under the revised version of IAS 1 a statement of financial position as at the beginning of the earliest comparative period should be presented following a change in accounting policy, the correction of an error, or the reclassification of items in the financial statements. In such cases three statements of financial position will be presented.

2.9 Events after the reporting date

(IAS 1, IAS 10)

The financial statements are adjusted to reflect events that occur after the reporting date, but before the financial statements are authorised for issue, if those events provide evidence of conditions that existed at the reporting date.

Financial statements are not adjusted for events that are indicative of conditions that arose after the reporting date, except when the going concern assumption no longer is appropriate.

Dividends declared after the reporting date are not recognised as a liability in the financial statements.

Liabilities generally are classified as current or non-current based on circumstances at the reporting date.

Forthcoming requirements

The *Improvements to IFRSs 2008* amended IAS 10 to clarify that the reason why dividends declared after the reporting date are not recognised as a liability is because no obligation exists at the reporting date.

3. Specific balance sheet items

3.1 General (IAS 1, IAS 32)

Generally an entity presents its balance sheet classified between current and non-current assets and liabilities. An unclassified balance sheet based on the order of liquidity is acceptable only when it provides reliable and more relevant information.

While IFRSs require certain items to be presented on the face of the balance sheet, there is no prescribed format.

A liability that is payable on demand because certain conditions are breached is classified as current even if the lender has agreed, after the reporting date but before the financial statements are authorised for issue, not to demand repayment.

Some assets and liabilities that are part of working capital are classified as current even if they are due to be settled more than 12 months after the reporting date.

Forthcoming requirements

Under the revised version of IAS 1 the term “statement of financial position” is used rather than “balance sheet”. However, use of the new title is not mandatory.

The *Improvements to IFRSs 2008* amended IAS 1 to clarify that financial assets and liabilities classified as held for trading in accordance with IAS 39 should not be presented as current assets and liabilities if they do not meet the definition thereof.

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

Property, plant and equipment is recognised initially at cost.

Cost includes all expenditure directly attributable to bringing the asset to the location and working condition for its intended use.

Cost includes the estimated cost of dismantling and removing the asset and restoring the site.

Changes to an existing decommissioning or restoration obligation generally are added to or deducted from the cost of the related asset and depreciated prospectively over the remaining useful life of the asset.

Interest and other borrowing costs may be capitalised as part of the cost of “qualifying assets”.

Property, plant and equipment is depreciated over its useful life.

An item of property, plant and equipment is depreciated even if it is idle, but not if it is held for sale either individually or as part of a disposal group.

Estimates of useful life and residual value, and the method of depreciation are reviewed at least at each annual reporting date. Any changes are accounted for prospectively as a change in estimate.

When an item of property, plant and equipment comprises individual components for which different depreciation methods or rates are appropriate, each component is depreciated separately.

Subsequent expenditure is capitalised only when it is probable that it will give rise to future economic benefits.

Property, plant and equipment may be revalued to fair value if fair value can be measured reliably. All items in the same class are revalued at the same time and the revaluations are kept up to date.

Compensation for loss or impairment cannot be offset against the carrying amount of the asset lost or impaired.

The gain or loss on disposal is the difference between the net proceeds received and the carrying amount of the asset.

Forthcoming requirements

Revised IAS 23 requires the capitalisation of certain borrowing costs as part of the cost of "qualifying assets". Also, see section 4.6.

The *Improvements to IFRSs 2008* amended:

- IAS 16 for presentation issues that arise from assets that are rented and then subsequently sold on a routine basis. The amendment results in such assets being transferred to inventories at their carrying amount when they cease to be rented and become held for sale and the proceeds from the sale of such assets is recognised as revenue in accordance with IAS 18.
- IAS 40 to include within its scope property under construction or development for future use as an investment property.

3.3 Intangible assets and goodwill

(IFRS 3, IAS 38, SIC-32)

An intangible asset is an identifiable non-monetary asset without physical substance.

An intangible asset is identifiable if it is separable or arises from contractual or legal rights.

Intangible assets generally are recognised initially at cost.

The initial measurement of an intangible asset depends on whether it has been acquired separately, as part of a business combination, or was generated internally.

Goodwill is recognised only in a business combination and is measured as a residual.

Acquired goodwill and other intangible assets with indefinite useful lives are not amortised, but instead are subject to impairment testing at least annually.

Intangible assets with finite useful lives are amortised over their expected useful lives.

Subsequent expenditure on an intangible asset is capitalised only if the definition of an intangible asset and the recognition criteria are met.

Intangible assets may be revalued to fair value only if there is an active market.

Internal research expenditure is expensed as incurred. Internal development expenditure is capitalised if specific criteria are met. These capitalisation criteria are applied to all internally developed intangible assets.

Advertising and promotional expenditure is expensed as incurred.

Expenditure on relocation or reorganisation is expensed as incurred.

The following are not capitalised as intangible assets: internally generated goodwill, costs to develop customer lists, start-up costs and training costs.

Forthcoming requirements

Under the revised version of IFRS 3 an entity can elect to measure any non-controlling (minority) interests at fair value or at its proportionate interest in the identifiable assets and liabilities of the acquiree. Also, see section 2.5.

In addition, under the revised version of IFRS 3 the “reliability of measurement” criterion and the rebuttable presumption that the fair value of intangible assets can be measured reliably in a business combination have been removed.

Also, see section 2.6A.

The *Improvements to IFRSs 2008* amended IAS 38 by removing the observation that there is rarely, if ever, persuasive evidence to support an amortisation method for intangible assets with finite useful lives that results in a lower amount of accumulated amortisation than under the straight-line method.

3.4 Investment property (IAS 17, IAS 40)

Investment property is property held to earn rentals or for capital appreciation, or both.

Property held by a lessee under an operating lease may be classified as investment property if the rest of the definition of investment property is met and the lessee measures all its investment property at fair value.

A portion of a dual-use property is classified as investment property only if the portion could be sold or leased out under a finance lease. Otherwise the entire property is classified as property, plant and equipment, unless the portion of the property used for own use is insignificant.

