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<sup>(1)</sup> Text with EEA relevance

Price: EUR 30,00

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Acts whose titles are printed in light type are those relating to day-to-day management of agricultural matters, and are generally valid for a limited period.

The titles of all other acts are printed in bold type and preceded by an asterisk.

## I

(Acts whose publication is obligatory)

**COMMISSION REGULATION (EC) No 2238/2004**

**of 29 December 2004**

**amending Regulation (EC) No 1725/2003 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council, as regards IASs IFRS 1, IASs Nos 1 to 10, 12 to 17, 19 to 24, 27 to 38, 40 and 41 and SIC Nos 1 to 7, 11 to 14, 18 to 27 and 30 to 33**

(Text with EEA relevance)

THE COMMISSION OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Community,

Having regard to Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards <sup>(1)</sup>, and in particular Article 3(1) thereof,

Whereas:

(1) By Commission Regulation (EC) No 1725/2003 <sup>(2)</sup>, certain international standards and interpretations that were extant at 1 September 2002 were adopted.

(2) On 18 December 2003, the International Accounting Standard Board (IASB) published 13 revised International Accounting Standards and gave notice of the withdrawal of IAS 15 *Information reflecting the effects of changing prices*. The purpose of the revision was the further improvement of the quality and consistency of the body of existing International Accounting Standards (IASs).

(3) In general, the objectives of this improvement project were to reduce or eliminate alternatives, redundancies and conflicts within the standards, to deal with some convergence issues and to make improvements in the structure of existing IASs. Furthermore, IASB decided to incorporate existing interpretations into the improved standards in order to increase transparency and consistency and make the standards more comprehensive.

(4) The consultation with technical experts in the field confirms that the revised IASs meet the technical criteria for adoption set out in Article 3 of Regulation (EC) No 1606/2002, and in particular the requirement of being conducive to the European public good.

(5) The adoption of the standards of the 'Improvement projects' implies, by way of consequence, amendments to other international accounting standards and interpretations in order to ensure consistency between international accounting standards. Those consequential amendments are affecting International Financial Reporting Standard (IFRS) No 1, International Accounting Standards (IASs) Nos 7, 12, 14, 19, 20, 22, 23, 29, 30, 34, 35, 36, 37, 38 and 41 and interpretation by the Standard Interpretation Committee (SIC) Nos 7, 12, 13, 21, 22, 25, 27 and 32. By adoption of those standards the interpretations by the Standard Interpretation Committee (SIC) Nos 1, 2, 3, 6, 11, 14, 18, 19, 20, 23, 24, 30 and 33 are superseded.

(6) Regulation (EC) 1725/2003 should therefore be amended accordingly.

(7) The measures provided for in this Regulation are in accordance with the opinion of the Accounting Regulatory Committee,

HAS ADOPTED THIS REGULATION:

*Article 1*

Annex to Regulation (EC) No 1725/2003 is amended as follows:

1. the International Accounting Standards (IASs) Nos 1, 2, 8, 10, 16, 17, 21, 24, 27, 28, 31, 33 and 40 are replaced by the text set out in the Annex to this Regulation;

<sup>(1)</sup> OJ L 243, 11.9.2002, p. 1.

<sup>(2)</sup> OJ L 261, 13.10.2003, p. 1. Regulation as amended by Regulation (EC) No 2237/2004 (OJ L 393, 31.12.2004, p. 1).

2. IAS 15 and SIC Nos 1, 2, 3, 6, 11, 14, 18, 19, 20, 23, 24, 30 and 33 are deleted;
3. the adoption of IAS 1 implies, by way of consequence, amendments to IAS Nos 12, 19, 34, 35 and 41 in order to ensure consistency between international accounting standards;
4. the adoption of IAS 2 implies, by way of consequence, amendments to IAS 14 and IAS 34 in order to ensure consistency between international accounting standards;
5. the adoption of IAS 8 implies, by way of consequence, amendments to IFRS1, IAS Nos 7, 12, 14, 19, 20, 22, 23, 34, 35, 36, 37 and 38 and SIC Nos 12, 13, 21, 22, 25, 27 and 31 in order to ensure consistency between international accounting standards;
6. the adoption of IAS 10 implies, by way of consequence, amendments to IAS Nos 22, 35 and 37 in order to ensure consistency between international accounting standards;
7. the adoption of IAS 16 implies, by way of consequence, amendments to IFRS1, IAS Nos 14, 34, 36, 37 and 38 and SIC Nos 13, 21 and 32 in order to ensure consistency between international accounting standards;
8. the adoption of IAS 21 implies, by way of consequence, amendments to IFRS1, IAS Nos 7, 12, 29, 34, 38 and 41 and SIC 7 in order to ensure consistency between international accounting standards;
9. the adoption of IAS 24 implies, by way of consequence, amendments to IAS 30 in order to ensure consistency between international accounting standards;
10. the adoption of IAS 27 implies, by way of consequence, amendments to IAS 22 and SIC 12 in order to ensure consistency between international accounting standards;
11. the adoption of IAS 31 implies, by way of consequence, amendments to SIC 13 in order to ensure consistency between international accounting standards.

*Article 2*

This Regulation shall enter into force on the third day following its publication in the *Official Journal of the European Union*.

It shall apply from 1 January 2005 at the latest.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 29 December 2004.

*For the Commission*  
Charlie McCREEVY  
*Member of the Commission*

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## ANNEX

## INTERNATIONAL ACCOUNTING STANDARDS

IAS No	Title
IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 8	Accounting policies, changes in accounting estimates and errors
IAS 10	Events after the balance sheet date
IAS 16	Property, plant and equipment
IAS 17	Leases
IAS 21	The effects of changes in foreign exchange rates
IAS 24	Related party disclosures
IAS 27	Consolidated and separate financial statements
IAS 28	Investments in associates
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## IAS 1

## INTERNATIONAL ACCOUNTING STANDARD 1

**Presentation of Financial Statements**

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This revised Standard supersedes IAS 1 (revised 1997) *Presentation of Financial Statements* and should be applied for annual periods beginning on or after 1 January 2005. Earlier application is encouraged.

### OBJECTIVE

1. The objective of this Standard is to prescribe the basis for presentation of general purpose financial statements, to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. To achieve this objective, this Standard sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. The recognition, measurement and disclosure of specific transactions and other events are dealt with in other Standards and in Interpretations.

### SCOPE

2. ***This Standard shall be applied to all general purpose financial statements prepared and presented in accordance with International Financial Reporting Standards (IFRSs).***
3. General purpose financial statements are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their particular information needs. General purpose financial statements include those that are presented separately or within another public document such as an annual report or a prospectus. This Standard does not apply to the structure and content of condensed interim financial statements prepared in accordance with IAS 34 *Interim Financial Reporting*. However, paragraphs 13-41 apply to such financial statements. This Standard applies equally to all entities and whether or not they need to prepare consolidated financial statements or separate financial statements, as defined in IAS 27 *Consolidated and Separate Financial Statements*.
4. IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions* specifies additional requirements for banks and similar financial institutions that are consistent with the requirements of this Standard.
5. This Standard uses terminology that is suitable for profit-oriented entities, including public sector business entities. Entities with not-for-profit activities in the private sector, public sector or government seeking to apply this Standard may need to amend the descriptions used for particular line items in the financial statements and for the financial statements themselves.
6. Similarly, entities that do not have equity as defined in IAS 32 *Financial Instruments: Disclosure and Presentation* (eg some mutual funds) and entities whose share capital is not equity (eg some co-operative entities) may need to adapt the presentation in the financial statements of members' or unitholders' interests.

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## PURPOSE OF FINANCIAL STATEMENTS

7. Financial statements are a structured representation of the financial position and financial performance of an entity. The objective of general purpose financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Financial statements also show the results of management's stewardship of the resources entrusted to it. To meet this objective, financial statements provide information about an entity's:
- (a) assets;
  - (b) liabilities;
  - (c) equity;
  - (d) income and expenses, including gains and losses;
  - (e) other changes in equity;
- and
- (f) cash flows.

This information, along with other information in the notes, assists users of financial statements in predicting the entity's future cash flows and, in particular, their timing and certainty.

## COMPONENTS OF FINANCIAL STATEMENTS

8. *A complete set of financial statements comprises:*
- (a) *a balance sheet;*
  - (b) *an income statement;*
  - (c) *a statement of changes in equity showing either:*
    - (i) *all changes in equity,*

*or*

    - (ii) *changes in equity other than those arising from transactions with equity holders acting in their capacity as equity holders;*
  - (d) *a cash flow statement;*
- and*
- (e) *notes, comprising a summary of significant accounting policies and other explanatory notes.*
9. Many entities present, outside the financial statements, a financial review by management that describes and explains the main features of the entity's financial performance and financial position and the principal uncertainties it faces. Such a report may include a review of:
- (a) the main factors and influences determining financial performance, including changes in the environment in which the entity operates, the entity's response to those changes and their effect, and the entity's policy for investment to maintain and enhance financial performance, including its dividend policy;
  - (b) the entity's sources of funding and its targeted ratio of liabilities to equity;
- and
- (c) the entity's resources not recognised in the balance sheet in accordance with IFRS.

10. Many entities also present, outside the financial statements, reports and statements such as environmental reports and value added statements, particularly in industries in which environmental factors are significant and when employees are regarded as an important user group. Reports and statements presented outside financial statements are outside the scope of IFRSs.

#### DEFINITIONS

11. *The following terms are used in this Standard with the meanings specified:*

**Impracticable** Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.

**International Financial Reporting Standards (IFRSs)** are Standards and Interpretations adopted by the International Accounting Standards Board (IASB). They comprise:

(a) **International Financial Reporting Standards;**

(b) **International Accounting Standards;**

and

(c) **Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).**

**Material Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.**

**Notes contain information in addition to that presented in the balance sheet, income statement, statement of changes in equity and cash flow statement. Notes provide narrative descriptions or disaggregations of items disclosed in those statements and information about items that do not qualify for recognition in those statements.**

12. Assessing whether an omission or misstatement could influence economic decisions of users, and so be material, requires consideration of the characteristics of those users. The *Framework for the Preparation and Presentation of Financial Statements* states in paragraph 25 that 'users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence.' Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making economic decisions.

#### OVERALL CONSIDERATIONS

*Fair Presentation and Compliance with IFRSs*

13. **Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.**
14. **An entity whose financial statements comply with IFRSs shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with IFRSs unless they comply with all the requirements of IFRSs.**



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15. In virtually all circumstances, a fair presentation is achieved by compliance with applicable IFRSs. A fair presentation also requires an entity:
- (a) to select and apply accounting policies in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. IAS 8 sets out a hierarchy of authoritative guidance that management considers in the absence of a Standard or an Interpretation that specifically applies to an item.
  - (b) to present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.
  - (c) to provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.
16. ***Inappropriate accounting policies are not rectified either by disclosure of the accounting policies used or by notes or explanatory material.***
17. ***In the extremely rare circumstances in which management concludes that compliance with a requirement in a Standard or an Interpretation would be so misleading that it would conflict with the objective of financial statements set out in the Framework, the entity shall depart from that requirement in the manner set out in paragraph 18 if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure.***
18. ***When an entity departs from a requirement of a Standard or an Interpretation in accordance with paragraph 17, it shall disclose:***
- (a) ***that management has concluded that the financial statements present fairly the entity's financial position, financial performance and cash flows;***
  - (b) ***that it has complied with applicable Standards and Interpretations, except that it has departed from a particular requirement to achieve a fair presentation;***
  - (c) ***the title of the Standard or Interpretation from which the entity has departed, the nature of the departure, including the treatment that the Standard or Interpretation would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in the Framework, and the treatment adopted;***
- and***
- (d) ***for each period presented, the financial impact of the departure on each item in the financial statements that would have been reported in complying with the requirement.***
19. ***When an entity has departed from a requirement of a Standard or an Interpretation in a prior period, and that departure affects the amounts recognised in the financial statements for the current period, it shall make the disclosures set out in paragraph 18(c) and (d).***
20. Paragraph 19 applies, for example, when an entity departed in a prior period from a requirement in a Standard or an Interpretation for the measurement of assets or liabilities and that departure affects the measurement of changes in assets and liabilities recognised in the current period's financial statements.

21. ***In the extremely rare circumstances in which management concludes that compliance with a requirement in a Standard or an Interpretation would be so misleading that it would conflict with the objective of financial statements set out in the Framework, but the relevant regulatory framework prohibits departure from the requirement, the entity shall, to the maximum extent possible, reduce the perceived misleading aspects of compliance by disclosing:***
- (a) ***the title of the Standard or Interpretation in question, the nature of the requirement, and the reason why management has concluded that complying with that requirement is so misleading in the circumstances that it conflicts with the objective of financial statements set out in the Framework;***
- and***
- (b) ***for each period presented, the adjustments to each item in the financial statements that management has concluded would be necessary to achieve a fair presentation.***
22. For the purpose of paragraphs 17-21, an item of information would conflict with the objective of financial statements when it does not represent faithfully the transactions, other events and conditions that it either purports to represent or could reasonably be expected to represent and, consequently, it would be likely to influence economic decisions made by users of financial statements. When assessing whether complying with a specific requirement in a Standard or an Interpretation would be so misleading that it would conflict with the objective of financial statements set out in the Framework, management considers:
- (a) why the objective of financial statements is not achieved in the particular circumstances;
- and***
- (b) how the entity's circumstances differ from those of other entities that comply with the requirement. If other entities in similar circumstances comply with the requirement, there is a rebuttable presumption that the entity's compliance with the requirement would not be so misleading that it would conflict with the objective of financial statements set out in the Framework.

#### *Going Concern*

23. ***When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. Financial statements shall be prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties shall be disclosed. When financial statements are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern.***
24. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the balance sheet date. The degree of consideration depends on the facts in each case. When an entity has a history of profitable operations and ready access to financial resources, a conclusion that the going concern basis of accounting is appropriate may be reached without detailed analysis. In other cases, management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.

#### *Accrual Basis of Accounting*

25. ***An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.***
26. When the accrual basis of accounting is used, items are recognised as assets, liabilities, equity, income and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the Framework.

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*Consistency of Presentation*

27. **The presentation and classification of items in the financial statements shall be retained from one period to the next unless:**
- (a) **it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in IAS 8;**
- or**
- (b) **a Standard or an Interpretation requires a change in presentation.**
28. A significant acquisition or disposal, or a review of the presentation of the financial statements, might suggest that the financial statements need to be presented differently. An entity changes the presentation of its financial statements only if the changed presentation provides information that is reliable and is more relevant to users of the financial statements and the revised structure is likely to continue, so that comparability is not impaired. When making such changes in presentation, an entity reclassifies its comparative information in accordance with paragraphs 38 and 39.

*Materiality and Aggregation*

29. **Each material class of similar items shall be presented separately in the financial statements. Items of a dissimilar nature or function shall be presented separately unless they are immaterial.**
30. Financial statements result from processing large numbers of transactions or other events that are aggregated into classes according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data, which form line items on the face of the balance sheet, income statement, statement of changes in equity and cash flow statement, or in the notes. If a line item is not individually material, it is aggregated with other items either on the face of those statements or in the notes. An item that is not sufficiently material to warrant separate presentation on the face of those statements may nevertheless be sufficiently material for it to be presented separately in the notes.
31. Applying the concept of materiality means that a specific disclosure requirement in a Standard or an Interpretation need not be satisfied if the information is not material.

*Offsetting*

32. **Assets and liabilities, and income and expenses, shall not be offset unless required or permitted by a Standard or an Interpretation.**
33. It is important that assets and liabilities, and income and expenses, are reported separately. Offsetting in the income statement or the balance sheet, except when offsetting reflects the substance of the transaction or other event, detracts from the ability of users both to understand the transactions, other events and conditions that have occurred and to assess the entity's future cash flows. Measuring assets net of valuation allowances — for example, obsolescence allowances on inventories and doubtful debts allowances on receivables — is not offsetting.
34. IAS 18 *Revenue* defines revenue and requires it to be measured at the fair value of the consideration received or receivable, taking into account the amount of any trade discounts and volume rebates allowed by the entity. An entity undertakes, in the course of its ordinary activities, other transactions that do not generate revenue but are incidental to the main revenue-generating activities. The results of such transactions are presented, when this presentation reflects the substance of the transaction or other event, by netting any income with related expenses arising on the same transaction. For example:
- (a) gains and losses on the disposal of non-current assets, including investments and operating assets, are reported by deducting from the proceeds on disposal the carrying amount of the asset and related selling expenses;

and

- (b) expenditure related to a provision that is recognised in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and reimbursed under a contractual arrangement with a third party (for example, a supplier's warranty agreement) may be netted against the related reimbursement.
35. In addition, gains and losses arising from a group of similar transactions are reported on a net basis, for example, foreign exchange gains and losses or gains and losses arising on financial instruments held for trading. Such gains and losses are, however, reported separately if they are material.