When a lessor provides ancillary services, a property is classified as investment property if such services are a relatively insignificant component of the arrangement as a whole.

Investment property is recognised initially at cost.

Subsequent to initial recognition, all investment property should be measured using either the fair value model (subject to limited exceptions) or the cost model. When the fair value model is chosen, changes in fair value are recognised in profit or loss.

Disclosure of the fair value of all investment property is required, regardless of the measurement model used.

Subsequent expenditure is capitalised only when it is probable that it will give rise to future economic benefits.

Transfers to or from investment property can be made only when there has been a change in the use of the property. The intention to sell an investment property without redevelopment does not justify reclassification from investment property into inventory.

Forthcoming requirements

Revised IAS 23 requires the capitalisation of certain borrowing costs as part of the cost of “qualifying assets.” Also, see section 4.6.

The *Improvements to IFRSs 2008* amended IAS 40 to:

- include within its scope property under construction or development for future use as investment property
- clarify how to determine the carrying amount of an investment property held under a lease using the fair value model.

3.5 Investments in associates and joint ventures (IAS 27, IAS 28, IAS 31, SIC-13)

The definition of an associate is based on significant influence, which is the power to exercise significant influence over the financial and operating policies of an entity.

There is a rebuttable presumption of significant influence if an entity holds 20 to 50 percent of the voting rights of another entity.

Potential voting rights that are currently exercisable are considered in assessing significant influence.

A joint venture is an entity, asset or operation that is subject to contractually established joint control.

Associates are accounted for using the equity method in the consolidated financial statements.

Jointly controlled entities may be accounted for either by proportionate consolidation or using the equity method in the consolidated financial statements.

An investor is prohibited from applying the equity method or proportionate consolidation in any separate financial statements that are prepared, but should do so in any individual financial statements.

In applying the equity method or proportionate consolidation, an associate's or jointly controlled entity's accounting policies should be consistent with those of the investor.

The reporting date of an associate or jointly controlled entity may not differ from the investor's by more than three months, and should be consistent from period to period. Adjustments are made for the effects of significant events and transactions between the two dates.

When an equity accounted investee incurs losses, the carrying amount of the investor's interest is reduced to zero. Further losses are recognised by the investor only to the extent that the investor has an obligation to fund losses or has made payments on behalf of the investee.

Unrealised profits and losses on transactions with associates or jointly controlled entities are eliminated to the extent of the investor's interest in the investee.

Gains and losses on non-monetary contributions in return for an equity interest in a jointly controlled entity generally are recognised to the extent of the other investors' interests in the investee.

For jointly controlled assets, the investor accounts for its share of the jointly controlled assets, the liabilities and expenses it incurs, and its share of any income or output.

For jointly controlled operations, the investor accounts for the assets it controls, the liabilities and expenses it incurs, and its share of the income from the joint operation.

Equity accounting or proportionate consolidation is not applied to an investee that is acquired with a view to its subsequent disposal if the criteria are met for classification as held for sale.

Venture capital organisations, mutual funds, unit trusts and similar entities may elect to account for investments in associates and jointly controlled entities as financial assets.

Forthcoming requirements

The consequential amendments to IAS 28 and IAS 31 arising from amended IAS 27 require that upon the loss of significant influence or joint control of an associate or jointly controlled entity, any retained investment is remeasured to fair value and a gain or loss is recognised in profit or loss.

Under the revised version of IAS 1 the income statement is an integral part of the reporting of comprehensive income, which comprises all non-owner changes in equity. Under the revised version of IAS 1, the focus of reporting is on the investor's share of comprehensive income of an associate rather than profit or loss, although a distinction is still made between amounts recognised in profit or loss versus "other comprehensive income". Also, see section 2.1.

The *Improvements to IFRSs 2008* amended IAS 28 to clarify that after applying the equity method, any additional impairment recognised by the investor with respect to its investment in an associate should not be allocated to any assets, including goodwill, that constitute the carrying amount of the investment. The amendment also clarifies that the additional impairment loss is subsequently reversed to the extent that the recoverable amount of the investment increases.

3.6 Financial instruments

(IAS 21, IAS 32, IAS 39, IFRIC 9, IFRIC 10)

Financial assets and financial liabilities, including derivative instruments, should be recognised in the balance sheet at trade date. However, “regular way” purchases and sales of financial assets are recognised either at trade date or at settlement date.

An embedded derivative is one or more implicit or explicit terms in a host contract that affect the cash flows of the contract in a manner similar to a stand-alone derivative instrument.

A host contract may be a financial or a non-financial contract.

An embedded derivative is not accounted for separately from the host contract when it is closely related to the host contract, or when the entire contract is measured at fair value through profit or loss.

An embedded derivative is accounted for separately from the host contract when it is not closely related to the host contract.

Financial assets should be classified into one of four categories: at fair value through profit or loss; loans and receivables; held-to-maturity; available-for-sale. Financial liabilities are categorised as either at fair value through profit or loss or “other” liabilities. The categorisation determines whether and where any remeasurement to fair value is recognised.

Financial assets are measured at fair value except for loans and receivables, held-to-maturity investments, and unlisted equity instruments in the rare circumstances that fair value cannot be measured reliably.

All derivatives (including separated embedded derivatives) are measured at fair value. Unless they qualify as hedging instruments in a cash flow hedge, all fair value gains and losses are recognised immediately in profit or loss.

A financial asset is derecognised only when the contractual rights to the cash flows from the financial asset expire or when the financial asset is transferred and the transfer meets certain specified conditions.

A financial asset is considered to have been transferred if an entity transfers the contractual rights to receive the cash flows from the financial asset, or enters into a valid “pass-through” arrangement.

If a transfer meets the above conditions, then an entity evaluates whether or not it has retained the risks and rewards of ownership of the transferred financial assets.

An entity derecognises a financial asset if it has transferred substantially all of the risks and rewards of ownership otherwise it continues to recognise the asset.

An entity continues to recognise a financial asset to the extent of its continuing involvement if it has neither retained nor transferred substantially all of the risks and rewards of ownership of the financial asset, and it has retained control of the financial asset.

A financial liability is derecognised when it is extinguished or when its terms are modified substantially.

When there is objective evidence that a financial asset measured at amortised cost, or at fair value with changes recognised in equity, may be impaired, the amount of any impairment loss should be calculated and recognised in profit or loss.

Forthcoming requirements

Amendments to IAS 32 and IAS 1 provide exemptions from financial liability classification for two categories of financial instruments issued by an entity provided certain conditions are met. See section 3.11.

Under the revised version of IFRS 3 the IAS 39 scope exclusion for contracts for contingent consideration in a business combination has been removed. Such

contracts may be accounted for as financial assets or financial liabilities under IAS 39 in certain circumstances.

The *Improvements to IFRSs 2008* amended IAS 39 so that derivatives can be reclassified into or out of the fair value through profit or loss category, when they are designated as hedging instruments or when they are de-designated as hedging instruments respectively.

3.7 Hedge accounting (IAS 39)

Hedge accounting allows an entity to selectively measure assets, liabilities, firm commitments and certain forecast transactions on a basis different from that otherwise stipulated in IFRSs, or to defer the recognition of gains or losses on derivatives.

Hedge accounting is permitted only when strict documentation and effectiveness requirements are met.

There are three hedge accounting models: fair value hedges of fair value exposures, cash flow hedges of cash flow exposures, and net investment hedges of currency exposure on a net investment in a foreign operation.

Qualifying hedged items can be recognised assets, liabilities, unrecognised firm commitments, highly probable forecast transactions or net investments in foreign operations.

Only derivative instruments – and for hedges of foreign exchange risk only, non-derivative financial instruments – entered into with an external party qualify as hedging instruments.

Effectiveness testing is conducted on both a prospective and retrospective basis. In order for a hedge to be effective, changes in the fair value or cash flows of the hedged item should be offset by changes in the fair value or cash flows of the hedging instrument within a range of 80-125 percent.

Forthcoming requirements

An amendment to IAS 39 clarifies that:

- changes in the cash flows or fair value of a hedged item above or below a specified price or variable (a one-sided risk) can be designated
- inflation cannot be designated as a risk or a portion of a financial instrument, as it is not separately identifiable or reliably measurable, unless it is a

contractually specified portion of the cash flows of a recognised inflation-linked bond and the other cash flows of the instrument are not affected by the inflation portion.

IFRIC 16 provides guidance in the following areas in respect of entities hedging their foreign exchange exposure arising from investments in foreign operations:

- the nature of the hedged risk
- the amount of the hedged item
- the location in which the hedging instrument can be held
- assessing hedge effectiveness
- the disposal of a foreign operation.

3.8 Inventories (IAS 2)

Generally inventories are measured at the lower of cost and net realisable value.

Cost includes all direct expenditure to get inventory ready for sale, including attributable overheads.

The cost of inventory generally is determined using the FIFO (first-in, first-out) or weighted average method. The use of the LIFO (last-in, first-out) method is prohibited.

Other cost formulas, such as the standard cost or retail method, may be used when the results approximate actual cost.

The cost of inventory is recognised as an expense when the inventory is sold.

Inventory is written down to net realisable value when net realisable value is less than cost.

If the net realisable value of an item that has been written down subsequently increases, then the write-down is reversed.

Forthcoming requirements

Revised IAS 23 requires the capitalisation of certain borrowing costs as part of the cost of "qualifying assets". Also, see section 4.6.

The *Improvements to IFRSs 2008* amended:

- IAS 16 for presentation issues that arise from assets that are rented and then subsequently sold on a routine basis; the amendment results in such assets being transferred to inventories at their carrying amount when they cease to be rented and become held for sale
- IAS 38 to clarify that catalogues are considered to be a form of advertising and promotional material rather than inventory.

3.9 Biological assets (IAS 41)

Biological assets are measured at fair value less estimated point-of-sale costs unless it is not possible to measure fair value reliably, in which case they are measured at cost.

All gains and losses from changes in fair value are recognised in profit or loss.

Agricultural produce harvested from a biological asset is measured at fair value less estimated point-of-sale costs at the point of harvest.

Forthcoming requirements

Revised IAS 23 requires the capitalisation of certain borrowing costs as part of the cost of "qualifying assets". Also, see section 4.6.

The *Improvements to IFRSs 2008* amended IAS 41 to:

- remove the requirement to use a pre-tax rate to determine fair value and require the use of a current market determined rate, being either pre-tax or post-tax, according to the valuation methodology used
- remove the prohibition on taking additional biological transformation into consideration when the fair value of biological assets is estimated using the expected net discounted cash flows
- clarify that felled trees are agricultural produce, whereas logs are products that are the result of processing after harvest.

3.10 Impairment

(IFRS 3, IAS 36, IAS 38, IFRIC 10)

IAS 36 covers the impairment of a variety of non-financial assets, including property, plant and equipment, intangible assets and goodwill; investment property and biological assets carried at cost less accumulated depreciation; and investments in subsidiaries, joint ventures and associates.

Impairment testing is required when there is an indicator of impairment.

Annual impairment testing is required for goodwill and intangible assets that either are not yet available for use or have an indefinite useful life. This impairment test may be performed at any time during the year provided that it is performed at the same time each year.

Goodwill is allocated to cash-generating units (CGUs) or groups of CGUs that are expected to benefit from the synergies of the business combination from which it arose. The allocation is based on the level at which goodwill is monitored internally, restricted by the size of the entity's segments.

Whenever possible an impairment test is performed for an individual asset. Otherwise, assets are tested for impairment in CGUs. Goodwill always is tested for impairment at the level of a CGU or a group of CGUs.

A CGU is the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups thereof.

The carrying amount of goodwill is grossed up for impairment testing if minority interests are involved.

An impairment loss is recognised if an asset's (CGU's) carrying amount exceeds the greater of its fair value less costs to sell and value in use, which is based on the net present value of future cash flows.

Estimates of future cash flows used in the value in use calculation are specific to the entity, and need not be the same as the market's assessment.

The discount rate used in the value in use calculation is a pre-tax rate that reflects the market's assessment of the risks specific to the asset.