#### *Comparative Information*

36. ***Except when a Standard or an Interpretation permits or requires otherwise, comparative information shall be disclosed in respect of the previous period for all amounts reported in the financial statements. Comparative information shall be included for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.***
37. In some cases, narrative information provided in the financial statements for the previous period(s) continues to be relevant in the current period. For example, details of a legal dispute, the outcome of which was uncertain at the last balance sheet date and is yet to be resolved, are disclosed in the current period. Users benefit from information that the uncertainty existed at the last balance sheet date, and about the steps that have been taken during the period to resolve the uncertainty.
38. ***When the presentation or classification of items in the financial statements is amended, comparative amounts shall be reclassified unless the reclassification is impracticable. When comparative amounts are reclassified, an entity shall disclose:***
- (a) *the nature of the reclassification;*
- (b) *the amount of each item or class of items that is reclassified;*
- and*
- (c) *the reason for the reclassification.*
39. ***When it is impracticable to reclassify comparative amounts, an entity shall disclose:***
- (a) *the reason for not reclassifying the amounts;*
- and*
- (b) *the nature of the adjustments that would have been made if the amounts had been reclassified.*
40. Enhancing the inter-period comparability of information assists users in making economic decisions, especially by allowing the assessment of trends in financial information for predictive purposes. In some circumstances, it is impracticable to reclassify comparative information for a particular prior period to achieve comparability with the current period. For example, data may not have been collected in the prior period(s) in a way that allows reclassification, and it may not be practicable to recreate the information.
41. IAS 8 deals with the adjustments to comparative information required when an entity changes an accounting policy or corrects an error.

## STRUCTURE AND CONTENT

#### *Introduction*

42. This Standard requires particular disclosures on the face of the balance sheet, income statement and statement of changes in equity and requires disclosure of other line items either on the face of those statements or in the notes. IAS 7 sets out requirements for the presentation of a cash flow statement.

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43. This Standard sometimes uses the term 'disclosure' in a broad sense, encompassing items presented on the face of the balance sheet, income statement, statement of changes in equity and cash flow statement, as well as in the notes. Disclosures are also required by other Standards and Interpretations. Unless specified to the contrary elsewhere in this Standard, or in another Standard or Interpretation, such disclosures are made either on the face of the balance sheet, income statement, statement of changes in equity or cash flow statement (whichever is relevant), or in the notes.

*Identification of the Financial Statements*

44. **The financial statements shall be identified clearly and distinguished from other information in the same published document.**
45. IFRSs apply only to financial statements, and not to other information presented in an annual report or other document. Therefore, it is important that users can distinguish information that is prepared using IFRSs from other information that may be useful to users but is not the subject of those requirements.
46. **Each component of the financial statements shall be identified clearly. In addition, the following information shall be displayed prominently, and repeated when it is necessary for a proper understanding of the information presented:**
- (a) **the name of the reporting entity or other means of identification, and any change in that information from the preceding balance sheet date;**
  - (b) **whether the financial statements cover the individual entity or a group of entities;**
  - (c) **the balance sheet date or the period covered by the financial statements, whichever is appropriate to that component of the financial statements;**
  - (d) **the presentation currency, as defined in IAS 21 The Effects of Changes in Foreign Exchange Rates;**
- and*
- (e) **the level of rounding used in presenting amounts in the financial statements.**

47. The requirements in paragraph 46 are normally met by presenting page headings and abbreviated column headings on each page of the financial statements. Judgement is required in determining the best way of presenting such information. For example, when the financial statements are presented electronically, separate pages are not always used; the above items are then presented frequently enough to ensure a proper understanding of the information included in the financial statements.

48. Financial statements are often made more understandable by presenting information in thousands or millions of units of the presentation currency. This is acceptable as long as the level of rounding in presentation is disclosed and material information is not omitted.

*Reporting Period*

49. **Financial statements shall be presented at least annually. When an entity's balance sheet date changes and the annual financial statements are presented for a period longer or shorter than one year, an entity shall disclose, in addition to the period covered by the financial statements:**
- (a) **the reason for using a longer or shorter period;**
- and*
- (b) **the fact that comparative amounts for the income statement, statement of changes in equity, cash flow statement and related notes are not entirely comparable.**

50. Normally, financial statements are consistently prepared covering a one-year period. However, for practical reasons, some entities prefer to report, for example, for a 52-week period. This Standard does not preclude this practice, because the resulting financial statements are unlikely to be materially different from those that would be presented for one year.

#### Balance Sheet

#### Current/Non-current Distinction

51. **An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its balance sheet in accordance with paragraphs 57-67 except when a presentation based on liquidity provides information that is reliable and is more relevant. When that exception applies, all assets and liabilities shall be presented broadly in order of liquidity.**
52. **Whichever method of presentation is adopted, for each asset and liability line item that combines amounts expected to be recovered or settled within (a) no more than twelve months after the balance sheet date and (b) more than twelve months after the balance sheet date, an entity shall disclose the amount expected to be recovered or settled after more than twelve months.**
53. When an entity supplies goods or services within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities on the face of the balance sheet provides useful information by distinguishing the net assets that are continuously circulating as working capital from those used in the entity's long-term operations. It also highlights assets that are expected to be realised within the current operating cycle, and liabilities that are due for settlement within the same period.
54. For some entities, such as financial institutions, a presentation of assets and liabilities in increasing or decreasing order of liquidity provides information that is reliable and is more relevant than a current/non-current presentation because the entity does not supply goods or services within a clearly identifiable operating cycle.
55. In applying paragraph 51, an entity is permitted to present some of its assets and liabilities using a current/non-current classification and others in order of liquidity when this provides information that is reliable and is more relevant. The need for a mixed basis of presentation might arise when an entity has diverse operations.
56. Information about expected dates of realisation of assets and liabilities is useful in assessing the liquidity and solvency of an entity. IAS 32 requires disclosure of the maturity dates of financial assets and financial liabilities. Financial assets include trade and other receivables, and financial liabilities include trade and other payables. Information on the expected date of recovery and settlement of non-monetary assets and liabilities such as inventories and provisions is also useful, whether or not assets and liabilities are classified as current or non-current. For example, an entity discloses the amount of inventories that are expected to be recovered more than twelve months after the balance sheet date.

#### Current Assets

57. **An asset shall be classified as current when it satisfies any of the following criteria:**
- (a) **it is expected to be realised in, or is intended for sale or consumption in, the entity's normal operating cycle;**
- (b) **it is held primarily for the purpose of being traded;**

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

*or*

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

**All other assets shall be classified as non-current.**

58. This Standard uses the term 'non-current' to include tangible, intangible and financial assets of a long-term nature. It does not prohibit the use of alternative descriptions as long as the meaning is clear.
59. The operating cycle of an entity is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. When the entity's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months. Current assets include assets (such as inventories and trade receivables) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within twelve months after the balance sheet date. Current assets also include assets held primarily for the purpose of being traded (financial assets within this category are classified as held for trading in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*) and the current portion of non-current financial assets.

## Current Liabilities

60. **A liability shall be classified as current when it satisfies any of the following criteria:**

(a) *it is expected to be settled in the entity's normal operating cycle;*

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

(c) *it is due to be settled within twelve months after the balance sheet date;*

*or*

(d) *the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.*

**All other liabilities shall be classified as non-current.**

61. Some current liabilities, such as trade payables and some accruals for employee and other operating costs, are part of the working capital used in the entity's normal operating cycle. Such operating items are classified as current liabilities even if they are due to be settled more than twelve months after the balance sheet date. The same normal operating cycle applies to the classification of an entity's assets and liabilities. When the entity's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months.
62. Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the balance sheet date or held primarily for the purpose of being traded. Examples are financial liabilities classified as held for trading in accordance with IAS 39, bank overdrafts, and the current portion of non-current financial liabilities, dividends payable, income taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (ie are not part of the working capital used in the entity's normal operating cycle) and are not due for settlement within twelve months after the balance sheet date are non-current liabilities, subject to paragraphs 65 and 66.

63. An entity classifies its financial liabilities as current when they are due to be settled within twelve months after the balance sheet date, even if:
- (a) the original term was for a period longer than twelve months;
  - and
  - (b) an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the balance sheet date and before the financial statements are authorised for issue.
64. If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the balance sheet date under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no agreement to refinance), the potential to refinance is not considered and the obligation is classified as current.
65. When an entity breaches an undertaking under a long-term loan agreement on or before the balance sheet date with the effect that the liability becomes payable on demand, the liability is classified as current, even if the lender has agreed, after the balance sheet date and before the authorisation of the financial statements for issue, not to demand payment as a consequence of the breach. The liability is classified as current because, at the balance sheet date, the entity does not have an unconditional right to defer its settlement for at least twelve months after that date.
66. However, the liability is classified as non-current if the lender agreed by the balance sheet date to provide a period of grace ending at least twelve months after the balance sheet date, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.
67. In respect of loans classified as current liabilities, if the following events occur between the balance sheet date and the date the financial statements are authorised for issue, those events qualify for disclosure as non-adjusting events in accordance with IAS 10 *Events after the Balance Sheet Date*:
- (a) refinancing on a long-term basis;
  - (b) rectification of a breach of a long-term loan agreement;
  - and
  - (c) the receipt from the lender of a period of grace to rectify a breach of a long-term loan agreement ending at least twelve months after the balance sheet date.

#### Information to be Presented on the Face of the Balance Sheet

68. ***As a minimum, the face of the balance sheet shall include line items that present the following amounts:***
- (a) property, plant and equipment;***
  - (b) investment property;***
  - (c) intangible assets;***
  - (d) financial assets (excluding amounts shown under (e), (h) and (i));***
  - (e) investments accounted for using the equity method;***
  - (f) biological assets;***
  - (g) inventories;***
  - (h) trade and other receivables;***
  - (i) cash and cash equivalents;***



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- (j) *trade and other payables;*
  - (k) *provisions;*
  - (l) *financial liabilities (excluding amounts shown under (j) and (k));*
  - (m) *liabilities and assets for current tax, as defined in IAS 12 Income Taxes;*
  - (n) *deferred tax liabilities and deferred tax assets, as defined in IAS 12;*
  - (o) *minority interest, presented within equity;*
- and*
- (p) *issued capital and reserves attributable to equity holders of the parent.*

69. *Additional line items, headings and subtotals shall be presented on the face of the balance sheet when such presentation is relevant to an understanding of the entity's financial position.*
70. *When an entity presents current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its balance sheet, it shall not classify deferred tax assets (liabilities) as current assets (liabilities).*
71. This Standard does not prescribe the order or format in which items are to be presented. Paragraph 68 simply provides a list of items that are sufficiently different in nature or function to warrant separate presentation on the face of the balance sheet. In addition:
- (a) line items are included when the size, nature or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of the entity's financial position; and
  - (b) the descriptions used and the ordering of items or aggregation of similar items may be amended according to the nature of the entity and its transactions, to provide information that is relevant to an understanding of the entity's financial position. For example, a bank amends the above descriptions to apply the more specific requirements in IAS 30.
72. The judgement on whether additional items are presented separately is based on an assessment of:
- (a) the nature and liquidity of assets;
  - (b) the function of assets within the entity;
- and*
- (c) the amounts, nature and timing of liabilities.
73. The use of different measurement bases for different classes of assets suggests that their nature or function differs and, therefore, that they should be presented as separate line items. For example, different classes of property, plant and equipment can be carried at cost or revalued amounts in accordance with IAS 16 *Property, Plant and Equipment*.

Information to be Presented either on the Face of the Balance Sheet or in the Notes

74. *An entity shall disclose, either on the face of the balance sheet or in the notes, further subclassifications of the line items presented, classified in a manner appropriate to the entity's operations.*
75. The detail provided in subclassifications depends on the requirements of IFRSs and on the size, nature and function of the amounts involved. The factors set out in paragraph 72 also are used to decide the basis of subclassification. The disclosures vary for each item, for example:
- (a) items of property, plant and equipment are disaggregated into classes in accordance with IAS 16;

- (b) receivables are disaggregated into amounts receivable from trade customers, receivables from related parties, pre-payments and other amounts;
  - (c) inventories are subclassified, in accordance with IAS 2 *Inventories*, into classifications such as merchandise, production supplies, materials, work in progress and finished goods;
  - (d) provisions are disaggregated into provisions for employee benefits and other items;
- and
- (e) equity capital and reserves are disaggregated into various classes, such as paid-in capital, share premium and reserves.

76. ***An entity shall disclose the following, either on the face of the balance sheet or in the notes:***

***(a) for each class of share capital:***

- (i) the number of shares authorised;***
- (ii) the number of shares issued and fully paid, and issued but not fully paid;***
- (iii) par value per share, or that the shares have no par value;***
- (iv) a reconciliation of the number of shares outstanding at the beginning and at the end of the period;***
- (v) the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital;***
- (vi) shares in the entity held by the entity or by its subsidiaries or associates;***

***and***

- (vii) shares reserved for issue under options and contracts for the sale of shares, including the terms and amounts;***

***and***

***(b) a description of the nature and purpose of each reserve within equity.***

77. ***An entity without share capital, such as a partnership or trust, shall disclose information equivalent to that required by paragraph 76(a), showing changes during the period in each category of equity interest, and the rights, preferences and restrictions attaching to each category of equity interest.***

*Income Statement*

Profit or Loss for the Period

78. ***All items of income and expense recognised in a period shall be included in profit or loss unless a Standard or an Interpretation requires otherwise.***

79. Normally, all items of income and expense recognised in a period are included in profit or loss. This includes the effects of changes in accounting estimates. However, circumstances may exist when particular items may be excluded from profit or loss for the current period. IAS 8 deals with two such circumstances: the correction of errors and the effect of changes in accounting policies.

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80. Other Standards deal with items that may meet the *Framework* definitions of income or expense but are usually excluded from profit or loss. Examples include revaluation surpluses (see IAS 16), particular gains and losses arising on translating the financial statements of a foreign operation (see IAS 21) and gains or losses on remeasuring available-for-sale financial assets (see IAS 39).

## Information to be Presented on the Face of the Income Statement

81. ***As a minimum, the face of the income statement shall include line items that present the following amounts for the period:***

- (a) *revenue;*
  - (b) *finance costs;*
  - (c) *share of the profit or loss of associates and joint ventures accounted for using the equity method;*
  - (d) *pre-tax gain or loss recognised on the disposal of assets or settlement of liabilities attributable to discontinuing operations;*
  - (e) *tax expense;*
- and*
- (f) *profit or loss.*

82. ***The following items shall be disclosed on the face of the income statement as allocations of profit or loss for the period:***

- (a) *profit or loss attributable to minority interest;*
- and*
- (b) *profit or loss attributable to equity holders of the parent.*

83. ***Additional line items, headings and subtotals shall be presented on the face of the income statement when such presentation is relevant to an understanding of the entity's financial performance.***

84. Because the effects of an entity's various activities, transactions and other events differ in frequency, potential for gain or loss and predictability, disclosing the components of financial performance assists in an understanding of the financial performance achieved and in making projections of future results. Additional line items are included on the face of the income statement, and the descriptions used and the ordering of items are amended when this is necessary to explain the elements of financial performance. Factors to be considered include materiality and the nature and function of the components of income and expenses. For example, a bank amends the descriptions to apply the more specific requirements in IAS 30. Income and expense items are not offset unless the criteria in paragraph 32 are met.

85. ***An entity shall not present any items of income and expense as extraordinary items, either on the face of the income statement or in the notes.***

## Information to be Presented either on the Face of the Income Statement or in the Notes

86. ***When items of income and expense are material, their nature and amount shall be disclosed separately.***

87. Circumstances that would give rise to the separate disclosure of items of income and expense include:

- (a) write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;
- (b) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;

- (c) disposals of items of property, plant and equipment;
- (d) disposals of investments;
- (e) discontinuing operations;
- (f) litigation settlements;
- and
- (g) other reversals of provisions.

88. **An entity shall present an analysis of expenses using a classification based on either the nature of expenses or their function within the entity, whichever provides information that is reliable and more relevant.**
89. Entities are encouraged to present the analysis in paragraph 88 on the face of the income statement.
90. Expenses are subclassified to highlight components of financial performance that may differ in terms of frequency, potential for gain or loss and predictability. This analysis is provided in one of two forms.
91. The first form of analysis is the nature of expense method. Expenses are aggregated in the income statement according to their nature (for example, depreciation, purchases of materials, transport costs, employee benefits and advertising costs), and are not reallocated among various functions within the entity. This method may be simple to apply because no allocations of expenses to functional classifications are necessary. An example of a classification using the nature of expense method is as follows:

Revenue		X
Other income		X
Changes in inventories of finished goods and work in progress	X	
Raw materials and consumables used	X	
Employee benefits costs	X	
Depreciation and amortisation expense	X	
Other expenses	X	
Total expenses		(X)
Profit		X

92. The second form of analysis is the function of expense or 'cost of sales' method and classifies expenses according to their function as part of cost of sales or, for example, the costs of distribution or administrative activities. At a minimum, an entity discloses its cost of sales under this method separately from other expenses. This method can provide more relevant information to users than the classification of expenses by nature, but allocating costs to functions may require arbitrary allocations and involve considerable judgement. An example of a classification using the function of expense method is as follows:

Revenue		X
Cost of sales		(X)
Gross profit		X
Other income		X
Distribution costs		(X)
Administrative expenses		(X)
Other expenses		(X)
Profit		X

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93. **Entities classifying expenses by function shall disclose additional information on the nature of expenses, including depreciation and amortisation expense and employee benefits expense.**
94. The choice between the function of expense method and the nature of expense method depends on historical and industry factors and the nature of the entity. Both methods provide an indication of those costs that might vary, directly or indirectly, with the level of sales or production of the entity. Because each method of presentation has merit for different types of entities, this Standard requires management to select the most relevant and reliable presentation. However, because information on the nature of expenses is useful in predicting future cash flows, additional disclosure is required when the function of expense classification is used. In paragraph 93, 'employee benefits' has the same meaning as in IAS 19 *Employee Benefits*.
95. **An entity shall disclose, either on the face of the income statement or the statement of changes in equity, or in the notes, the amount of dividends recognised as distributions to equity holders during the period, and the related amount per share.**

*Statement of Changes in Equity*

96. **An entity shall present a statement of changes in equity showing on the face of the statement:**
- (a) **profit or loss for the period;**
  - (b) **each item of income and expense for the period that, as required by other Standards or by Interpretations, is recognised directly in equity, and the total of these items;**
  - (c) **total income and expense for the period (calculated as the sum of (a) and (b)), showing separately the total amounts attributable to equity holders of the parent and to minority interest;**
- and**
- (d) **for each component of equity, the effects of changes in accounting policies and corrections of errors recognised in accordance with IAS 8.**
97. **An entity shall also present, either on the face of the statement of changes in equity or in the notes:**
- (a) **the amounts of transactions with equity holders acting in their capacity as equity holders, showing separately distributions to equity holders;**
  - (b) **the balance of retained earnings (ie accumulated profit or loss) at the beginning of the period and at the balance sheet date, and the changes during the period;**
- and**
- (c) **a reconciliation between the carrying amount of each class of contributed equity and each reserve at the beginning and the end of the period, separately disclosing each change.**
98. Changes in an entity's equity between two balance sheet dates reflect the increase or decrease in its net assets during the period. Except for changes resulting from transactions with equity holders acting in their capacity as equity holders (such as equity contributions, reacquisitions of the entity's own equity instruments and dividends) and transaction costs directly related to such transactions, the overall change in equity during a period represents the total amount of income and expenses, including gains and losses, generated by the entity's activities during that period (whether those items of income and expenses are recognised in profit or loss or directly as changes in equity).