An impairment loss for a CGU is allocated first to any goodwill and then *pro rata* to other assets in the CGU.

An impairment loss on a revalued asset is charged directly to the revaluation reserve to the extent that it reverses a previous revaluation surplus relating to the same asset. Any excess is recognised in profit or loss.

Reversals of impairment are recognised, other than for impairments of goodwill.

Forthcoming requirements

IFRS 8 amended IAS 36 such that each unit or group of units to which goodwill is allocated may not be larger than an operating segment determined in accordance with IFRS 8.

Under the revised version of IFRS 3 an entity can elect to measure non-controlling (minority) interests at fair value or at its proportionate interest in the identifiable assets and liabilities of the acquiree. If an entity chooses to measure non-controlling interests at fair value, then the carrying amount of the CGU is not grossed up for the purpose of impairment testing.

An amendment to IAS 27 states that the receipt of dividend income from a subsidiary, jointly controlled entity or associate may be deemed to be an indicator of impairment if certain conditions are met.

The *Improvements to IFRSs 2008* amended IAS 28 to clarify that after applying the equity method, any additional impairment recognised by the investor with respect to its investment in an associate should not be allocated to any assets, including goodwill, that constitute the carrying amount of the investment. The amendment also clarifies that the additional impairment loss is subsequently reversed to the extent that the recoverable amount of the investment increases.

3.11 Equity and financial liabilities

(IAS 1, IAS 27, IAS 32, IAS 39)

A financial instrument is a financial liability if the issuer can be obliged to settle in cash or by delivering another financial instrument.

A financial instrument is a financial liability if it will or may be settled in a variable number of the entity's own equity instruments.

The contractual terms of preference shares and similar instruments are evaluated to determine whether they have the characteristics of a financial liability. Such characteristics will lead to the classification of these instruments, or a component of them, as financial liabilities.

The components of compound financial instruments, which have both liability and equity characteristics, are accounted for separately.

A non-derivative contract that will be settled by an entity delivering its own equity instruments is an equity instrument if, and only if, it is settleable by exchanging a fixed number of its own equity instruments for a fixed amount of cash or another financial asset. A derivative contract that can be settled by the entity delivering a fixed number of own equity instruments for a fixed amount of cash, but which contains settlement options, is an equity instrument only if all settlement alternatives lead to equity classification.

An obligation for an entity to acquire its own equity instruments gives rise to a financial liability.

Incremental costs that are directly attributable to issuing or buying back own equity instruments are recognised directly in equity.

Treasury shares are presented as a deduction from equity.

Gains and losses on transactions in an entity's own equity instruments are reported directly in equity, not in profit or loss.

Dividends and other distributions to the holders of equity instruments (in their capacity as owners) are recognised directly in equity.

Minority interests are classified within equity, but separately from equity attributable to shareholders of the parent.

Forthcoming requirements

Amendments to IAS 32 and IAS 1 provide exemptions from financial liability classification for the following two categories of financial instruments issued by an entity:

- puttable financial instruments that meet certain conditions
- an instrument, or components of instruments, that contain an obligation for the issuing entity to deliver to the holder a *pro rata* share of the net assets of the issuing entity only on its liquidation.

In accordance with the amendments, even if these financial instruments contain an obligation for the entity to deliver cash or another financial asset, they should be classified as equity instruments providing both the financial instrument and the issuing entity meet certain conditions.

3.12 Provisions

(IAS 16, IAS 37, IFRIC 1, IFRIC 5, IFRIC 6)

A provision is recognised for a legal or constructive obligation arising from a past event, if there is a probable outflow of resources and the amount can be estimated reliably. "Probable" in this context means "more likely than not".

A provision is measured at the "best estimate" of the expenditure to be incurred.

If there is a large population, then the obligation generally is measured at its expected value.

Provisions are discounted if the effect of discounting is material.

A reimbursement right is recognised as a separate asset when recovery is virtually certain, capped at the amount of the related provision.

A provision is not recognised for future operating losses.

A provision for restructuring costs is not recognised until there is a formal plan and details of the restructuring have been communicated to those affected by the plan.

Provisions are not recognised for repairs or maintenance of own assets or for self-insurance prior to an obligation being incurred.

A provision is recognised for a contract that is onerous, i.e., one in which the unavoidable costs of meeting the obligations under the contract exceed the benefits to be derived.

3.13 Income taxes

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

Income taxes are taxes based on taxable profits and taxes that are payable by a subsidiary, associate or joint venture upon distribution to investors.

The total income tax expense recognised in a period is the sum of current tax plus the change in deferred tax assets and liabilities during the period, excluding tax recognised directly in equity or arising from a business combination.

Current tax represents the amount of income taxes payable (recoverable) in respect of the taxable profit (loss) for a period.

Deferred tax is recognised for the estimated future tax effects of temporary differences and tax loss carry-forwards.

A temporary difference is the difference between the tax base of an asset or liability and its carrying amount in the financial statements.

A deferred tax liability is not recognised if it arises from the initial recognition of goodwill.

A deferred tax liability (asset) is not recognised if it arises from the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction affects neither accounting profit nor taxable profit.

Deferred tax is not recognised in respect of investments in subsidiaries, associates and joint ventures if certain conditions are met.

A deferred tax asset is recognised if it is probable that it will be realised.

Income tax is measured based on rates that are enacted or substantively enacted at the reporting date and, in the case of deferred tax, the expected manner of settlement (liability) or recovery (asset).

Deferred tax is measured on an undiscounted basis.

Deferred tax is classified as non-current in a classified balance sheet.

Income tax relating to items charged or credited directly to equity is itself charged or credited directly to equity.

Forthcoming requirements

Under the revised version of IAS 1 an entity may present the components of other comprehensive income either net of related tax effects, or gross of tax effects with a separate line item for the tax effects relating to those components. Also, see section 2.1.

The revised version of IFRS 3 amended IAS 12 such that any deferred tax assets of the acquiree realised in excess of the amount recognised as part of the purchase accounting is recognised in profit or loss except in some cases when such realisation arises from new information about the facts and circumstances that existed at the acquisition date. Also, see section 2.6A.