99. This Standard requires all items of income and expense recognised in a period to be included in profit or loss unless another Standard or an Interpretation requires otherwise. Other Standards require some gains and losses (such as revaluation increases and decreases, particular foreign exchange differences, gains or losses on remeasuring available-for-sale financial assets, and related amounts of current tax and deferred tax) to be recognised directly as changes in equity. Because it is important to consider all items of income and expense in assessing changes in an entity's financial position between two balance sheet dates, this Standard requires the presentation of a statement of changes in equity that highlights an entity's total income and expenses, including those that are recognised directly in equity.
100. IAS 8 requires retrospective adjustments to effect changes in accounting policies, to the extent practicable, except when the transitional provisions in another Standard or an Interpretation require otherwise. IAS 8 also requires that restatements to correct errors are made retrospectively, to the extent practicable. Retrospective adjustments and retrospective restatements are made to the balance of retained earnings, except when a Standard or an Interpretation requires retrospective adjustment of another component of equity. Paragraph 96(d) requires disclosure in the statement of changes in equity of the total adjustment to each component of equity resulting, separately, from changes in accounting policies and from corrections of errors. These adjustments are disclosed for each prior period and the beginning of the period.
101. The requirements in paragraphs 96 and 97 may be met in various ways. One example is a columnar format that reconciles the opening and closing balances of each element within equity. An alternative is to present only the items set out in paragraph 96 in the statement of changes in equity. Under this approach, the items described in paragraph 97 are shown in the notes.

#### Cash Flow Statement

102. Cash flow information provides users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows. IAS 7 *Cash Flow Statements* sets out requirements for the presentation of the cash flow statement and related disclosures.

#### Notes

#### Structure

103. **The notes shall:**
- (a) **present information about the basis of preparation of the financial statements and the specific accounting policies used in accordance with paragraphs 108-115;**
  - (b) **disclose the information required by IFRSs that is not presented on the face of the balance sheet, income statement, statement of changes in equity or cash flow statement;**
- and**
- (c) **provide additional information that is not presented on the face of the balance sheet, income statement, statement of changes in equity or cash flow statement, but is relevant to an understanding of any of them.**
104. **Notes shall, as far as practicable, be presented in a systematic manner. Each item on the face of the balance sheet, income statement, statement of changes in equity and cash flow statement shall be cross-referenced to any related information in the notes.**
105. Notes are normally presented in the following order, which assists users in understanding the financial statements and comparing them with financial statements of other entities:
- (a) a statement of compliance with IFRSs (see paragraph 14);
  - (b) a summary of significant accounting policies applied (see paragraph 108);

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- (c) supporting information for items presented on the face of the balance sheet, income statement, statement of changes in equity and cash flow statement, in the order in which each statement and each line item is presented;

and

- (d) other disclosures, including:

- (i) contingent liabilities (see IAS 37) and unrecognised contractual commitments;

and

- (ii) non-financial disclosures, eg the entity's financial risk management objectives and policies (see IAS 32).

106. In some circumstances, it may be necessary or desirable to vary the ordering of specific items within the notes. For example, information on changes in fair value recognised in profit or loss may be combined with information on maturities of financial instruments, although the former disclosures relate to the income statement and the latter relate to the balance sheet. Nevertheless, a systematic structure for the notes is retained as far as practicable.
107. Notes providing information about the basis of preparation of the financial statements and specific accounting policies may be presented as a separate component of the financial statements.

## Disclosure of Accounting Policies

108. ***An entity shall disclose in the summary of significant accounting policies:***

- (a) the measurement basis (or bases) used in preparing the financial statements;***

***and***

- (b) the other accounting policies used that are relevant to an understanding of the financial statements.***

109. It is important for users to be informed of the measurement basis or bases used in the financial statements (for example, historical cost, current cost, net realisable value, fair value or recoverable amount) because the basis on which the financial statements are prepared significantly affects their analysis. When more than one measurement basis is used in the financial statements, for example when particular classes of assets are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied.
110. In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in the reported financial performance and financial position. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in Standards and Interpretations. An example is disclosure of whether a venturer recognises its interest in a jointly controlled entity using proportionate consolidation or the equity method (see IAS 31 *Interests in Joint Ventures*). Some Standards specifically require disclosure of particular accounting policies, including choices made by management between different policies they allow. For example, IAS 16 requires disclosure of the measurement bases used for classes of property, plant and equipment. IAS 23 *Borrowing Costs* requires disclosure of whether borrowing costs are recognised immediately as an expense or capitalised as part of the cost of qualifying assets.
111. Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity. For example, an entity subject to income taxes would be expected to disclose its accounting policies for income taxes, including those applicable to deferred tax liabilities and assets. When an entity has significant foreign operations or transactions in foreign currencies, disclosure of accounting policies for the recognition of foreign exchange gains and losses would be expected. When business combinations have occurred, the policies used for measuring goodwill and minority interest are disclosed.

112. An accounting policy may be significant because of the nature of the entity's operations even if amounts for current and prior periods are not material. It is also appropriate to disclose each significant accounting policy that is not specifically required by IFRSs, but is selected and applied in accordance with IAS 8.
113. ***An entity shall disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 116), management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements.***
114. In the process of applying the entity's accounting policies, management makes various judgements, apart from those involving estimations, that can significantly affect the amounts recognised in the financial statements. For example, management makes judgements in determining:
- (a) whether financial assets are held-to-maturity investments;
  - (b) when substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to other entities;
  - (c) whether, in substance, particular sales of goods are financing arrangements and therefore do not give rise to revenue;
- and
- (d) whether the substance of the relationship between the entity and a special purpose entity indicates that the special purpose entity is controlled by the entity.
115. Some of the disclosures made in accordance with paragraph 113 are required by other Standards. For example, IAS 27 requires an entity to disclose the reasons why the entity's ownership interest does not constitute control, in respect of an investee that is not a subsidiary even though more than half of its voting or potential voting power is owned directly or indirectly through subsidiaries. IAS 40 requires disclosure of the criteria developed by the entity to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business, when classification of the property is difficult.

#### Key Sources of Estimation Uncertainty

116. ***An entity shall disclose in the notes information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:***
- (a) ***their nature;***
- and***
- (b) ***their carrying amount as at the balance sheet date.***
117. Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the balance sheet date. For example, in the absence of recently observed market prices used to measure the following assets and liabilities, future-oriented estimates are necessary to measure the recoverable amount of classes of property, plant and equipment, the effect of technological obsolescence on inventories, provisions subject to the future outcome of litigation in progress, and long-term employee benefit liabilities such as pension obligations. These estimates involve assumptions about such items as the risk adjustment to cash flows or discount rates used, future changes in salaries and future changes in prices affecting other costs.



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118. The key assumptions and other key sources of estimation uncertainty disclosed in accordance with paragraph 116 relate to the estimates that require management's most difficult, subjective or complex judgements. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increases, those judgements become more subjective and complex, and the potential for a consequential material adjustment to the carrying amounts of assets and liabilities normally increases accordingly.
119. The disclosures in paragraph 116 are not required for assets and liabilities with a significant risk that their carrying amounts might change materially within the next financial year if, at the balance sheet date, they are measured at fair value based on recently observed market prices (their fair values might change materially within the next financial year but these changes would not arise from assumptions or other sources of estimation uncertainty at the balance sheet date).
120. The disclosures in paragraph 116 are presented in a manner that helps users of financial statements to understand the judgements management makes about the future and about other key sources of estimation uncertainty. The nature and extent of the information provided vary according to the nature of the assumption and other circumstances. Examples of the types of disclosures made are:
- (a) the nature of the assumption or other estimation uncertainty;
  - (b) the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity;
  - (c) the expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected;
- and
- (d) an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.
121. It is not necessary to disclose budget information or forecasts in making the disclosures in paragraph 116.
122. When it is impracticable to disclose the extent of the possible effects of a key assumption or another key source of estimation uncertainty at the balance sheet date, the entity discloses that it is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the asset or liability affected. In all cases, the entity discloses the nature and carrying amount of the specific asset or liability (or class of assets or liabilities) affected by the assumption.
123. The disclosures in paragraph 113 of particular judgements management made in the process of applying the entity's accounting policies do not relate to the disclosures of key sources of estimation uncertainty in paragraph 116.
124. The disclosure of some of the key assumptions that would otherwise be required in accordance with paragraph 116 is required by other Standards. For example, IAS 37 requires disclosure, in specified circumstances, of major assumptions concerning future events affecting classes of provisions. IAS 32 requires disclosure of significant assumptions applied in estimating fair values of financial assets and financial liabilities that are carried at fair value. IAS 16 requires disclosure of significant assumptions applied in estimating fair values of revalued items of property, plant and equipment.

## Other Disclosures

125. *An entity shall disclose in the notes:*

(a) *the amount of dividends proposed or declared before the financial statements were authorised for issue but not recognised as a distribution to equity holders during the period, and the related amount per share;*

*and*

(b) *the amount of any cumulative preference dividends not recognised.*

126. *An entity shall disclose the following, if not disclosed elsewhere in information published with the financial statements:*

(a) *the domicile and legal form of the entity, its country of incorporation and the address of its registered office (or principal place of business, if different from the registered office);*

(b) *a description of the nature of the entity's operations and its principal activities;*

*and*

(c) *the name of the parent and the ultimate parent of the group.*

## EFFECTIVE DATE

127. *An entity shall apply this Standard for annual periods beginning on or after 1 January 2005. Earlier application is encouraged. If an entity applies this Standard for a period beginning before 1 January 2005, it shall disclose that fact.*

## WITHDRAWAL OF IAS 1 (REVISED 1997)

128. This Standard supersedes IAS 1 *Presentation of Financial Statements* revised in 1997.

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## APPENDIX

**Amendments to Other Pronouncements**

*The amendments in this appendix shall be applied for annual periods beginning on or after 1 January 2005. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.*

A1. In International Financial Reporting Standards, including International Accounting Standards and Interpretations, applicable at December 2003:

- (a) references to 'net profit or loss' are amended to 'profit or loss';
- (b) references to 'notes to the financial statements' are amended to 'notes';

and

- (c) references to 'equity capital' are amended to 'contributed equity'.

A2. [Amendment not applicable to bare Standards]

A3. Paragraphs 69 and 70 of IAS 12 *Income Taxes* are deleted.

A4. In IAS 19 *Employee Benefits*, paragraph 23 is amended to read as follows:

- 23. Although this Standard does not require specific disclosures about short-term employee benefits, other Standards may require disclosures. For example, IAS 24 *Related Party Disclosures* requires disclosures about employee benefits for key management personnel. IAS 1 *Presentation of Financial Statements* requires disclosure of employee benefits expense.

A5. [Amendment not applicable to bare Standards]

A6. IAS 34 *Interim Financial Reporting* is amended as described below.

Paragraph 5 is amended to read as follows:

5. IAS 1 defines a complete set of financial statements as including the following components:

- (a) a balance sheet;
- (b) an income statement;
- (c) a statement of changes in equity showing either:
  - (i) all changes in equity, or
  - (ii) changes in equity other than those arising from transactions with equity holders acting in their capacity as equity holders;
- (d) a cash flow statement;

and

- (e) notes, comprising a summary of significant accounting policies and other explanatory notes.

Paragraph 12 is amended to read as follows:

12. IAS 1 provides guidance on the structure of financial statements. The Implementation Guidance for IAS 1 illustrates ways in which the balance sheet, income statement and statement of changes in equity may be presented.

Paragraph 13 is amended to read as follows:

13. IAS 1 requires a statement of changes in equity to be presented as a separate component of an entity's financial statements, and permits information about changes in equity arising from transactions with equity holders acting in their capacity as equity holders (including distributions to equity holders) to be shown either on the face of the statement or in the notes. An entity follows the same format in its interim statement of changes in equity as it did in its most recent annual statement.

A7. Paragraphs 39 and 40 of IAS 35 *Discontinuing Operations* are amended to read as follows:

39. The disclosures required by paragraphs 27-37, except for the disclosure of the amount of the pre-tax gain or loss recognised on the disposal of assets or settlement of liabilities attributable to the discontinuing operation in accordance with paragraph 31(a), may be presented either in the notes or on the face of the balance sheet, income statement or statement of changes in equity.
40. IAS 1 *Presentation of Financial Statements* requires the pre-tax gain or loss recognised on the disposal of assets or settlement of liabilities attributable to discontinuing operations to be presented on the face of the income statement. The disclosures required by paragraph 27(f) and (g) are encouraged to be presented on the face of the income statement and cash flow statement, respectively.

A8. [Amendment not applicable to bare Standards]

A9. IAS 41 *Agriculture* is amended as described below.

Paragraph 39 is deleted.

Paragraph 53 is amended to read as follows:

53. Agricultural activity is often exposed to climatic, disease and other natural risks. If an event occurs that gives rise to a material item of income or expense, the nature and amount of that item are disclosed in accordance with IAS 1 *Presentation of Financial Statements*. Examples of such an event include an outbreak of a virulent disease, a flood, a severe drought or frost, and a plague of insects.

A10. [Amendment not applicable to bare Standards]

A11. In SIC-32 *Intangible Assets – Web site Costs*, paragraph 5 is amended to read as follows:

5. This Interpretation does not apply to expenditure on purchasing, developing, and operating hardware (eg web servers, staging servers, production servers and Internet connections) of a web site. Such expenditure is accounted for under IAS 16. Additionally, when an entity incurs expenditure on an Internet service provider hosting the entity's web site, the expenditure is recognised as an expense under IAS 1.78 and the *Framework* when the services are received.
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## IAS 2

## INTERNATIONAL ACCOUNTING STANDARD 2

**Inventories**

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This revised Standard supersedes IAS 2 (revised 1993) *Inventories* and should be applied for annual periods beginning on or after 1 January 2005. Earlier application is encouraged.

**OBJECTIVE**

1. The objective of this Standard is to prescribe the accounting treatment for inventories. A primary issue in accounting for inventories is the amount of cost to be recognised as an asset and carried forward until the related revenues are recognised. This Standard provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realisable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

**SCOPE**

2. *This Standard applies to all inventories, except:*

- (a) *work in progress arising under construction contracts, including directly related service contracts (see IAS 11 Construction Contracts);*

- (b) *financial instruments;*
- and*
- (c) *biological assets related to agricultural activity and agricultural produce at the point of harvest (see IAS 41 Agriculture).*
3. *This Standard does not apply to the measurement of inventories held by:*
- (a) *producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products, to the extent that they are measured at net realisable value in accordance with well-established practices in those industries. When such inventories are measured at net realisable value, changes in that value are recognised in profit or loss in the period of the change.*
- (b) *commodity broker-traders who measure their inventories at fair value less costs to sell. When such inventories are measured at fair value less costs to sell, changes in fair value less costs to sell are recognised in profit or loss in the period of the change.*
4. The inventories referred to in paragraph 3(a) are measured at net realisable value at certain stages of production. This occurs, for example, when agricultural crops have been harvested or minerals have been extracted and sale is assured under a forward contract or a government guarantee, or when an active market exists and there is a negligible risk of failure to sell. These inventories are excluded from only the measurement requirements of this Standard.
5. Broker-traders are those who buy or sell commodities for others or on their own account. The inventories referred to in paragraph 3(b) are principally acquired with the purpose of selling in the near future and generating a profit from fluctuations in price or broker-traders' margin. When these inventories are measured at fair value less costs to sell, they are excluded from only the measurement requirements of this Standard.

#### DEFINITIONS

6. *The following terms are used in this Standard with the meanings specified:*

*Inventories are assets:*

(a) *held for sale in the ordinary course of business;*

(b) *in the process of production for such sale;*

*or*

(c) *in the form of materials or supplies to be consumed in the production process or in the rendering of services.*

*Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.*

*Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.*

7. Net realisable value refers to the net amount that an entity expects to realise from the sale of inventory in the ordinary course of business. Fair value reflects the amount for which the same inventory could be exchanged between knowledgeable and willing buyers and sellers in the marketplace. The former is an entity-specific value; the latter is not. Net realisable value for inventories may not equal fair value less costs to sell.

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8. Inventories encompass goods purchased and held for resale including, for example, merchandise purchased by a retailer and held for resale, or land and other property held for resale. Inventories also encompass finished goods produced, or work in progress being produced, by the entity and include materials and supplies awaiting use in the production process. In the case of a service provider, inventories include the costs of the service, as described in paragraph 19, for which the entity has not yet recognised the related revenue (see IAS 18 *Revenue*).

## MEASUREMENT OF INVENTORIES

9. ***Inventories shall be measured at the lower of cost and net realisable value.***

## Cost of Inventories

10. ***The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.***

## Costs of Purchase

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

## Costs of Conversion

12. The costs of conversion of inventories include costs directly related to the units of production, such as direct labour. They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. Fixed production overheads are those indirect costs of production that remain relatively constant regardless of the volume of production, such as depreciation and maintenance of factory buildings and equipment, and the cost of factory management and administration. Variable production overheads are those indirect costs of production that vary directly, or nearly directly, with the volume of production, such as indirect materials and indirect labour.
13. The allocation of fixed production overheads to the costs of conversion is based on the normal capacity of the production facilities. Normal capacity is the production expected to be achieved on average over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance. The actual level of production may be used if it approximates normal capacity. The amount of fixed overhead allocated to each unit of production is not increased as a consequence of low production or idle plant. Unallocated overheads are recognised as an expense in the period in which they are incurred. In periods of abnormally high production, the amount of fixed overhead allocated to each unit of production is decreased so that inventories are not measured above cost. Variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities.
14. A production process may result in more than one product being produced simultaneously. This is the case, for example, when joint products are produced or when there is a main product and a by-product. When the costs of conversion of each product are not separately identifiable, they are allocated between the products on a rational and consistent basis. The allocation may be based, for example, on the relative sales value of each product either at the stage in the production process when the products become separately identifiable, or at the completion of production. Most by-products, by their nature, are immaterial. When this is the case, they are often measured at net realisable value and this value is deducted from the cost of the main product. As a result, the carrying amount of the main product is not materially different from its cost.

## Other Costs

15. Other costs are included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition. For example, it may be appropriate to include non-production overheads or the costs of designing products for specific customers in the cost of inventories.

16. Examples of costs excluded from the cost of inventories and recognised as expenses in the period in which they are incurred are:
- (a) abnormal amounts of wasted materials, labour or other production costs;
  - (b) storage costs, unless those costs are necessary in the production process before a further production stage;
  - (c) administrative overheads that do not contribute to bringing inventories to their present location and condition;
- and
- (d) selling costs.
17. IAS 23 *Borrowing Costs* identifies limited circumstances where borrowing costs are included in the cost of inventories.
18. An entity may purchase inventories on deferred settlement terms. When the arrangement effectively contains a financing element, that element, for example a difference between the purchase price for normal credit terms and the amount paid, is recognised as interest expense over the period of the financing.

#### Cost of Inventories of a Service Provider

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

#### Cost of Agricultural Produce Harvested from Biological Assets

20. In accordance with IAS 41 *Agriculture*, inventories comprising agricultural produce that an entity has harvested from its biological assets are measured on initial recognition at their fair value less estimated point-of-sale costs at the point of harvest. This is the cost of the inventories at that date for application of this Standard.

#### Techniques for the Measurement of Cost

21. Techniques for the measurement of the cost of inventories, such as the standard cost method or the retail method, may be used for convenience if the results approximate cost. Standard costs take into account normal levels of materials and supplies, labour, efficiency and capacity utilisation. They are regularly reviewed and, if necessary, revised in the light of current conditions.
22. The retail method is often used in the retail industry for measuring inventories of large numbers of rapidly changing items with similar margins for which it is impracticable to use other costing methods. The cost of the inventory is determined by reducing the sales value of the inventory by the appropriate percentage gross margin. The percentage used takes into consideration inventory that has been marked down to below its original selling price. An average percentage for each retail department is often used.

#### Cost Formulas

23. ***The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects shall be assigned by using specific identification of their individual costs.***



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24. Specific identification of cost means that specific costs are attributed to identified items of inventory. This is the appropriate treatment for items that are segregated for a specific project, regardless of whether they have been bought or produced. However, specific identification of costs is inappropriate when there are large numbers of items of inventory that are ordinarily interchangeable. In such circumstances, the method of selecting those items that remain in inventories could be used to obtain predetermined effects on profit or loss.
25. ***The cost of inventories, other than those dealt with in paragraph 23, shall be assigned by using the first-in, first-out (FIFO) or weighted average cost formula. An entity shall use the same cost formula for all inventories having a similar nature and use to the entity. For inventories with a different nature or use, different cost formulas may be justified.***
26. For example, inventories used in one business segment may have a use to the entity different from the same type of inventories used in another business segment. However, a difference in geographical location of inventories (or in the respective tax rules), by itself, is not sufficient to justify the use of different cost formulas.
27. The FIFO formula assumes that the items of inventory that were purchased or produced first are sold first, and consequently the items remaining in inventory at the end of the period are those most recently purchased or produced. Under the weighted average cost formula, the cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period and the cost of similar items purchased or produced during the period. The average may be calculated on a periodic basis, or as each additional shipment is received, depending upon the circumstances of the entity.

*Net Realisable Value*

28. The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may also not be recoverable if the estimated costs of completion or the estimated costs to be incurred to make the sale have increased. The practice of writing inventories down below cost to net realisable value is consistent with the view that assets should not be carried in excess of amounts expected to be realised from their sale or use.
29. Inventories are usually written down to net realisable value item by item. In some circumstances, however, it may be appropriate to group similar or related items. This may be the case with items of inventory relating to the same product line that have similar purposes or end uses, are produced and marketed in the same geographical area, and cannot be practicably evaluated separately from other items in that product line. It is not appropriate to write inventories down on the basis of a classification of inventory, for example, finished goods, or all the inventories in a particular industry or geographical segment. Service providers generally accumulate costs in respect of each service for which a separate selling price is charged. Therefore, each such service is treated as a separate item.
30. Estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realise. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period.
31. Estimates of net realisable value also take into consideration the purpose for which the inventory is held. For example, the net realisable value of the quantity of inventory held to satisfy firm sales or service contracts is based on the contract price. If the sales contracts are for less than the inventory quantities held, the net realisable value of the excess is based on general selling prices. Provisions may arise from firm sales contracts in excess of inventory quantities held or from firm purchase contracts. Such provisions are dealt with under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.
32. Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. However, when a decline in the price of materials indicates that the cost of the finished products exceeds net realisable value, the materials are written down to net realisable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realisable value.

33. A new assessment is made of net realisable value in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances, the amount of the write-down is reversed (ie the reversal is limited to the amount of the original write-down) so that the new carrying amount is the lower of the cost and the revised net realisable value. This occurs, for example, when an item of inventory that is carried at net realisable value, because its selling price has declined, is still on hand in a subsequent period and its selling price has increased.

#### RECOGNITION AS AN EXPENSE

34. ***When inventories are sold, the carrying amount of those inventories shall be recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories shall be recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, shall be recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.***
35. Some inventories may be allocated to other asset accounts, for example, inventory used as a component of self-constructed property, plant or equipment. Inventories allocated to another asset in this way are recognised as an expense during the useful life of that asset.

#### DISCLOSURE

36. ***The financial statements shall disclose:***
- (a) the accounting policies adopted in measuring inventories, including the cost formula used;***
  - (b) the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;***
  - (c) the carrying amount of inventories carried at fair value less costs to sell;***
  - (d) the amount of inventories recognised as an expense during the period;***
  - (e) the amount of any write-down of inventories recognised as an expense in the period in accordance with paragraph 34;***
  - (f) the amount of any reversal of any write-down that is recognised as a reduction in the amount of inventories recognised as expense in the period in accordance with paragraph 34;***
  - (g) the circumstances or events that led to the reversal of a write-down of inventories in accordance with paragraph 34;***
- and***
- (h) the carrying amount of inventories pledged as security for liabilities.***
37. Information about the carrying amounts held in different classifications of inventories and the extent of the changes in these assets is useful to financial statement users. Common classifications of inventories are merchandise, production supplies, materials, work in progress and finished goods. The inventories of a service provider may be described as work in progress.
38. The amount of inventories recognised as an expense during the period, which is often referred to as cost of sales, consists of those costs previously included in the measurement of inventory that has now been sold and unallocated production overheads and abnormal amounts of production costs of inventories. The circumstances of the entity may also warrant the inclusion of other amounts, such as distribution costs.

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39. Some entities adopt a format for profit or loss that results in amounts being disclosed other than the cost of inventories recognised as an expense during the period. Under this format, an entity presents an analysis of expenses using a classification based on the nature of expenses. In this case, the entity discloses the costs recognised as an expense for raw materials and consumables, labour costs and other costs together with the amount of the net change in inventories for the period.

**EFFECTIVE DATE**

40. *An entity shall apply this Standard for annual periods beginning on or after 1 January 2005. Earlier application is encouraged. If an entity applies this Standard for a period beginning before 1 January 2005, it shall disclose that fact.*

**WITHDRAWAL OF OTHER PRONOUNCEMENTS**

41. This Standard supersedes IAS 2 *Inventories* (revised in 1993).
  42. This Standard supersedes SIC-1 *Consistency — Different Cost Formulas for Inventories*.
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## APPENDIX

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**Amendments to Other Pronouncements**

*The amendments in this appendix shall be applied for annual periods beginning on or after 1 January 2005. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.*

A1. In IAS 14 *Segment Reporting*, paragraph 22 is amended to read as follows:

22. Some guidance for cost allocation can be found in other Standards. For example, paragraphs 11-20 of IAS 2 *Inventories* (as revised in 2003) provide guidance on attributing and allocating costs to inventories, and paragraphs 16-21 of IAS 11 *Construction Contracts* provide guidance on attributing and allocating costs to contracts. That guidance may be useful in attributing or allocating costs to segments.

A2. [Amendment not applicable to bare Standards]

A3. [Amendment not applicable to bare Standards]

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## IAS 8

## INTERNATIONAL ACCOUNTING STANDARD 8

**Accounting Policies, Changes in Accounting Estimates and Errors**

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This revised Standard supersedes IAS 8 *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies* and should be applied for annual periods beginning on or after 1 January 2005. Earlier application is encouraged.

## OBJECTIVE

1. The objective of this Standard is to prescribe the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. The Standard is intended to enhance the relevance and reliability of an entity's financial statements, and the comparability of those financial statements over time and with the financial statements of other entities.
2. Disclosure requirements for accounting policies, except those for changes in accounting policies, are set out in IAS 1 *Presentation of Financial Statements*.

## SCOPE

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3. *This Standard shall be applied in selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates and corrections of prior period errors.*
4. The tax effects of corrections of prior period errors and of retrospective adjustments made to apply changes in accounting policies are accounted for and disclosed in accordance with IAS 12 *Income Taxes*.

## DEFINITIONS

5. *The following terms are used in this Standard with the meanings specified:*

*Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.*

*A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.*

*International Financial Reporting Standards (IFRSs) are Standards and Interpretations adopted by the International Accounting Standards Board (IASB). They comprise:*

(a) *International Financial Reporting Standards;*

(b) *International Accounting Standards;*

*and*

(c) *Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).*

*Material Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.*

*Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:*

(a) *was available when financial statements for those periods were authorised for issue;*

*and*

(b) *could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.*

*Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.*

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*Retrospective application is applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.*

*Retrospective restatement is correcting the recognition, measurement and disclosure of amounts of elements of financial statements as if a prior period error had never occurred.*

*Impracticable Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error if:*

- (a) the effects of the retrospective application or retrospective restatement are not determinable;*
- (b) the retrospective application or retrospective restatement requires assumptions about what management's intent would have been in that period;*

*or*

- (c) the retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:*

- (i) provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognised, measured or disclosed;*

*and*

- (ii) would have been available when the financial statements for that prior period were authorised for issue from other information.*

*Prospective application of a change in accounting policy and of recognising the effect of a change in an accounting estimate, respectively, are:*

- (a) applying the new accounting policy to transactions, other events and conditions occurring after the date as at which the policy is changed;*

*and*

- (b) recognising the effect of the change in the accounting estimate in the current and future periods affected by the change.*

6. Assessing whether an omission or misstatement could influence economic decisions of users, and so be material, requires consideration of the characteristics of those users. The *Framework for the Preparation and Presentation of Financial Statements* states in paragraph 25 that 'users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence.' Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making economic decisions.

## ACCOUNTING POLICIES

## Selection and Application of Accounting Policies

7. *When a Standard or an Interpretation specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the Standard or Interpretation and considering any relevant Implementation Guidance issued by the IASB for the Standard or Interpretation.*

8. IFRSs set out accounting policies that the IASB has concluded result in financial statements containing relevant and reliable information about the transactions, other events and conditions to which they apply. Those policies need not be applied when the effect of applying them is immaterial. However, it is inappropriate to make, or leave uncorrected, immaterial departures from IFRSs to achieve a particular presentation of an entity's financial position, financial performance or cash flows.
9. Implementation Guidance for Standards issued by the IASB does not form part of those Standards, and therefore does not contain requirements for financial statements.
10. *In the absence of a Standard or an Interpretation that specifically applies to a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy that results in information that is:*
- (a) relevant to the economic decision-making needs of users;*
- and*
- (b) reliable, in that the financial statements:*
    - (i) represent faithfully the financial position, financial performance and cash flows of the entity;*
    - (ii) reflect the economic substance of transactions, other events and conditions, and not merely the legal form;*
    - (iii) are neutral, ie free from bias;*
    - (iv) are prudent;*
- and*
- (v) are complete in all material respects.*
11. *In making the judgement described in paragraph 10, management shall refer to, and consider the applicability of, the following sources in descending order:*
- (a) the requirements and guidance in Standards and Interpretations dealing with similar and related issues;*
- and*
- (b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Framework.*
12. *In making the judgement described in paragraph 10, management may also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices, to the extent that these do not conflict with the sources in paragraph 11.*

#### Consistency of Accounting Policies

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



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**Changes in Accounting Policies**

14. *An entity shall change an accounting policy only if the change:*
- (a) *is required by a Standard or an Interpretation;*
- or*
- (b) *results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.*
15. Users of financial statements need to be able to compare the financial statements of an entity over time to identify trends in its financial position, financial performance and cash flows. Therefore, the same accounting policies are applied within each period and from one period to the next unless a change in accounting policy meets one of the criteria in paragraph 14.
16. *The following are not changes in accounting policies:*
- (a) *the application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring;*
- and*
- (b) *the application of a new accounting policy for transactions, other events or conditions that did not occur previously or were immaterial.*
17. *The initial application of a policy to revalue assets in accordance with IAS 16 Property, Plant and Equipment or IAS 38 Intangible Assets is a change in an accounting policy to be dealt with as a revaluation in accordance with IAS 16 or IAS 38, rather than in accordance with this Standard.*
18. Paragraphs 19-31 do not apply to the change in accounting policy described in paragraph 17.

*Applying Changes in Accounting Policies*

19. *Subject to paragraph 23:*
- (a) *an entity shall account for a change in accounting policy resulting from the initial application of a Standard or an Interpretation in accordance with the specific transitional provisions, if any, in that Standard or Interpretation;*
- and*
- (b) *when an entity changes an accounting policy upon initial application of a Standard or an Interpretation that does not include specific transitional provisions applying to that change, or changes an accounting policy voluntarily, it shall apply the change retrospectively.*
20. For the purpose of this Standard, early application of a Standard or an Interpretation is not a voluntary change in accounting policy.
21. In the absence of a Standard or an Interpretation that specifically applies to a transaction, other event or condition, management may, in accordance with paragraph 12, apply an accounting policy from the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards. If, following an amendment of such a pronouncement, the entity chooses to change an accounting policy, that change is accounted for and disclosed as a voluntary change in accounting policy.

## Retrospective application

22. **Subject to paragraph 23, when a change in accounting policy is applied retrospectively in accordance with paragraph 19(a) or (b), the entity shall adjust the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.**

## Limitations on retrospective application

23. **When retrospective application is required by paragraph 19(a) or (b), a change in accounting policy shall be applied retrospectively except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the change.**
24. **When it is impracticable to determine the period-specific effects of changing an accounting policy on comparative information for one or more prior periods presented, the entity shall apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable, which may be the current period, and shall make a corresponding adjustment to the opening balance of each affected component of equity for that period.**
25. **When it is impracticable to determine the cumulative effect, at the beginning of the current period, of applying a new accounting policy to all prior periods, the entity shall adjust the comparative information to apply the new accounting policy prospectively from the earliest date practicable.**
26. When an entity applies a new accounting policy retrospectively, it applies the new accounting policy to comparative information for prior periods as far back as is practicable. Retrospective application to a prior period is not practicable unless it is practicable to determine the cumulative effect on the amounts in both the opening and closing balance sheets for that period. The amount of the resulting adjustment relating to periods before those presented in the financial statements is made to the opening balance of each affected component of equity of the earliest prior period presented. Usually the adjustment is made to retained earnings. However, the adjustment may be made to another component of equity (for example, to comply with a Standard or an Interpretation). Any other information about prior periods, such as historical summaries of financial data, is also adjusted as far back as is practicable.
27. When it is impracticable for an entity to apply a new accounting policy retrospectively, because it cannot determine the cumulative effect of applying the policy to all prior periods, the entity, in accordance with paragraph 25, applies the new policy prospectively from the start of the earliest period practicable. It therefore disregards the portion of the cumulative adjustment to assets, liabilities and equity arising before that date. Changing an accounting policy is permitted even if it is impracticable to apply the policy prospectively for any prior period. Paragraphs 50-53 provide guidance on when it is impracticable to apply a new accounting policy to one or more prior periods.