3.14 Contingent assets and liabilities

(IAS 37, IFRS 3)

Contingent liabilities are present obligations with uncertainties about either the probability of outflows of resources or the amount of the outflows, and possible obligations when the existence of an obligation is uncertain.

Contingent liabilities are not recognised other than in connection with a business combination.

Details of contingent liabilities are disclosed in the notes to the financial statements unless the probability of an outflow is remote.

Contingent assets are possible assets whose existence is uncertain.

Contingent assets are not recognised in the balance sheet. If their existence is probable, then details are disclosed in the notes.

Forthcoming requirements

Under the revised version of IFRS 3 only contingent liabilities that are *present* obligations are recognised in the acquisition accounting because they meet the definition of a liability. A *possible* obligation is not recognised even if its fair value can be measured reliably.

4. Specific income statement items

4.1 General (IAS 1, IAS 8)

An analysis of expenses is required, either by nature or by function, on the face of the income statement or in the notes.

While IFRSs require certain items to be presented on the face of the income statement, there is no prescribed format.

Material items of income or expense are presented separately either in the notes or, when necessary, on the face of the income statement.

The presentation or disclosure of items of income and expense characterised as “extraordinary items” is prohibited.

Items of income and expense are not offset unless required or permitted by another IFRS, or when the amounts relate to similar transactions or events that are not material.

Items are not presented net of tax unless required specifically.

Forthcoming requirements

Under the revised version of IAS 1 the income statement is an integral part of the reporting of comprehensive income, which comprises all non-owner changes in equity, and the term “comprehensive income” replaces the phrase “recognised income and expense”. The revised standard requires items of income and expense to be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income.

The *Improvements to IFRSs 2008* amended IFRS 7 to clarify that while interest expense is a component of finance costs, interest income is not and therefore, finance costs should not be presented net of finance income on the face of the income statement.

4.2 Revenue

(Framework, IAS 1, IAS 11, IAS 17, IAS 18, SIC-27, SIC-31)

Revenue is recognised only if it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably.

Revenue includes the gross inflows of economic benefits received by an entity for its own account. In an agency relationship, amounts collected on behalf of the principal are not recognised as revenue by the agent.

When a contract includes multiple deliverables, it may be necessary to segment the single multiple-deliverable contract into its components, with different revenue allocations for each component.

Revenue from the sale of goods is recognised when the entity has transferred the significant risks and rewards of ownership to the buyer and it no longer retains control or managerial involvement in the goods.

Revenue from service contracts is recognised in the period that the service is rendered, generally using the percentage of completion method.

Construction contracts are accounted for using the percentage of completion method. The completed contract method is not permitted.

Revenue recognition does not require cash consideration. However, when goods or services exchanged are similar in nature and value, the transaction does not generate revenue.

Forthcoming requirements

IFRIC 13 provides guidance on accounting for award credits granted under customer loyalty programmes in a sales transaction. In particular, the interpretation addresses whether award credits are separate components of the transaction or costs incurred in relation to the item delivered in the initial

sales transaction. When the award credits are separate components of the transaction, the interpretation provides guidance on:

- how much revenue should be allocated
- when to recognise revenue
- how revenue should be measured if a third party supplies awards.

IFRIC 15 provides guidance on determining whether revenue arising from an agreement for the construction of real estate should be accounted for in accordance with IAS 11 or IAS 18, and the timing of revenue recognition.

The *Improvements to IFRSs 2008* amended IAS 16 for presentation issues that arise from assets that are rented out and then sold on a routine basis. The amendment results in such assets being transferred to inventories at their carrying amount when they cease to be rented and are held for sale, and the proceeds from the sale of such assets being recognised as revenue in accordance with IAS 18.

4.3 Government grants

(IAS 20, IAS 41, SIC-10)

Unconditional government grants related to biological assets measured at fair value less estimated point-of-sale costs are recognised as income when they are receivable; conditional grants for such assets are recognised as income when the required conditions are met.

Other government grants are recognised as income so as to match the costs that they are intended to compensate.

Government grants that relate to the acquisition of an asset, other than a biological asset measured at fair value less estimated point-of-sale costs, may be recognised either as a reduction in the cost of the asset or as deferred income, and are amortised as the related asset is depreciated or amortised.

Forthcoming requirements

The *Improvements to IFRSs 2008* amended IAS 20 to require all government loans to be recognised and measured in accordance with IAS 39.

4.4 Employee benefits (IAS 19, IFRIC 14)

IFRSs specify accounting requirements for all types of employee benefits, and not just pensions. IAS 19 deals with all employee benefits, except those to which IFRS 2 applies.

Liabilities for employee benefits are recognised on the basis of a legal or constructive obligation.

Liabilities and expenses for employee benefits generally are recognised in the period in which the services are rendered.

A defined contribution plan is a post-employment benefit plan under which the employer pays fixed contributions into a separate entity and has no further obligations. All other post-employment plans are defined benefit plans.

Contributions to a defined contribution plan are expensed as the obligation to make the payments is incurred.

A liability is recognised for an employer's obligation under a defined benefit plan. The liability and expense are measured actuarially using the projected unit credit method.

Assets that meet the definition of plan assets, including qualifying insurance policies, and the related liabilities are presented on a net basis in the balance sheet.

Actuarial gains and losses of defined benefit plans may be recognised in profit or loss, or alternatively immediately directly in equity.

If actuarial gains and losses of a defined benefit plan are recognised in profit or loss, then gains and losses that exceed a "corridor" are required to be recognised over the average remaining working lives of employees in the plan. Faster recognition (including immediate recognition) in profit or loss is permitted.

Liabilities and expenses for vested past service costs under a defined benefit plan are recognised immediately.

Liabilities and expenses for unvested past service costs under a defined benefit plan are recognised over the vesting period.

If a defined benefit plan has assets in excess of the obligation, then the amount of any net asset recognised is limited to available future benefits from the plan and unrecognised actuarial losses and past service costs.

If insufficient information is available for a multi-employer defined benefit plan to be accounted for as a defined benefit plan, then it is treated as a defined contribution plan and additional disclosures are required.