## Disclosure

28. **When initial application of a Standard or an Interpretation has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:**
- (a) **the title of the Standard or Interpretation;**
  - (b) **when applicable, that the change in accounting policy is made in accordance with its transitional provisions;**
  - (c) **the nature of the change in accounting policy;**
  - (d) **when applicable, a description of the transitional provisions;**

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- (e) *when applicable, the transitional provisions that might have an effect on future periods;*
- (f) *for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:*
  - (i) *for each financial statement line item affected;*

*and*

  - (ii) *if IAS 33 Earnings per Share applies to the entity, for basic and diluted earnings per share;*
- (g) *the amount of the adjustment relating to periods before those presented, to the extent practicable;*

*and*
- (h) *if retrospective application required by paragraph 19(a) or (b) is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.*

*Financial statements of subsequent periods need not repeat these disclosures.*

29. *When a voluntary change in accounting policy has an effect on the current period or any prior period, would have an effect on that period except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:*
- (a) *the nature of the change in accounting policy;*
  - (b) *the reasons why applying the new accounting policy provides reliable and more relevant information;*
  - (c) *for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:*
    - (i) *for each financial statement line item affected;*

*and*

    - (ii) *if IAS 33 applies to the entity, for basic and diluted earnings per share;*
  - (d) *the amount of the adjustment relating to periods before those presented, to the extent practicable;*

*and*
  - (e) *if retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.*

*Financial statements of subsequent periods need not repeat these disclosures.*

30. **When an entity has not applied a new Standard or Interpretation that has been issued but is not yet effective, the entity shall disclose:**
- (a) **this fact;**
- and**
- (b) **known or reasonably estimable information relevant to assessing the possible impact that application of the new Standard or Interpretation will have on the entity's financial statements in the period of initial application.**
31. In complying with paragraph 30, an entity considers disclosing:
- (a) the title of the new Standard or Interpretation;
- (b) the nature of the impending change or changes in accounting policy;
- (c) the date by which application of the Standard or Interpretation is required;
- (d) the date as at which it plans to apply the Standard or Interpretation initially;
- and
- (e) either:
- (i) a discussion of the impact that initial application of the Standard or Interpretation is expected to have on the entity's financial statements;
- or
- (ii) if that impact is not known or reasonably estimable, a statement to that effect.

#### CHANGES IN ACCOUNTING ESTIMATES

32. As a result of the uncertainties inherent in business activities, many items in financial statements cannot be measured with precision but can only be estimated. Estimation involves judgements based on the latest available, reliable information. For example, estimates may be required of:
- (a) bad debts;
- (b) inventory obsolescence;
- (c) the fair value of financial assets or financial liabilities;
- (d) the useful lives of, or expected pattern of consumption of the future economic benefits embodied in, depreciable assets;
- and
- (e) warranty obligations.
33. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.

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34. An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. By its nature, the revision of an estimate does not relate to prior periods and is not the correction of an error.
35. A change in the measurement basis applied is a change in an accounting policy, and is not a change in an accounting estimate. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.
36. ***The effect of a change in an accounting estimate, other than a change to which paragraph 37 applies, shall be recognised prospectively by including it in profit or loss in:***
- (a) ***the period of the change, if the change affects that period only;***
- or***
- (b) ***the period of the change and future periods, if the change affects both.***
37. ***To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of equity, it shall be recognised by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.***
38. Prospective recognition of the effect of a change in an accounting estimate means that the change is applied to transactions, other events and conditions from the date of the change in estimate. A change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods. For example, a change in the estimate of the amount of bad debts affects only the current period's profit or loss and therefore is recognised in the current period. However, a change in the estimated useful life of, or the expected pattern of consumption of the future economic benefits embodied in, a depreciable asset affects depreciation expense for the current period and for each future period during the asset's remaining useful life. In both cases, the effect of the change relating to the current period is recognised as income or expense in the current period. The effect, if any, on future periods is recognised as income or expense in those future periods.

**Disclosure**

39. ***An entity shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect.***
40. ***If the amount of the effect in future periods is not disclosed because estimating it is impracticable, an entity shall disclose that fact.***

## Errors

41. Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with IFRSs if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are authorised for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period (see paragraphs 42-47).

42. *Subject to paragraph 43, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by:*

*(a) restating the comparative amounts for the prior period(s) presented in which the error occurred;*

*or*

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

#### **Limitations on Retrospective Restatement**

43. *A prior period error shall be corrected by retrospective restatement except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error.*

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

45. *When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the entity shall restate the comparative information to correct the error prospectively from the earliest date practicable.*

46. *The correction of a prior period error is excluded from profit or loss for the period in which the error is discovered. Any information presented about prior periods, including any historical summaries of financial data, is restated as far back as is practicable.*

47. *When it is impracticable to determine the amount of an error (eg a mistake in applying an accounting policy) for all prior periods, the entity, in accordance with paragraph 45, restates the comparative information prospectively from the earliest date practicable. It therefore disregards the portion of the cumulative restatement of assets, liabilities and equity arising before that date. Paragraphs 50-53 provide guidance on when it is impracticable to correct an error for one or more prior periods.*

48. *Corrections of errors are distinguished from changes in accounting estimates. Accounting estimates by their nature are approximations that may need revision as additional information becomes known. For example, the gain or loss recognised on the outcome of a contingency is not the correction of an error.*

#### **Disclosure of Prior Period Errors**

49. *In applying paragraph 42, an entity shall disclose the following:*

*(a) the nature of the prior period error;*

*(b) for each prior period presented, to the extent practicable, the amount of the correction:*

*(i) for each financial statement line item affected;*

*and*

*(ii) if IAS 33 applies to the entity, for basic and diluted earnings per share;*

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(c) *the amount of the correction at the beginning of the earliest prior period presented;*

*and*

(d) *if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.*

*Financial statements of subsequent periods need not repeat these disclosures.*

## IMPRACTICABILITY IN RESPECT OF RETROSPECTIVE APPLICATION AND RETROSPECTIVE RESTATEMENT

50. In some circumstances, it is impracticable to adjust comparative information for one or more prior periods to achieve comparability with the current period. For example, data may not have been collected in the prior period(s) in a way that allows either retrospective application of a new accounting policy (including, for the purpose of paragraphs 51-53, its prospective application to prior periods) or retrospective restatement to correct a prior period error, and it may be impracticable to recreate the information.
51. It is frequently necessary to make estimates in applying an accounting policy to elements of financial statements recognised or disclosed in respect of transactions, other events or conditions. Estimation is inherently subjective, and estimates may be developed after the balance sheet date. Developing estimates is potentially more difficult when retrospectively applying an accounting policy or making a retrospective restatement to correct a prior period error, because of the longer period of time that might have passed since the affected transaction, other event or condition occurred. However, the objective of estimates related to prior periods remains the same as for estimates made in the current period, namely, for the estimate to reflect the circumstances that existed when the transaction, other event or condition occurred.
52. Therefore, retrospectively applying a new accounting policy or correcting a prior period error requires distinguishing information that
- (a) provides evidence of circumstances that existed on the date(s) as at which the transaction, other event or condition occurred,
- and*
- (b) would have been available when the financial statements for that prior period were authorised for issue

from other information. For some types of estimates (eg an estimate of fair value not based on an observable price or observable inputs), it is impracticable to distinguish these types of information. When retrospective application or retrospective restatement would require making a significant estimate for which it is impossible to distinguish these two types of information, it is impracticable to apply the new accounting policy or correct the prior period error retrospectively.

53. Hindsight should not be used when applying a new accounting policy to, or correcting amounts for, a prior period, either in making assumptions about what management's intentions would have been in a prior period or estimating the amounts recognised, measured or disclosed in a prior period. For example, when an entity corrects a prior period error in measuring financial assets previously classified as held-to-maturity investments in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, it does not change their basis of measurement for that period if management decided later not to hold them to maturity. In addition, when an entity corrects a prior period error in calculating its liability for employees' accumulated sick leave in accordance with IAS 19 *Employee Benefits*, it disregards information about an unusually severe influenza season during the next period that became available after the financial statements for the prior period were authorised for issue. The fact that significant estimates are frequently required when amending comparative information presented for prior periods does not prevent reliable adjustment or correction of the comparative information.

## EFFECTIVE DATE

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54. ***An entity shall apply this Standard for annual periods beginning on or after 1 January 2005. Earlier application is encouraged. If an entity applies this Standard for a period beginning before 1 January 2005, it shall disclose that fact.***

## WITHDRAWAL OF OTHER PRONOUNCEMENTS

55. This Standard supersedes IAS 8 *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies*, revised in 1993.
56. This Standard supersedes the following Interpretations:
- (a) SIC-2 *Consistency — Capitalisation of Borrowing Costs*;
  - and
  - (b) SIC-18 *Consistency — Alternative Methods*.
-



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## APPENDIX

**Amendments to Other Pronouncements**

*The amendments in this appendix shall be applied for annual periods beginning on or after 1 January 2005. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.*

A1. IAS 7 *Cash Flow Statements* is amended as follows:

Paragraphs 29 and 30 on extraordinary items are deleted.

A2. IAS 12 *Income Taxes* is amended as described below.

Paragraph 62(b) is amended to read as follows:

- (b) an adjustment to the opening balance of retained earnings resulting from either a change in accounting policy that is applied retrospectively or the correction of an error (see IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*).

Paragraph 80(h) is amended to read as follows:

- (h) the amount of tax expense (income) relating to those changes in accounting policies and errors that are included in profit or loss in accordance with IAS 8, because they cannot be accounted for retrospectively.

Paragraphs 81(b) and 83 are deleted.

A3. IAS 14 *Segment Reporting* is amended as described below.

The definition of accounting policies in paragraph 8 is amended to read as follows:

***Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.***

Paragraph 60 is amended to read as follows:

- 60. IAS 1 requires that when items of income and expense are material, their nature and amount shall be disclosed separately. IAS 1 offers a number of examples, including write-downs of inventories and property, plant, and equipment, provisions for restructurings, disposals of property, plant, and equipment and long-term investments, discontinuing operations, litigation settlements, and reversals of provisions. Paragraph 59 is not intended to change the classification of any such items or to change the measurement of such items. The disclosure encouraged by that paragraph, however, does change the level at which the significance of such items is evaluated for disclosure purposes from the entity level to the segment level.

Paragraphs 77 and 78 are amended to read as follows:

- 77. Changes in accounting policies applied by the entity are dealt with in IAS 8. IAS 8 requires that changes in accounting policy shall be made only if required by a Standard or Interpretation, or if the change will result in reliable and more relevant information about transactions, other events or conditions in the financial statements of the entity.
- 78. Changes in accounting policies applied at the entity level that affect segment information are dealt with in accordance with IAS 8. Unless a new Standard or Interpretation specifies otherwise, IAS 8 requires that:
  - (a) a change in accounting policy shall be applied retrospectively and prior period information restated unless it is impracticable to determine either the cumulative effect or the period-specific effects of the change;

- (b) if retrospective application is not practicable for all periods presented, the new accounting policy shall be applied retrospectively from the earliest practicable date;

and

- (c) if it is impracticable to determine the cumulative effect of applying the new accounting policy at the start of the current period, the policy shall be applied prospectively from the earliest date practicable.

The following changes are made to remove references to extraordinary items:

- (a) in paragraph 16, in the definition of segment revenue, subparagraph (a) is deleted.
- (b) in paragraph 16, in the definition of segment expense, subparagraph (a) is deleted.

A4. IAS 19 *Employee Benefits* is amended as described below.

Paragraph 131 is amended to read as follows:

131. Although this Standard does not require specific disclosures about other long-term employee benefits, other Standards may require disclosures, for example, when the expense resulting from such benefits is material and so would require disclosure in accordance with IAS 1 *Presentation of Financial Statements*. When required by IAS 24 *Related Party Disclosures*, an entity discloses information about other long-term employee benefits for key management personnel.

Paragraph 142 is amended to read as follows:

142. As required by IAS 1, an entity discloses the nature and amount of an expense if it is material. Termination benefits may result in an expense needing disclosure in order to comply with this requirement.

Paragraph 160 is amended to read as follows:

160. IAS 8 applies when an entity changes its accounting policies to reflect the changes specified in paragraphs 159 and 159A. In applying those changes retrospectively, as required by IAS 8, the entity treats those changes as if they had been applied at the same time as the rest of this Standard.

A5. In IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, paragraphs 20-22 are amended to read as follows:

20. **A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognised as income of the period in which it becomes receivable.**
21. In some circumstances, a government grant may be awarded for the purpose of giving immediate financial support to an entity rather than as an incentive to undertake specific expenditures. Such grants may be confined to an individual entity and may not be available to a whole class of beneficiaries. These circumstances may warrant recognising a grant as income in the period in which the entity qualifies to receive it, with disclosure to ensure that its effect is clearly understood.
22. A government grant may become receivable by an entity as compensation for expenses or losses incurred in a previous period. Such a grant is recognised as income of the period in which it becomes receivable, with disclosure to ensure that its effect is clearly understood.

A6. In IAS 22 *Business Combinations*, paragraph 100 is deleted.

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A7. In IAS 23 *Borrowing Costs*, paragraph 30 is amended to read as follows:

30. ***When the adoption of this Standard constitutes a change in accounting policy, an entity is encouraged to adjust its financial statements in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Alternatively, entities shall capitalise only those borrowing costs incurred after the effective date of the Standard that meet the criteria for capitalisation.***

A8. IAS 34 *Interim Financial Reporting* is amended as described below.

Paragraph 17 is amended to read as follows:

17. Examples of the kinds of disclosures that are required by paragraph 16 are set out below. Individual Standards and Interpretations provide guidance regarding disclosures for many of these items:

- (a) the write-down of inventories to net realisable value and the reversal of such a write-down;
  - (b) recognition of a loss from the impairment of property, plant and equipment, intangible assets, or other assets, and the reversal of such an impairment loss;
  - (c) the reversal of any provisions for the costs of restructuring;
  - (d) acquisitions and disposals of items of property, plant and equipment;
  - (e) commitments for the purchase of property, plant and equipment;
  - (f) litigation settlements;
  - (g) corrections of prior period errors;
  - (h) [deleted];
  - (i) any loan default or breach of a loan agreement that has not been remedied on or before the balance sheet date;
- and
- (j) related party transactions.

Paragraphs 24, 25 and 27 are amended to read as follows:

24. IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* define an item as material if its omission or misstatement could influence the economic decisions of users of the financial statements. IAS 1 requires separate disclosure of material items, including (for example) discontinuing operations, and IAS 8 requires disclosure of changes in accounting estimates, errors and changes in accounting policies. The two Standards do not contain quantified guidance as to materiality.

25. While judgement is always required in assessing materiality, this Standard bases the recognition and disclosure decision on data for the interim period by itself for reasons of understandability of the interim figures. Thus, for example, unusual items, changes in accounting policies or estimates, and errors are recognised and disclosed on the basis of materiality in relation to interim period data to avoid misleading inferences that might result from non-disclosure. The overriding goal is to ensure that an interim financial report includes all information that is relevant to understanding an entity's financial position and performance during the interim period.

27. IAS 8 requires disclosure of the nature and (if practicable) the amount of a change in estimate that either has a material effect in the current period or is expected to have a material effect in subsequent periods. Paragraph 16(d) of this Standard requires similar disclosure in an interim financial report. Examples include changes in estimate in the final interim period relating to inventory write-downs, restructurings, or impairment losses that were reported in an earlier interim period of the financial year. The disclosure required by the preceding paragraph is consistent with the IAS 8 requirement and is intended to be narrow in scope — relating only to the change in estimate. An entity is not required to include additional interim period financial information in its annual financial statements.

Paragraphs 43 and 44 are amended to read as follows:

43. ***A change in accounting policy, other than one for which the transition is specified by a new Standard or Interpretation, shall be reflected by:***

(a) ***restating the financial statements of prior interim periods of the current financial year and the comparable interim periods of any prior financial years that will be restated in the annual financial statements in accordance with IAS 8;***

***or***

(b) ***when it is impracticable to determine the cumulative effect at the beginning of the financial year of applying a new accounting policy to all prior periods, adjusting the financial statements of prior interim periods of the current financial year, and comparable interim periods of prior financial years to apply the new accounting policy prospectively from the earliest date practicable.***

44. One objective of the preceding principle is to ensure that a single accounting policy is applied to a particular class of transactions throughout an entire financial year. Under IAS 8, a change in accounting policy is reflected by retrospective application, with restatement of prior period financial data as far back as is practicable. However, if the cumulative amount of the adjustment relating to prior financial years is impracticable to determine, then under IAS 8 the new policy is applied prospectively from the earliest date practicable. The effect of the principle in paragraph 43 is to require that within the current financial year any change in accounting policy is applied either retrospectively or, if that is not practicable, prospectively, from no later than the beginning of the financial year.

A9. In IAS 35 *Discontinuing Operations*, paragraphs 41, 42 and 50 are deleted.

A10. In IAS 36 *Impairment of Assets*, paragraph 13 of the Introduction is deleted, and paragraphs 120 and 121 are deleted.

A11. In IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, paragraph 94 is deleted.

A12. In IAS 38 *Intangible Assets*, paragraph 120 is deleted.

A13. In SIC-12 *Consolidation — Special Purpose Entities*, the effective date paragraph is amended to read as follows:

**Effective Date:** This Interpretation becomes effective for annual financial periods beginning on or after 1 July 1999; earlier application is encouraged. Changes in accounting policies shall be accounted for in accordance with IAS 8.

A14. In SIC-13 *Jointly Controlled Entities — Non-Monetary Contributions by Venturers*, the effective date paragraph is amended to read as follows:

**Effective Date:** This Interpretation becomes effective for annual financial periods beginning on or after 1 January 1999; earlier application is encouraged. Changes in accounting policies shall be accounted for in accordance with IAS 8.

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- A15. In SIC-21 *Income Taxes — Recovery of Revalued Non-Depreciable Assets*, the effective date paragraph is amended to read as follows:

**Effective Date:** This consensus becomes effective on 15 July 2000. Changes in accounting policies shall be accounted for in accordance with IAS 8.

- A16. [Amendment not applicable to bare Standards]

- A17. In SIC-25 *Income Taxes—Changes in the Tax Status of an Entity or its Shareholders*, the effective date paragraph is amended to read as follows:

**Effective Date:** This consensus becomes effective on 15 July 2000. Changes in accounting policies shall be accounted for in accordance with IAS 8.

- A18. In SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*, the effective date paragraph is amended to read as follows:

**Effective Date:** This Interpretation becomes effective on 31 December 2001. Changes in accounting policies shall be accounted for in accordance with IAS 8.

- A19. In SIC-31 *Revenue — Barter Transactions Involving Advertising Services*, the effective date paragraph is amended to read as follows:

**Effective Date:** This Interpretation becomes effective on 31 December 2001. Changes in accounting policies shall be accounted for in accordance with IAS 8.

- A20. In IFRS 1 *First-time Adoption of International Financial Reporting Standards*, the definition of International Financial Reporting Standards in Appendix A is amended to read as follows:

**International Financial Reporting Standards (IFRSs)**

Standards and Interpretations adopted by the International Accounting Standards Board (IASB). They comprise:

- (a) International Financial Reporting Standards;
  - (b) International Accounting Standards;
- and
- (c) Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

- A21. The rubric of IFRS 1 *First-time Adoption of International Financial Reporting Standards* is amended to read as follows:

International Financial Reporting Standard 1 *First-time Adoption of International Financial Reporting Standards* (IFRS 1) is set out in paragraphs 1-47 and Appendices A-C. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in Appendix A are in *italics* the first time they appear in the Standard. Definitions of other terms are given in the Glossary for International Financial Reporting Standards. IFRS 1 should be read in the context of its objective and the Basis for Conclusions, the *Preface to International Financial Reporting Standards* and the *Framework for the Preparation and Presentation of Financial Statements*. IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

A22. The rubrics of all other International Accounting Standards are replaced by a new rubric in the following form:

International Accounting Standard X *Title in Words* (IAS X) is set out in paragraphs 1-000 [and Appendices A-C](<sup>(\*)</sup>). All the paragraphs have equal authority but retain the IASC format of the Standard when it was adopted by the IASB. IAS X should be read in the context of [its objective and the Basis for Conclusions,](<sup>(\*\*)</sup>) the *Preface to International Financial Reporting Standards* and the *Framework for the Preparation and Presentation of Financial Statements*. IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

(<sup>\*</sup>) used only for those appendices that are part of the Standard.

(<sup>\*\*</sup>) used only where the Standard contains an objective or is accompanied by a Basis for Conclusions.

A23. In International Financial Reporting Standards, including International Accounting Standards and Interpretations, applicable at December 2003, references to the current version of IAS 8 *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies* are amended to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

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## IAS 10

## INTERNATIONAL ACCOUNTING STANDARD 10

**Events after the Balance Sheet Date**

SUMMARY	Paragraphs
Objective	1
Scope	2
Definitions	3-7
Recognition and measurement	8-13
Adjusting Events after the Balance Sheet Date	8-9
Non-adjusting Events after the Balance Sheet Date	10-11
Dividends	12-13
Going concern	14-16
Disclosure	17-22
Date of Authorisation for Issue	17-18
Updating Disclosure about Conditions at the Balance Sheet Date	19-20
Non-adjusting Events after the Balance Sheet Date	21-22
Effective date	23
Withdrawal of IAS 10 (revised 1999)	24

This revised Standard supersedes IAS 10 (revised 1999) *Events After the Balance Sheet Date* and should be applied for annual periods beginning on or after 1 January 2005. Earlier application is encouraged.

**OBJECTIVE**

1. The objective of this Standard is to prescribe:
  - (a) when an entity should adjust its financial statements for events after the balance sheet date;
  - and
  - (b) the disclosures that an entity should give about the date when the financial statements were authorised for issue and about events after the balance sheet date.

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

**SCOPE**

2. ***This Standard shall be applied in the accounting for, and disclosure of, events after the balance sheet date.***

## DEFINITIONS

3. *The following terms are used in this Standard with the meanings specified:*

*Events after the balance sheet date are those events, favourable and unfavourable, that occur between the balance sheet date and the date when the financial statements are authorised for issue. Two types of events can be identified:*

- (a) *those that provide evidence of conditions that existed at the balance sheet date (adjusting events after the balance sheet date);*

*and*

- (b) *those that are indicative of conditions that arose after the balance sheet date (non-adjusting events after the balance sheet date).*

4. The process involved in authorising the financial statements for issue will vary depending upon the management structure, statutory requirements and procedures followed in preparing and finalising the financial statements.
5. In some cases, an entity is required to submit its financial statements to its shareholders for approval after the financial statements have been issued. In such cases, the financial statements are authorised for issue on the date of issue, not the date when shareholders approve the financial statements.

**Example**

The management of an entity completes draft financial statements for the year to 31 December 20X1 on 28 February 20X2. On 18 March 20X2, the board of directors reviews the financial statements and authorises them for issue. The entity announces its profit and selected other financial information on 19 March 20X2. The financial statements are made available to shareholders and others on 1 April 20X2. The shareholders approve the financial statements at their annual meeting on 15 May 20X2 and the approved financial statements are then filed with a regulatory body on 17 May 20X2.

*The financial statements are authorised for issue on 18 March 20X2 (date of board authorisation for issue).*

6. In some cases, the management of an entity is required to issue its financial statements to a supervisory board (made up solely of non-executives) for approval. In such cases, the financial statements are authorised for issue when the management authorises them for issue to the supervisory board.

**Example**

On 18 March 20X2, the management of an entity authorises financial statements for issue to its supervisory board. The supervisory board is made up solely of non-executives and may include representatives of employees and other outside interests. The supervisory board approves the financial statements on 26 March 20X2. The financial statements are made available to shareholders and others on 1 April 20X2. The shareholders approve the financial statements at their annual meeting on 15 May 20X2 and the financial statements are then filed with a regulatory body on 17 May 20X2.

*The financial statements are authorised for issue on 18 March 20X2 (date of management authorisation for issue to the supervisory board).*

7. Events after the balance sheet date include all events up to the date when the financial statements are authorised for issue, even if those events occur after the public announcement of profit or of other selected financial information.

## RECOGNITION AND MEASUREMENT

*Adjusting Events after the Balance Sheet Date*

8. *An entity shall adjust the amounts recognised in its financial statements to reflect adjusting events after the balance sheet date.*



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9. The following are examples of adjusting events after the balance sheet date that require an entity to adjust the amounts recognised in its financial statements, or to recognise items that were not previously recognised:
- (a) the settlement after the balance sheet date of a court case that confirms that the entity had a present obligation at the balance sheet date. The entity adjusts any previously recognised provision related to this court case in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or recognises a new provision. The entity does not merely disclose a contingent liability because the settlement provides additional evidence that would be considered in accordance with paragraph 16 of IAS 37.
  - (b) the receipt of information after the balance sheet date indicating that an asset was impaired at the balance sheet date, or that the amount of a previously recognised impairment loss for that asset needs to be adjusted. For example:
    - (i) the bankruptcy of a customer that occurs after the balance sheet date usually confirms that a loss existed at the balance sheet date on a trade receivable and that the entity needs to adjust the carrying amount of the trade receivable;
    - and
    - (ii) the sale of inventories after the balance sheet date may give evidence about their net realisable value at the balance sheet date.
  - (c) the determination after the balance sheet date of the cost of assets purchased, or the proceeds from assets sold, before the balance sheet date.
  - (d) the determination after the balance sheet date of the amount of profit-sharing or bonus payments, if the entity had a present legal or constructive obligation at the balance sheet date to make such payments as a result of events before that date (see IAS 19 *Employee Benefits*).
  - (e) the discovery of fraud or errors that show that the financial statements are incorrect.

*Non-adjusting Events after the Balance Sheet Date*

10. **An entity shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the balance sheet date.**
11. An example of a non-adjusting event after the balance sheet date is a decline in market value of investments between the balance sheet date and the date when the financial statements are authorised for issue. The decline in market value does not normally relate to the condition of the investments at the balance sheet date, but reflects circumstances that have arisen subsequently. Therefore, an entity does not adjust the amounts recognised in its financial statements for the investments. Similarly, the entity does not update the amounts disclosed for the investments as at the balance sheet date, although it may need to give additional disclosure under paragraph 21.

*Dividends*

12. **If an entity declares dividends to holders of equity instruments (as defined in IAS 32 *Financial Instruments: Disclosure and Presentation*) after the balance sheet date, the entity shall not recognise those dividends as a liability at the balance sheet date.**
13. If dividends are declared (ie the dividends are appropriately authorised and no longer at the discretion of the entity) after the balance sheet date but before the financial statements are authorised for issue, the dividends are not recognised as a liability at the balance sheet date because they do not meet the criteria of a present obligation in IAS 37. Such dividends are disclosed in the notes to the financial statements in accordance with IAS 1 *Presentation of Financial Statements*.

## GOING CONCERN

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14. ***An entity shall not prepare its financial statements on a going concern basis if management determines after the balance sheet date either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.***
15. Deterioration in operating results and financial position after the balance sheet date may indicate a need to consider whether the going concern assumption is still appropriate. If the going concern assumption is no longer appropriate, the effect is so pervasive that this Standard requires a fundamental change in the basis of accounting, rather than an adjustment to the amounts recognised within the original basis of accounting.
16. IAS 1 specifies required disclosures if:
  - (a) the financial statements are not prepared on a going concern basis;
  - or
  - (b) management is aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The events or conditions requiring disclosure may arise after the balance sheet date.

## DISCLOSURE

*Date of Authorisation for Issue*

17. ***An entity shall disclose the date when the financial statements were authorised for issue and who gave that authorisation. If the entity's owners or others have the power to amend the financial statements after issue, the entity shall disclose that fact.***
18. It is important for users to know when the financial statements were authorised for issue, because the financial statements do not reflect events after this date.

*Updating Disclosure about Conditions at the Balance Sheet Date*

19. ***If an entity receives information after the balance sheet date about conditions that existed at the balance sheet date, it shall update disclosures that relate to those conditions, in the light of the new information.***
20. In some cases, an entity needs to update the disclosures in its financial statements to reflect information received after the balance sheet date, even when the information does not affect the amounts that it recognises in its financial statements. One example of the need to update disclosures is when evidence becomes available after the balance sheet date about a contingent liability that existed at the balance sheet date. In addition to considering whether it should recognise or change a provision under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, an entity updates its disclosures about the contingent liability in the light of that evidence.

*Non-adjusting Events after the Balance Sheet Date*

21. ***If non-adjusting events after the balance sheet date are material, non-disclosure could influence the economic decisions of users taken on the basis of the financial statements. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the balance sheet date:***
  - (a) *the nature of the event;*

***and***

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(b) *an estimate of its financial effect, or a statement that such an estimate cannot be made.*

22. The following are examples of non-adjusting events after the balance sheet date that would generally result in disclosure:

- (a) a major business combination after the balance sheet date (IAS 22 *Business Combinations* requires specific disclosures in such cases) or disposing of a major subsidiary;
- (b) announcing a plan to discontinue an operation, disposing of assets or settling liabilities attributable to a discontinuing operation or entering into binding agreements to sell such assets or settle such liabilities (see IAS 35 *Discontinuing Operations*);
- (c) major purchases and disposals of assets, or expropriation of major assets by government;
- (d) the destruction of a major production plant by a fire after the balance sheet date;
- (e) announcing, or commencing the implementation of, a major restructuring (see IAS 37);
- (f) major ordinary share transactions and potential ordinary share transactions after the balance sheet date (IAS 33 *Earnings per Share* requires an entity to disclose a description of such transactions, other than when such transactions involve capitalisation or bonus issues, share splits or reverse share splits all of which are required to be adjusted under IAS 33);
- (g) abnormally large changes after the balance sheet date in asset prices or foreign exchange rates;
- (h) changes in tax rates or tax laws enacted or announced after the balance sheet date that have a significant effect on current and deferred tax assets and liabilities (see IAS 12 *Income Taxes*);
- (i) entering into significant commitments or contingent liabilities, for example, by issuing significant guarantees;  
and
- (j) commencing major litigation arising solely out of events that occurred after the balance sheet date.

**EFFECTIVE DATE**

23. ***An entity shall apply this Standard for annual periods beginning on or after 1 January 2005. Earlier application is encouraged. If an entity applies this Standard for a period beginning before 1 January 2005, it shall disclose that fact.***

**WITHDRAWAL OF IAS 10 (REVISED 1999)**

24. This Standard supersedes IAS 10 *Events After the Balance Sheet Date* (revised in 1999).
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## APPENDIX

## IAS 10

**Amendments to Other Pronouncements**

The amendments in this appendix shall be applied for annual periods beginning on or after 1 January 2005. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.

A1. In IAS 22 *Business Combinations*, paragraph 97 is amended to read as follows:

97. Business combinations effected after the balance sheet date and before the date on which the financial statements of one of the combining entities are authorised for issue are disclosed if they are material and non-disclosure could influence the economic decisions of users taken on the basis of the financial statements (see IAS 10 *Events after the Balance Sheet Date*).

A2. In IAS 35 *Discontinuing Operations*, paragraph 32 is amended to read as follows:

32. The asset disposals, liability settlements and binding sale agreements referred to in the preceding paragraph may occur concurrently with the initial disclosure event, or in the period in which the initial disclosure event occurs, or in a later period. In accordance with IAS 10 *Events after the Balance Sheet Date*, if some of the assets attributable to a discontinuing operation have actually been sold or are the subject of one or more binding sale agreements entered into after the balance sheet date but before the board approves the financial statements for issue, the financial statements include the disclosures required by paragraph 31 if the effects are material and non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

A3. In IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, paragraph 18 of the Introduction and paragraph 75 are amended to read as follows and paragraph 96 is deleted:

18. The Standard defines a contingent liability as:

- (a) ...

75. A management or board decision to restructure taken before the balance sheet date does not give rise to a constructive obligation at the balance sheet date unless the entity has, before the balance sheet date:

- (a) started to implement the restructuring plan;

or

- (b) announced the main features of the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will carry out the restructuring.

If an entity starts to implement a restructuring plan, or announces its main features to those affected, only after the balance sheet date, disclosure is required under IAS 10 *Events after the Balance Sheet Date*, if the restructuring is material and non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

96. [Deleted]

A4. In International Financial Reporting Standards, including International Accounting Standards and Interpretations, applicable at December 2003, references to the current version of IAS 10 *Events After the Balance Sheet Date* are amended to IAS 10 *Events after the Balance Sheet Date*.

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## IAS 16

## INTERNATIONAL ACCOUNTING STANDARD 16

**Property, Plant and Equipment**

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This revised Standard supersedes IAS 16 (1998) *Property, Plant and Equipment* and should be applied for annual periods beginning on or after 1 January 2005. Earlier application is encouraged.

**OBJECTIVE**

1. The objective of this Standard is to prescribe the accounting treatment for property, plant and equipment so that users of the financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such investment. The principal issues in accounting for property, plant and equipment are the recognition of the assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognised in relation to them.

## SCOPE

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2. ***This Standard shall be applied in accounting for property, plant and equipment except when another Standard requires or permits a different accounting treatment.***
3. This Standard does not apply to:
- (a) biological assets related to agricultural activity (see IAS 41 Agriculture);
  - or
  - (b) mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources.

However, this Standard applies to property, plant and equipment used to develop or maintain the assets described in (a) and (b).

4. Other Standards may require recognition of an item of property, plant and equipment based on an approach different from that in this Standard. For example, IAS 17 *Leases* requires an entity to evaluate its recognition of an item of leased property, plant and equipment on the basis of the transfer of risks and rewards. However, in such cases other aspects of the accounting treatment for these assets, including depreciation, are prescribed by this Standard.
5. An entity shall apply this Standard to property that is being constructed or developed for future use as investment property but does not yet satisfy the definition of 'investment property' in IAS 40 *Investment Property*. Once the construction or development is complete, the property becomes investment property and the entity is required to apply IAS 40. IAS 40 also applies to investment property that is being redeveloped for continued future use as investment property. An entity using the cost model for investment property in accordance with IAS 40 shall use the cost model in this Standard.