If an entity applies defined contribution plan accounting to a multi-employer defined benefit plan and there is an agreement that determines how a surplus in the plan would be distributed or a deficit in the plan funded, then an asset or liability that arises from the contractual agreement is recognised.

If there is a contractual agreement or stated policy for allocating a group's net defined benefit cost, then participating group entities recognise the cost allocated to them. If there is no agreement or policy in place, then the net defined benefit cost is recognised by the entity that is the legal sponsor.

The expense for long-term employee benefits is accrued over the service period.

Redundancy costs are not recognised until the redundancy has been communicated to the group of affected employees.

Forthcoming requirements

The *Improvements to IFRSs 2008* amended IAS 19 to:

- specify that the distinction between short-term and long-term employee benefits is that short-term employee benefits are those that are due to be settled within 12 months of the end of the period in which the employee renders the related service

- change the definition of “return on plan assets” in order to clarify that the deduction of plan administration costs is appropriate only to the extent that they are not reflected in the measurement of the defined benefit obligation
- clarify that a curtailment is considered to have occurred to the extent that benefit promises are impacted by future salary increases
- clarify that a reduction in the present value of a defined benefit obligation results in a negative past service cost.

4.5 Share-based payments (IFRS 2, IFRIC 8, IFRIC 11)

Goods or services received in a share-based payment transaction are measured at fair value.

Goods are recognised when they are obtained and services are recognised over the period that they are received.

Equity-settled grants to employees generally are measured based on the grant-date fair value of the equity instruments issued.

Share-based payments to non-employees generally are measured based on the fair value of the goods or services received.

Cash-settled grants are measured initially at grant-date fair value and remeasured, until settlement date, for subsequent changes in the value of the liability.

Equity-settled grants are not remeasured for subsequent changes in the value of the equity instruments.

Estimates of the number of equity-settled instruments that are expected to vest are adjusted to the actual numbers that vest unless forfeitures are due to market conditions.

Market conditions for equity-settled transactions are reflected in the initial measurement of fair value. There is no "true up" (adjustment) if the expected and actual outcomes differ because of the market conditions.

For equity-settled transactions an entity recognises a corresponding increase in equity.

For cash-settled transactions an entity recognises the liability incurred.

Cancellation of a share-based payment results in acceleration of the unrecognised cost.

Modification of a share-based payment results in the recognition of any incremental fair value but not any reduction in fair value.

Grants of equity instruments made by shareholders or other group entities are share-based payments in the financial statements of the entity that receives the goods or services acquired.

Classification of grants in which the entity has the choice of equity- or cash-settlement depends on whether or not the entity has the ability and intent to settle in shares.

Grants in which the counterparty has the choice of equity- or cash-settlement are accounted for as compound instruments.

Forthcoming requirements

An amendment to IFRS 2 amended the definition of vesting conditions to clarify that vesting conditions are limited to service conditions and performance conditions; all other conditions are considered non-vesting conditions.

The revised version of IFRS 3 amends the scope exemption in IFRS 2 with regards to business combinations and provides additional guidance on determining whether equity instruments issued in a business combination are:

- part of the consideration transferred in exchange for control of the acquiree, and therefore within the scope of IFRS 3;
- in return for continued service to be recognised in the post-combination period, and therefore within the scope of IFRS 2; or
- a modification of a pre-combination share-based payment.

4.6 Financial income and expense

(IAS 18, IAS 23, IAS 39)

Interest income and interest expense are calculated using the effective interest method, based on market rates at the date that the instrument is recognised initially, or at the date of any modification.

Incremental transaction costs directly related to acquiring a financial asset or issuing a financial liability generally are included in the initial measurement of the instrument. However, if the instrument is classified as at fair value through profit or loss, then such costs are recognised in profit or loss.

Interest, which is calculated using the effective interest rate method, is generally expensed. However, borrowing costs related to “qualifying” assets may be capitalised if certain conditions are met.

Forthcoming requirements

The revised version of IAS 23 generally requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Also, it generally does not permit the option of immediately recognising all borrowing costs as an expense, which was the benchmark treatment in the previous version of the standard.

Entities are not required to apply the revised IAS 23 to inventories that are produced in large quantities on a repetitive basis, even if those inventories take a long time to produce and therefore meet the definition of qualifying assets. In addition, entities are not required to apply the revised IAS 23 to qualifying assets measured at fair value, e.g., biological assets and investment property measured at fair value.

The amendments to IFRS 1 and IAS 27 removed the definition of “cost method” currently set out in IAS 27, and require all dividends from a subsidiary, jointly controlled entity or associate to be recognised as income in the separate financial statements of the investor when the right to receive the dividend is established.

The *Improvements to IFRSs 2008* amended IAS 39 to clarify that in the case of fair value hedges, the amortisation of the fair value hedge adjustment using the effective interest rate method is calculated using the revised effective interest rate rather than the original effective interest rate.

5. Special topics

5.1 Leases

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

An arrangement that at its inception can be fulfilled only through the use of a specific asset or assets, and which conveys a right to use that asset, is a lease or contains a lease.

A lease is classified as either a finance lease or an operating lease.

Lease classification depends on whether substantially all of the risks and rewards incidental to ownership of the leased asset have been transferred from the lessor to the lessee, and is made at inception of the lease.

Under a finance lease, the lessor recognises a finance lease receivable and the lessee recognises the leased asset and a liability for future lease payments.

Under an operating lease, both parties treat the lease as an executory contract. The lessor and the lessee recognise the lease payments as income / expense over the lease term. The lessor recognises the leased asset on its balance sheet, while the lessee does not.

A lessee may classify a property interest held under an operating lease as an investment property. If this is done, then the lessee accounts for that lease as if it were a finance lease and it measures investment property using the fair value model.

Lessors and lessees recognise incentives granted to a lessee under an operating lease as a reduction in lease rental income / expense over the lease term.

Generally a lease of land is classified as an operating lease unless title transfers to the lessee by the end of the lease term.

A lease of land and a building is treated as two separate leases, a lease of the land and a lease of the building; the two leases may be classified differently.

Immediate gain recognition from the sale and leaseback of an asset depends on whether the leaseback is classified as an operating or finance lease and, if the leaseback is an operating lease, whether the sale takes place at fair value.

A series of linked transactions in the legal form of a lease is accounted for based on the substance of the arrangement; the substance may be that the series of transactions is not a lease.

Special requirements for revenue recognition apply to manufacturer or dealer lessors granting finance leases.

5.2 Segment reporting (IAS 14)

Segment disclosures are required for entities whose equity or debt securities are publicly traded, or that are in the process of issuing such securities.

Information should be reported for both business segments and geographical segments.

One basis of segmentation is primary and the other is secondary; less information is required to be disclosed for secondary segments.

The assessment of which is the primary segment reporting format is based on the dominant source and nature of an entity's risks and returns, as well as the entity's internal reporting structure.

Segments are reportable if they meet one of three quantitative tests, based on revenue, profits or losses, and assets.

The amounts disclosed are based on the same accounting policies as the amounts recognised in the financial statements.

Comparative information normally is restated for changes in reportable segments, unless impracticable.

Forthcoming requirements

IFRS 8 represents a fundamental change in the presentation of segment information and replaces IAS 14. See section 5.2A.

5.2A Operating segments (IFRS 8)

Forthcoming requirements

IFRS 8 sets out requirements for segment disclosures by entities whose debt or equity instruments are traded in a public market, or that file or are in the process of filing their financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market.

IFRS 8 introduces the “management approach”, which requires segment disclosures based on the components of the entity that management monitors in making decisions about operating matters.

Such components (operating segments) are identified on the basis of internal reports that the entity’s chief operating decision maker (CODM) reviews regularly in allocating resources to segments and in assessing their performance.

The aggregation of operating segments is permitted only when the segments are “similar” and meet a number of other specified measures.

Reportable segments are identified based on quantitative thresholds of revenue, profit or loss, and assets.

The amounts disclosed for each reportable segment are the measures reported to the CODM, which are not necessarily based on the same accounting policies as the amounts recognised in the financial statements.

Because IFRS 8 requires disclosure of segment profit or loss, segment assets and segment liabilities as reported to the CODM rather than as they would be reported under IFRSs, it also requires disclosure of how these amounts are measured for each reportable segment.

IFRS 8 requires reconciliations between total amounts for all reportable segments and financial statements amounts with a description of all material reconciling items.

IFRS 8 requires general and entity-wide disclosures, including information about products and services, geographical areas (including country of domicile and individual foreign countries, if material), major customers and factors used to identify an entity's reportable segments. Such disclosures are required even if an entity only has one segment.

Comparative information normally is restated for changes in operating segments.

5.3 Earnings per share (IAS 33)

Basic and diluted earnings per share (EPS) for both continuing and total operations are presented on the face of the income statement, with equal prominence, for each class of ordinary shares.

Separate EPS data is disclosed for discontinued operations, either on the face of the income statement or in the notes to the financial statements.

Basic EPS is calculated by dividing the earnings attributable to holders of ordinary equity of the parent by the weighted average number of ordinary shares outstanding during the period.

To calculate diluted EPS, profit or loss attributable to ordinary equity holders, and the weighted average number of shares outstanding, are adjusted for the effects of all dilutive potential ordinary shares.

Contingently issuable ordinary shares are included in basic EPS from the date that all necessary conditions are satisfied and, when not yet satisfied, in diluted EPS based on the number of shares that would be issuable if the reporting date were the end of the contingency period.

When a contract may be settled in either cash or shares at the entity's option, it is treated as a potential ordinary share.

When a contract may be settled in either cash or shares at the holder's option, the more dilutive of cash and share settlement is used to calculate diluted EPS.

For diluted EPS, diluted potential ordinary shares are determined independently for each period presented.

When the number of ordinary shares outstanding changes, without a corresponding change in resources, the weighted average number of ordinary shares outstanding during all periods presented is adjusted retrospectively.

Adjusted basic and diluted EPS based on alternative earnings measures may be disclosed and explained in the notes to the financial statements.

Forthcoming requirements

The *Improvements to IFRSs 2008* amended IAS 34 to clarify that an entity is only required to present basic and diluted EPS in its interim financial statements when the entity is within the scope of IAS 33.

5.4 Non-current assets held for sale and discontinued operations (IFRS 5)

Non-current assets (and some groups of assets and liabilities known as disposal groups) are classified as held for sale when their carrying amounts will be recovered principally through sale.

Non-current assets (and disposal groups) held for sale generally are measured at the lower of carrying amount and fair value less costs to sell, and are presented separately on the face of the balance sheet.

Assets classified as held for sale are not amortised or depreciated.

The comparative balance sheet is not re-presented when a non-current asset (or disposal group) is classified as held for sale.

A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale.

Discontinued operations are limited to those operations that are a separate major line of business or geographical area, and subsidiaries acquired exclusively with a view to resale.

Discontinued operations are presented separately on the face of the income statement, and related cash flow information is disclosed.

The comparative income statement and cash flow information is re-presented for discontinued operations.

Forthcoming requirements

The *Improvements to IFRSs 2008* amended IFRS 5 to require an entity which is committed to a sale plan involving loss of control of a subsidiary to classify all the assets and liabilities of that subsidiary as held for sale when the criteria for classification as held for sale in IFRS 5 are met, regardless of whether the entity will retain a non-controlling interest in its former subsidiary after the sale.

5.5 Related party disclosures (IAS 24)

Related party relationships are those involving control (direct or indirect), joint control or significant influence.

Key management and their close family members are parties related to an entity.

There are no special recognition or measurement requirements for related party transactions.

The disclosure of related party relationships between a parent and its subsidiaries is required, even if there have been no transactions between them.

No disclosure is required in the consolidated financial statements of intra-group transactions eliminated in preparing those statements.

Comprehensive disclosures of related party transactions are required for each category of related party relationship.

5.6 Financial instruments: presentation and disclosure

(IFRS 7, IAS 1, IAS 32)

A financial asset and a financial liability are offset only when there is a legally enforceable right to offset, and an intention to settle net or to settle both amounts simultaneously.