## DEFINITIONS

6. ***The following terms are used in this Standard with the meanings specified:***

***Carrying amount is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.***

***Cost is the amount of cash or cash equivalents paid and the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.***

***Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.***

***Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.***

***Entity-specific value is the present value of the cash flows an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.***

***Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.***

***An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount.***

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*Property, plant and equipment are tangible items that:*

*(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes;*

*and*

*(b) are expected to be used during more than one period.*

*Recoverable amount is the higher of an asset's net selling price and its value in use.*

*The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.*

*Useful life is:*

*(a) the period over which an asset is expected to be available for use by an entity; or*

*(b) the number of production or similar units expected to be obtained from the asset by an entity.*

#### RECOGNITION

7. *The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:*

*(a) it is probable that future economic benefits associated with the item will flow to the entity;*

*and*

*(b) the cost of the item can be measured reliably.*

8. Spare parts and servicing equipment are usually carried as inventory and recognised in profit or loss as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when an entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

9. This Standard does not prescribe the unit of measure for recognition, ie what constitutes an item of property, plant and equipment. Thus, judgement is required in applying the recognition criteria to an entity's specific circumstances. It may be appropriate to aggregate individually insignificant items, such as moulds, tools and dies, and to apply the criteria to the aggregate value.

10. An entity evaluates under this recognition principle all its property, plant and equipment costs at the time they are incurred. These costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it.

*Initial Costs*

11. Items of property, plant and equipment may be acquired for safety or environmental reasons. The acquisition of such property, plant and equipment, although not directly increasing the future economic benefits of any particular existing item of property, plant and equipment, may be necessary for an entity to obtain the future economic benefits from its other assets. Such items of property, plant and equipment qualify for recognition as assets because they enable an entity to derive future economic benefits from related assets in excess of what could be derived had those items not been acquired. For example, a chemical manufacturer may install new chemical handling processes to comply with environmental requirements for the production and storage of dangerous chemicals; related plant enhancements are recognised as an asset because without them the entity is unable to manufacture and sell chemicals. However, the resulting carrying amount of such an asset and related assets is reviewed for impairment in accordance with IAS 36 *Impairment of Assets*.

*Subsequent Costs*

12. Under the recognition principle in paragraph 7, an entity does not recognise in the carrying amount of an item of property, plant and equipment the costs of the day-to-day servicing of the item. Rather, these costs are recognised in profit or loss as incurred. Costs of day-to-day servicing are primarily the costs of labour and consumables, and may include the cost of small parts. The purpose of these expenditures is often described as for the 'repairs and maintenance' of the item of property, plant and equipment.
13. Parts of some items of property, plant and equipment may require replacement at regular intervals. For example, a furnace may require relining after a specified number of hours of use, or aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe. Items of property, plant and equipment may also be acquired to make a less frequently recurring replacement, such as replacing the interior walls of a building, or to make a non-recurring replacement. Under the recognition principle in paragraph 7, an entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognised in accordance with the derecognition provisions of this Standard (see paragraphs 67-72).
14. A condition of continuing to operate an item of property, plant and equipment (for example, an aircraft) may be performing regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognised in the carrying amount of the item of property, plant and equipment as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous inspection (as distinct from physical parts) is derecognised. This occurs regardless of whether the cost of the previous inspection was identified in the transaction in which the item was acquired or constructed. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired or constructed.

**MEASUREMENT AT RECOGNITION**

15. ***An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost.***

*Elements of Cost*

16. The cost of an item of property, plant and equipment comprises:
  - (a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
  - (b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
  - (c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.



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17. Examples of directly attributable costs are:
- (a) costs of employee benefits (as defined in IAS 19 *Employee Benefits*) arising directly from the construction or acquisition of the item of property, plant and equipment;
  - (b) costs of site preparation;
  - (c) initial delivery and handling costs;
  - (d) installation and assembly costs;
  - (e) costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment);
- and
- (f) professional fees.
18. An entity applies IAS 2 *Inventories* to the costs of obligations for dismantling, removing and restoring the site on which an item is located that are incurred during a particular period as a consequence of having used the item to produce inventories during that period. The obligations for costs accounted for in accordance with IAS 2 or IAS 16 are recognised and measured in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.
19. Examples of costs that are not costs of an item of property, plant and equipment are:
- (a) costs of opening a new facility;
  - (b) costs of introducing a new product or service (including costs of advertising and promotional activities);
  - (c) costs of conducting business in a new location or with a new class of customer (including costs of staff training);
- and
- (d) administration and other general overhead costs.
20. Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an item are not included in the carrying amount of that item. For example, the following costs are not included in the carrying amount of an item of property, plant and equipment:
- (a) costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity;
  - (b) initial operating losses, such as those incurred while demand for the item's output builds up;
- and
- (c) costs of relocating or reorganising part or all of an entity's operations.
21. Some operations occur in connection with the construction or development of an item of property, plant and equipment, but are not necessary to bring the item to the location and condition necessary for it to be capable of operating in the manner intended by management. These incidental operations may occur before or during the construction or development activities. For example, income may be earned through using a building site as a car park until construction starts. Because incidental operations are not necessary to bring an item to the location and condition necessary for it to be capable of operating in the manner intended by management, the income and related expenses of incidental operations are recognised in profit or loss and included in their respective classifications of income and expense.

22. The cost of a self-constructed asset is determined using the same principles as for an acquired asset. If an entity makes similar assets for sale in the normal course of business, the cost of the asset is usually the same as the cost of constructing an asset for sale (see IAS 2). Therefore, any internal profits are eliminated in arriving at such costs. Similarly, the cost of abnormal amounts of wasted material, labour, or other resources incurred in self-constructing an asset is not included in the cost of the asset. IAS 23 *Borrowing Costs* establishes criteria for the recognition of interest as a component of the carrying amount of a self-constructed item of property, plant and equipment.

#### *Measurement of Cost*

23. The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit unless such interest is recognised in the carrying amount of the item in accordance with the allowed alternative treatment in IAS 23.
24. One or more items of property, plant and equipment may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers simply to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such an item of property, plant and equipment is measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. The acquired item is measured in this way even if an entity cannot immediately derecognise the asset given up. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.
25. An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows are expected to change as a result of the transaction. An exchange transaction has commercial substance if:
- (a) the configuration (risk, timing and amount) of the cash flows of the asset received differs from the configuration of the cash flows of the asset transferred;
- or
- (b) the entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange;
- and
- (c) the difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

For the purpose of determining whether an exchange transaction has commercial substance, the entity-specific value of the portion of the entity's operations affected by the transaction shall reflect post-tax cash flows. The result of these analyses may be clear without an entity having to perform detailed calculations.

26. The fair value of an asset for which comparable market transactions do not exist is reliably measurable if (a) the variability in the range of reasonable fair value estimates is not significant for that asset or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value. If an entity is able to determine reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident.
27. The cost of an item of property, plant and equipment held by a lessee under a finance lease is determined in accordance with IAS 17 *Leases*.
28. The carrying amount of an item of property, plant and equipment may be reduced by government grants in accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*.

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## MEASUREMENT AFTER RECOGNITION

29. **An entity shall choose either the cost model in paragraph 30 or the revaluation model in paragraph 31 as its accounting policy and shall apply that policy to an entire class of property, plant and equipment.**

## Cost Model

30. **After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.**

## Revaluation Model

31. **After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.**

32. The fair value of land and buildings is usually determined from market-based evidence by appraisal that is normally undertaken by professionally qualified valuers. The fair value of items of plant and equipment is usually their market value determined by appraisal.

33. If there is no market-based evidence of fair value because of the specialised nature of the item of property, plant and equipment and the item is rarely sold, except as part of a continuing business, an entity may need to estimate fair value using an income or a depreciated replacement cost approach.

34. The frequency of revaluations depends upon the changes in fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required. Some items of property, plant and equipment experience significant and volatile changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only every three or five years.

35. When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is treated in one of the following ways:

- (a) restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. This method is often used when an asset is revalued by means of applying an index to its depreciated replacement cost.
- (b) eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. This method is often used for buildings.

The amount of the adjustment arising on the restatement or elimination of accumulated depreciation forms part of the increase or decrease in carrying amount that is accounted for in accordance with paragraphs 39 and 40.

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

37. A class of property, plant and equipment is a grouping of assets of a similar nature and use in an entity's operations. The following are examples of separate classes:

- (a) land;
- (b) land and buildings;

- (c) machinery;
  - (d) ships;
  - (e) aircraft;
  - (f) motor vehicles;
  - (g) furniture and fixtures;
  - and
  - (h) office equipment.
38. The items within a class of property, plant and equipment are revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates. However, a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date.
39. ***If an asset's carrying amount is increased as a result of a revaluation, the increase shall be credited directly to equity under the heading of revaluation surplus. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.***
40. ***If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall be debited directly to equity under the heading of revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.***
41. The revaluation surplus included in equity in respect of an item of property, plant and equipment may be transferred directly to retained earnings when the asset is derecognised. This may involve transferring the whole of the surplus when the asset is retired or disposed of. However, some of the surplus may be transferred as the asset is used by an entity. In such a case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Transfers from revaluation surplus to retained earnings are not made through profit or loss.
42. The effects of taxes on income, if any, resulting from the revaluation of property, plant and equipment are recognised and disclosed in accordance with IAS 12 *Income Taxes*.

#### *Depreciation*

43. ***Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.***
44. An entity allocates the amount initially recognised in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. For example, it may be appropriate to depreciate separately the airframe and engines of an aircraft, whether owned or subject to a finance lease.
45. A significant part of an item of property, plant and equipment may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge.
46. To the extent that an entity depreciates separately some parts of an item of property, plant and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts of the item that are individually not significant. If an entity has varying expectations for these parts, approximation techniques may be necessary to depreciate the remainder in a manner that faithfully represents the consumption pattern and/or useful life of its parts.
47. An entity may choose to depreciate separately the parts of an item that do not have a cost that is significant in relation to the total cost of the item.
48. ***The depreciation charge for each period shall be recognised in profit or loss unless it is included in the carrying amount of another asset.***

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49. The depreciation charge for a period is usually recognised in profit or loss. However, sometimes, the future economic benefits embodied in an asset are absorbed in producing other assets. In this case, the depreciation charge constitutes part of the cost of the other asset and is included in its carrying amount. For example, the depreciation of manufacturing plant and equipment is included in the costs of conversion of inventories (see IAS 2). Similarly, depreciation of property, plant and equipment used for development activities may be included in the cost of an intangible asset recognised in accordance with IAS 38 *Intangible Assets*.

## Depreciable Amount and Depreciation Period

50. ***The depreciable amount of an asset shall be allocated on a systematic basis over its useful life.***
51. ***The residual value and the useful life of an asset shall be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.***
52. Depreciation is recognised even if the fair value of the asset exceeds its carrying amount, as long as the asset's residual value does not exceed its carrying amount. Repair and maintenance of an asset do not negate the need to depreciate it.
53. The depreciable amount of an asset is determined after deducting its residual value. In practice, the residual value of an asset is often insignificant and therefore immaterial in the calculation of the depreciable amount.
54. The residual value of an asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's depreciation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.
55. Depreciation of an asset begins when it is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases when the asset is derecognised. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use and held for disposal unless the asset is fully depreciated. However, under usage methods of depreciation the depreciation charge can be zero while there is no production.
56. The future economic benefits embodied in an asset are consumed by an entity principally through its use. However, other factors, such as technical or commercial obsolescence and wear and tear while an asset remains idle, often result in the diminution of the economic benefits that might have been obtained from the asset. Consequently, all the following factors are considered in determining the useful life of an asset:
- (a) expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output.
  - (b) expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance programme, and the care and maintenance of the asset while idle.
  - (c) technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset.
  - (d) legal or similar limits on the use of the asset, such as the expiry dates of related leases.
57. The useful life of an asset is defined in terms of the asset's expected utility to the entity. The asset management policy of the entity may involve the disposal of assets after a specified time or after consumption of a specified proportion of the future economic benefits embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of the asset is a matter of judgement based on the experience of the entity with similar assets.

58. Land and buildings are separable assets and are accounted for separately, even when they are acquired together. With some exceptions, such as quarries and sites used for landfill, land has an unlimited useful life and therefore is not depreciated. Buildings have a limited useful life and therefore are depreciable assets. An increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of the building.
59. If the cost of land includes the costs of site dismantlement, removal and restoration, that cost portion of the land asset is depreciated over the period of benefits obtained by incurring those costs. In some cases, the land itself may have a limited useful life, in which case it is depreciated in a manner that reflects the benefits to be derived from it.

#### Depreciation Method

60. ***The depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.***
61. ***The depreciation method applied to an asset shall be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with IAS 8.***
62. A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the units of production method. Straight-line depreciation results in a constant charge over the useful life if the asset's residual value does not change. The diminishing balance method results in a decreasing charge over the useful life. The units of production method results in a charge based on the expected use or output. The entity selects the method that most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. That method is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits.

#### Impairment

63. To determine whether an item of property, plant and equipment is impaired, an entity applies IAS 36 *Impairment of Assets*. That Standard explains how an entity reviews the carrying amount of its assets, how it determines the recoverable amount of an asset, and when it recognises, or reverses the recognition of, an impairment loss.
64. IAS 22 *Business Combinations* explains how to account for an impairment loss recognised before the end of the first annual accounting period beginning after a business combination that is an acquisition.

#### Compensation for Impairment

65. ***Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up shall be included in profit or loss when the compensation becomes receivable.***
66. Impairments or losses of items of property, plant and equipment, related claims for or payments of compensation from third parties and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for separately as follows:
- (a) impairments of items of property, plant and equipment are recognised in accordance with IAS 36;
  - (b) derecognition of items of property, plant and equipment retired or disposed of is determined in accordance with this Standard;
  - (c) compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in determining profit or loss when it becomes receivable;
- and
- (d) the cost of items of property, plant and equipment restored, purchased or constructed as replacements is determined in accordance with this Standard.

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67. *The carrying amount of an item of property, plant and equipment shall be derecognised:*
- (a) *on disposal;*
- or*
- (b) *when no future economic benefits are expected from its use or disposal.*
68. *The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in profit or loss when the item is derecognised (unless IAS 17 requires otherwise on a sale and leaseback). Gains shall not be classified as revenue.*
69. The disposal of an item of property, plant and equipment may occur in a variety of ways (eg by sale, by entering into a finance lease or by donation). In determining the date of disposal of an item, an entity applies the criteria in IAS 18 *Revenue* for recognising revenue from the sale of goods. IAS 17 applies to disposal by a sale and leaseback.
70. If, under the recognition principle in paragraph 7, an entity recognises in the carrying amount of an item of property, plant and equipment the cost of a replacement for part of the item, then it derecognises the carrying amount of the replaced part regardless of whether the replaced part had been depreciated separately. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed.
71. *The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.*
72. The consideration receivable on disposal of an item of property, plant and equipment is recognised initially at its fair value. If payment for the item is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue in accordance with IAS 18 reflecting the effective yield on the receivable.

## DISCLOSURE

73. *The financial statements shall disclose, for each class of property, plant and equipment:*
- (a) *the measurement bases used for determining the gross carrying amount;*
  - (b) *the depreciation methods used;*
  - (c) *the useful lives or the depreciation rates used;*
  - (d) *the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period;*
- and*
- (e) *a reconciliation of the carrying amount at the beginning and end of the period showing:*
    - (i) *additions;*
    - (ii) *disposals;*
    - (iii) *acquisitions through business combinations;*
    - (iv) *increases or decreases resulting from revaluations under paragraphs 31, 39 and 40 and from impairment losses recognised or reversed directly in equity in accordance with IAS 36;*
    - (v) *impairment losses recognised in profit or loss in accordance with IAS 36;*

- (vi) *impairment losses reversed in profit or loss in accordance with IAS 36;*
  - (vii) *depreciation;*
  - (viii) *the net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity;*
- and*
- (ix) *other changes.*

74. *The financial statements shall also disclose:*

- (a) *the existence and amounts of restrictions on title, and property, plant and equipment pledged as security for liabilities;*
  - (b) *the amount of expenditures recognised in the carrying amount of an item of property, plant and equipment in the course of its construction;*
  - (c) *the amount of contractual commitments for the acquisition of property, plant and equipment;*
- and*
- (d) *if it is not disclosed separately on the face of the income statement, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in profit or loss.*

75. Selection of the depreciation method and estimation of the useful life of assets are matters of judgement. Therefore, disclosure of the methods adopted and the estimated useful lives or depreciation rates provides users of financial statements with information that allows them to review the policies selected by management and enables comparisons to be made with other entities. For similar reasons, it is necessary to disclose:

- (a) depreciation, whether recognised in profit or loss or as a part of the cost of other assets, during a period;
- and
- (b) accumulated depreciation at the end of the period.

76. In accordance with IAS 8 an entity discloses the nature and effect of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in subsequent periods. For property, plant and equipment, such disclosure may arise from changes in estimates with respect to:

- (a) residual values;
  - (b) the estimated costs of dismantling, removing or restoring items of property, plant and equipment;
  - (c) useful lives;
- and
- (d) depreciation methods.