Qualitative information on financial risks and management's approach to managing these risks is disclosed.

Accounting policies for financial instruments, including policies for hedging, are disclosed.

Information about the credit risk and liquidity risk of financial instruments is disclosed.

Quantitative data about the exposure to risks arising from financial instruments should be based on information provided internally to key management. However, certain minimum disclosures about the entity's exposures to credit risk, liquidity risk and market risk arising from financial instruments are required, irrespective of whether this information is provided to management.

Information about collateral given and obtained, as well as details of significant defaults and breaches, is disclosed.

The fair value of each class of financial asset and liability is disclosed, as well as information about the methods and significant assumptions used in determining fair value.

Other quantitative information about income and expense, and gains and losses, from financial instruments is disclosed.

The level of disclosure varies depending on the nature and relative significance of financial instruments to the entity.

Forthcoming requirements

Amendments to IAS 32 and IAS 1 exclude from the scope of IFRS 7 financial instruments that are required to be classified as equity instruments in accordance with such amendments. Also, see section 3.11.

Under the revised version of IAS 1 the income statement is an integral part of the reporting of comprehensive income, which comprises all non-owner changes in equity. The revised standard requires items of income and expense to be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. Also, see section 2.2A.

The revised version of IFRS 3 excludes from the scope of IFRS 7 contracts for contingent consideration in a business combination, in the financial statements of the acquirer.

The *Improvements to IFRSs 2008*:

- clarified that classification of financial assets and liabilities as held for trading in accordance with IAS 39 does not automatically lead to current presentation under IAS 1
- amended IFRS 7 to clarify that interest income is not a component of finance costs and the line item finance costs also may include amounts that arise on non-financial liabilities.

5.7 Non-monetary transactions

(IAS 16, IAS 18, IAS 38, IAS 40, SIC-13, SIC-31)

Generally, exchanges of assets are measured at fair value and result in the recognition of gains or losses rather than revenue.

Exchanged assets are recognised based on historical cost if the exchange lacks commercial substance or the fair value cannot be measured reliably.

Revenue is recognised for barter transactions unless the transaction is incidental to the entity's main revenue-generating activities or the items exchanged are similar in nature and value.

Donated assets may be accounted for in a manner similar to government grants unless the transfer is, in substance, an equity contribution.

5.8 Accompanying financial and other information (IAS 1)

Supplementary financial and operational information may be presented, but is not required.

An entity considers its particular legal or securities listing requirements in assessing what information is disclosed in addition to that required by IFRSs.

5.9 Interim financial reporting (IAS 34, IFRIC 10)

Interim financial statements contain either a complete or a condensed set of financial statements for a period shorter than a financial year.

The following should be presented in condensed interim financial statements: condensed balance sheet; condensed income statement; condensed cash flow statement; condensed statement of recognised income and expense or condensed statement of all changes in equity; selected explanatory notes.

Items, other than income tax, generally are recognised and measured as if the interim period were a discrete period.

Income tax expense for an interim period is based on an estimated average annual effective income tax rate.

Generally, the accounting policies applied in the interim financial statements are those that will be applied in the next annual financial statements.

Forthcoming requirements

If an entity is required to disclose segment information in its annual financial statements in accordance with IFRS 8, then in its condensed interim financial statements it should disclose:

- a measure of segment profit or loss
- if included in the measure of segment profit or loss reviewed by, or otherwise provided regularly to, the chief operating decision maker:
 - revenues from external customers
 - inter-segment revenues
- total assets if there has been a material change from the amount disclosed in the last annual financial statements
- any change in the basis of segmentation or the basis of measuring segment profit or loss

- a reconciliation between the total of the operating segments' measure of profit or loss in respect of continuing operations and the profit or loss in the financial statements; this reconciliation generally excludes income tax expense.

Also, see section 5.2A.

Under the revised version of IAS 1 condensed interim financial statements must include at least:

- condensed statements of financial position (balance sheets) at the end of the current interim period and at the end of the immediately preceding financial year
- condensed statements of comprehensive income for the current interim period and cumulatively for the year-to-date, and for the comparable interim periods (current and cumulative) of the immediately preceding financial year
- condensed statements of changes in equity, cumulatively for the current year-to-date and for the comparable year-to-date period of the immediately preceding financial year
- condensed cash flow statements, cumulatively for the current year-to-date and for the comparable year-to-date period of the immediately preceding financial year
- certain explanatory notes.

Also, see section 2.1.

The *Improvements to IFRSs 2008* amended IAS 34 to require the presentation of basic and diluted earnings per share only when the entity is within the scope of IAS 33.

5.10 Insurance contracts (IFRS 4)

Generally, entities that issue insurance contracts are permitted to continue their existing accounting policies with respect to insurance contracts.

An insurance contract is a contract that transfers significant insurance risk. Insurance risk is significant if an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding those that lack commercial substance.

A financial instrument that does not meet the definition of an insurance contract (including investments held to back insurance liabilities) is accounted for under the general recognition and measurement requirements for financial instruments.

Changes in existing accounting policies for insurance contracts are permitted only if the new policy, or a combination of new policies, results in information that is more relevant or reliable, or both, without reducing either relevance or reliability.

Financial instruments that include discretionary participation features may be accounted for as insurance contracts although these are subject to the general financial instrument disclosure requirements.

In some cases a deposit element should be “unbundled” (separated) from an insurance contract and accounted for as a financial instrument.

Some derivatives embedded in insurance contracts should be separated from their host insurance contract and accounted for as if they were stand-alone derivatives.

The recognition of catastrophe and equalisation provisions is prohibited for contracts not in existence at the reporting date.

A liability adequacy test is required to ensure that the measurement of an entity's insurance liabilities considers all contractual cash flows, using current estimates.

The introduction of "shadow accounting" for insurance liabilities is permitted for consistency with the treatment of unrealised gains or losses on assets.

An expanded (gross) presentation is permitted for insurance contracts acquired in a business combination or portfolio transfer.

Significant disclosures are required of the terms, conditions and risks related to insurance contracts, consistent in principle with those required for financial assets and liabilities.