77. *If items of property, plant and equipment are stated at revalued amounts, the following shall be disclosed:*

- (a) *the effective date of the revaluation;*
- (b) *whether an independent valuer was involved;*
- (c) *the methods and significant assumptions applied in estimating the items' fair values;*



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- (d) *the extent to which the items' fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms or were estimated using other valuation techniques;*
- (e) *for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model;*

*and*

- (f) *the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders.*

78. In accordance with IAS 36 an entity discloses information on impaired property, plant and equipment in addition to the information required by paragraph 73(e)(iv)-(vi).

79. Users of financial statements may also find the following information relevant to their needs:

- (a) the carrying amount of temporarily idle property, plant and equipment;
  - (b) the gross carrying amount of any fully depreciated property, plant and equipment that is still in use;
  - (c) the carrying amount of property, plant and equipment retired from active use and held for disposal;
- and*
- (d) when the cost model is used, the fair value of property, plant and equipment when this is materially different from the carrying amount.

Therefore, entities are encouraged to disclose these amounts.

**TRANSITIONAL PROVISIONS**

80. *The requirements of paragraphs 24-26 regarding the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction shall be applied prospectively only to future transactions.*

**EFFECTIVE DATE**

81. *An entity shall apply this Standard for annual periods beginning on or after 1 January 2005. Earlier application is encouraged. If an entity applies this Standard for a period beginning before 1 January 2005, it shall disclose that fact.*

**WITHDRAWAL OF OTHER PRONOUNCEMENTS**

82. This Standard supersedes IAS 16 *Property, Plant and Equipment* (revised in 1998).

83. This Standard supersedes the following Interpretations:

- (a) SIC-6 *Costs of Modifying Existing Software*;
- (b) SIC-14 *Property, Plant and Equipment — Compensation for the Impairment or Loss of Items*;

*and*

- (c) SIC-23 *Property, Plant and Equipment — Major Inspection or Overhaul Costs*.

## APPENDIX

## IAS 16

**Amendments to Other Pronouncements**

*The amendments in this appendix shall be applied for annual periods beginning on or after 1 January 2005. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.*

- A1. IFRS 1 *First-time Adoption of International Financial Reporting Standards* and its accompanying documents are amended as described below:

In the IFRS, paragraph 24 is amended to read as follows:

- 24 If a subsidiary becomes a first-time adopter later than its parent, the subsidiary shall, in its individual financial statements, measure its assets and liabilities at either:

...

- (b) the carrying amounts required by the rest of this IFRS, based on the subsidiary's date of transition to IFRSs. These carrying amounts could differ from those described in (a):

...

- (ii) when the accounting policies used in the subsidiary's financial statements differ from those in the consolidated financial statements. For example, the subsidiary may use as its accounting policy the cost model in IAS 16 *Property, Plant and Equipment*, whereas the group may use the revaluation model.

- A2. In IAS 14 *Segment Reporting*, paragraph 21 is amended to read as follows:

21. Measurements of segment assets and liabilities include adjustments to the prior carrying amounts of the identifiable segment assets and segment liabilities of an entity acquired in a business combination accounted for as a purchase, even if those adjustments are made only for the purpose of preparing consolidated financial statements and are not recorded in either the parent's separate or the subsidiary's individual financial statements. Similarly, if property, plant and equipment has been revalued subsequent to acquisition in accordance with the revaluation model in IAS 16, then measurements of segment assets reflect those revaluations.

- A3. [Amendment not applicable to bare Standards]

- A4. IAS 36 *Impairment of Assets* is amended as described below:

In the Standard, paragraphs 4, 9, 37, 38, 41, 42, 59, 96 and 104 are amended to read as follows:

4. This Standard applies to assets that are carried at revalued amount (fair value) under other Standards, such as the revaluation model in IAS 16 *Property, Plant and Equipment*. However, identifying whether a revalued asset may be impaired depends on the basis used to determine fair value:

...

9. ***In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:***

...

***Internal sources of information***

...

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- (f) *significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, and plans to dispose of an asset before the previously expected date;*

*and*

...

37. *Future cash flows shall be estimated for the asset in its current condition. Estimates of future cash flows shall not include estimated future cash inflows or outflows that are expected to arise from:*

...

- (b) *future costs to add to, replace part of, or service the asset.*

38. Because future cash flows are estimated for the asset in its current condition, value in use does not reflect:

...

- (b) *future costs to add to, replace part of, or service the asset or the related future benefits from this future cost.*

41. Until an entity incurs costs to add to, replace part of, or service the asset, estimates of future cash flows do not include the estimated future cash inflows expected to arise from this cost (see Appendix A, Example 6).

42. Estimates of future cash flows include future costs necessary for the day-to-day servicing of the asset.

59. *An impairment loss shall be recognised as an expense in the income statement immediately, unless the asset is carried at revalued amount under another Standard (for example, in accordance with the revaluation model in IAS 16 Property, Plant and Equipment). Any impairment loss of a revalued asset shall be treated as a revaluation decrease under that other Standard.*

96. *In assessing whether there is any indication that an impairment loss recognised for an asset in prior years may no longer exist or may have decreased, an entity shall consider, as a minimum, the following indications:*

...

**Internal sources of information**

- (d) *significant changes with a favourable effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, the asset is used or is expected to be used. These changes include costs incurred during the period to add to, replace part of, or service the asset or a commitment to discontinue or restructure the operation to which the asset belongs;*

*and*

...

104. *A reversal of an impairment loss for an asset shall be recognised as income immediately in the income statement, unless the asset is carried at revalued amount under another Standard (for example, in accordance with the revaluation model in IAS 16 Property, Plant and Equipment). Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase under that other Standard.*

A5. In IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, the footnote in paragraph 14(a) is deleted.

A6. IAS 38 *Intangible Assets* is amended as described below:

### **Introduction**

Paragraph 7 is deleted.

### **Standard**

In paragraph 7 the following definition is added:

*Entity-specific value is the present value of the cash flows an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.*

In paragraph 7 the following definitions are amended:

*Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.*

*Cost is the amount of cash or cash equivalents paid and the fair value of the other consideration given to acquire an asset at the time of its acquisition or production.*

*The residual value of an intangible asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.*

*Useful life is:*

- (a) *the period over which an asset is expected to be available for use by an entity; or*
- (b) *the number of production or similar units expected to be obtained from the asset by an entity.*

Paragraph 18 and the immediately preceding heading are amended to read as follows:

### **Recognition and Measurement**

18. The recognition of an item as an intangible asset requires an entity to demonstrate that the item meets:

- (a) the definition of an intangible asset (see paragraphs 7-17);

and

- (b) the recognition criteria set out in this Standard (see paragraphs 19-55).

This is the case for costs incurred initially to acquire or internally generate an intangible asset and those incurred subsequently to add to, replace part of, or service it.

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Paragraph 18A is added:

18A. The nature of intangible assets is such that, in many cases, there are no additions to an asset or replacements of part of an asset. Accordingly, most subsequent expenditures are likely to maintain the future economic benefits embodied in an existing intangible asset rather than meet the definition of an intangible asset and the recognition criteria set out in this Standard. In addition, it is often difficult to attribute subsequent expenditure directly to a particular intangible asset rather than to the business as a whole. Therefore, only rarely will subsequent expenditure — expenditure incurred after the initial recognition of a purchased intangible asset or after completion of an internally generated intangible asset — be recognised in the carrying amount of an asset. Consistently with paragraph 51, subsequent expenditure on brands, mastheads, publishing titles, customer lists and items similar in substance (whether externally purchased or internally generated) is always recognised in profit or loss as incurred to avoid the recognition of internally generated goodwill.

Paragraph 24 is amended to read as follows:

24. The cost of an intangible asset comprises:

- (a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;

and

- (b) any directly attributable cost of preparing the asset for its intended use.

Paragraphs 24A-24D are added:

24A. Examples of directly attributable costs are:

- (a) costs of employee benefits (as defined in IAS 19 *Employee Benefits*) arising directly from bringing the asset to its working condition;

and

- (b) professional fees.

24B. Examples of costs that are not a cost of an intangible asset are:

- (a) costs of introducing a new product or service (including costs of advertising and promotional activities);

- (b) costs of conducting business in a new location or with a new class of customer (including costs of staff training);

and

- (c) administration and other general overhead costs.

24C. Recognition of costs in the carrying amount of an intangible asset ceases when it is in the condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an intangible asset are not included in the carrying amount of that asset. For example, the following costs are not included in the carrying amount of an intangible asset:

- (a) costs incurred while an asset capable of operating in the manner intended by management has yet to be brought into use;

and

- (b) initial operating losses, such as those incurred while demand for the asset's output builds up.

- 24D. Some operations occur in connection with the development of an intangible asset, but are not necessary to bring the asset to the condition necessary for it to be capable of operating in the manner intended by management. These incidental operations may occur before or during the development activities. Because incidental operations are not necessary to bring an asset to the condition necessary for it to be capable of operating in the manner intended by management, the income and related expenses of incidental operations are recognised in profit or loss and included in their respective classifications of income and expense.

Paragraph 34 is amended to read as follows:

34. One or more intangible assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers simply to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such an intangible asset is measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. The acquired asset is measured in this way even if an entity cannot immediately derecognise the asset given up. If the acquired asset is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

Paragraphs 34A and 34B are added:

- 34A. An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows are expected to change as a result of the transaction. An exchange transaction has commercial substance if:

- (a) the configuration (risk, timing and amount) of the cash flows of the asset received differs from the configuration of the cash flows of the asset transferred;

or

- (b) the entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange;

and

- (c) the difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

For the purpose of determining whether an exchange transaction has commercial substance, the entity-specific value of the portion of the entity's operations affected by the transaction shall reflect post-tax cash flows. The result of these analyses may be clear without an entity having to perform detailed calculations.

- 34B. Paragraph 19(b) specifies that a condition for the recognition of an intangible asset is that the cost of the asset can be measured reliably. The fair value of an intangible asset for which comparable market transactions do not exist is reliably measurable if (a) the variability in the range of reasonable fair value estimates is not significant for that asset or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value. If an entity is able to determine reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure cost unless the fair value of the asset received is more clearly evident.

Paragraph 35 is deleted.

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Paragraph 54 is amended to read as follows:

54. The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management. Examples of directly attributable costs are:

- (a) costs of materials and services used or consumed in generating the intangible asset;
- (b) costs of employee benefits (as defined in IAS 19 *Employee Benefits*) arising from the generation of the intangible asset;
- (c) fees to register a legal right;

and

- (d) amortisation of patents and licences that are used to generate the intangible asset.

IAS 23 *Borrowing Costs* specifies criteria for the recognition of interest as an element of the cost of an internally generated intangible asset.

The heading preceding paragraphs 60-62 is deleted.

Paragraphs 60 and 61 are deleted.

Paragraph 62 is deleted, its content having been moved to paragraph 18A.

The heading preceding paragraph 63 is amended to read as follows:

**Measurement After Recognition**

Paragraphs 76 and 77 are amended to read as follows:

76. ***If an intangible asset's carrying amount is increased as a result of a revaluation, the increase shall be credited directly to equity under the heading of revaluation surplus. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.***

77. ***If an intangible asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall be debited directly to equity under the heading of revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.***

Paragraphs 79 and 80 are amended to read as follows:

79. ***The depreciable amount of an intangible asset shall be allocated on a systematic basis over its useful life. There is a rebuttable presumption that the useful life of an intangible asset will not exceed twenty years from the date when the asset is available for use. Amortisation shall begin when the asset is available for use. Amortisation shall cease when the asset is derecognised.***

80. Amortisation is recognised even if there has been an increase in, for example, the asset's fair value or recoverable amount. Many factors are considered in determining the useful life of an intangible asset, including:

- (a) the expected usage of the asset by the entity and whether the asset could be managed efficiently by another management team;

- (b) typical product life cycles for the asset and public information on estimates of useful lives of similar assets that are used in a similar way;
  - (c) technical, technological, commercial or other types of obsolescence;
  - (d) the stability of the industry in which the asset operates and changes in the market demand for the products or services output from the asset;
  - (e) expected actions by competitors or potential competitors;
  - (f) the level of maintenance expenditure required to obtain the expected future economic benefits from the asset and an entity's ability and intent to reach such a level;
  - (g) the period of control over the asset and legal or similar limits on the use of the asset, such as the expiry dates of related leases;
- and
- (h) whether the useful life of the asset is dependent on the useful life of other assets of the entity.

Paragraphs 88-90 are amended to read as follows:

88. ***The amortisation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. If that pattern cannot be determined reliably, the straight-line method shall be used. The amortisation charge for each period shall be recognised in profit or loss unless another Standard permits or requires it to be included in the carrying amount of another asset.***
89. A variety of amortisation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the units of production method. The method used is selected based on the expected pattern of consumption of the future economic benefits embodied in the asset and is applied consistently from period to period, unless there is a change in the expected pattern of consumption of those future economic benefits. There is rarely, if ever, persuasive evidence to support an amortisation method for intangible assets that results in a lower amount of accumulated amortisation than under the straight-line method.
90. Amortisation is usually recognised in profit or loss. However, sometimes the future economic benefits embodied in an asset are absorbed in producing other assets. In this case, the amortisation charge constitutes part of the cost of the other asset and is included in its carrying amount. For example, the amortisation of intangible assets used in a production process is included in the carrying amount of inventories (see IAS 2 *Inventories*).

Paragraph 93 is amended to read as follows:

93. An estimate of an asset's residual value is based on the amount recoverable from disposal using prices prevailing at the date of the estimate for the sale of a similar asset that has reached the end of its useful life and has operated under conditions similar to those in which the asset will be used. The residual value is reviewed at least at each financial year-end. A change in the asset's residual value is accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Paragraph 93A is added:

- 93A. The residual value of an intangible asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's amortisation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.



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Paragraphs 94 and 95 are amended to read as follows:

94. *The amortisation period and the amortisation method shall be reviewed at least at each financial year-end. If the expected useful life of the asset is different from previous estimates, the amortisation period shall be changed accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits embodied in the asset, the amortisation method shall be changed to reflect the changed pattern. Such changes shall be accounted for as changes in accounting estimates in accordance with IAS 8.*
95. *During the life of an intangible asset, it may become apparent that the estimate of its useful life is inappropriate. For example, the recognition of an impairment loss may indicate that the amortisation period needs to be changed.*

Paragraphs 103 and 104 are amended to read as follows:

103. *An intangible asset shall be derecognised:*

(a) *on disposal;*

*or*

(b) *when no future economic benefits are expected from its use or disposal.*

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

Paragraphs 104A-104C are added:

- 104A. The disposal of an intangible asset may occur in a variety of ways (eg by sale, by entering into a finance lease, or by donation). In determining the date of disposal of such an asset, an entity applies the criteria in IAS 18 *Revenue* for recognising revenue from the sale of goods. IAS 17 applies to disposal by a sale and leaseback.
- 104B. If under the recognition principle in paragraph 19 an entity recognises in the carrying amount of an asset the cost of a replacement for part of an intangible asset, then it derecognises the carrying amount of the replaced part. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or internally generated.
- 104C. The consideration receivable on disposal of an intangible asset is recognised initially at its fair value. If payment for the intangible asset is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue in accordance with IAS 18 reflecting the effective yield on the receivable.

Paragraph 105 is deleted.

Paragraph 106 is amended to read as follows:

106. Amortisation does not cease when the intangible asset is no longer used or is held for disposal unless the asset has been fully depreciated.

In paragraph 107, the sentence '*Comparative information is not required.*' is deleted.

Paragraph 111(e) is amended to read as follows:

(e) *the amount of contractual commitments for the acquisition of intangible assets.*

Paragraph 113(a)(iii) is amended to read as follows:

- (iii) ***the carrying amount that would have been recognised had the revalued class of intangible assets been carried under the benchmark treatment in paragraph 63;***

***and***

Paragraph 113(b) is amended to read as follows and paragraph 113(c) is added:

- (b) ***the amount of the revaluation surplus that relates to intangible assets at the beginning and end of the period, indicating the changes during the period and any restrictions on the distribution of the balance to shareholders;***

***and***

- (c) ***the methods and significant assumptions applied in estimating the assets' fair values.***

Paragraph 121A is added:

121A. The requirements of paragraphs 34-34B regarding the initial measurement of an intangible asset acquired in an exchange of assets transaction shall be applied prospectively only to future transactions.

A7. SIC-13 *Jointly Controlled Entities — Non-Monetary Contributions by Venturers* is amended as described below.

Paragraphs 5 and 6 are amended to read as follows:

5. In applying IAS 31.48 to non-monetary contributions to a JCE in exchange for an equity interest in the JCE, a venturer shall recognise in profit or loss for the period the portion of a gain or loss attributable to the equity interests of the other venturers except when:

- (a) the significant risks and rewards of ownership of the contributed non-monetary asset(s) have not been transferred to the JCE;

or

- (b) the gain or loss on the non-monetary contribution cannot be measured reliably;

or

- (c) the contribution transaction lacks commercial substance, as that term is described in IAS 16 *Property, Plant and Equipment*.

If exception (a), (b) or (c) applies, the gain or loss is regarded as unrealised and therefore is not recognised in profit or loss unless paragraph 6 also applies.

6. If, in addition to receiving an equity interest in the JCE, a venturer receives monetary or non-monetary assets, an appropriate portion of gain or loss on the transaction shall be recognised by the venturer in profit or loss.

After the **Effective Date** paragraph, paragraphs 14 and 15 are inserted, as follows:

14. The amendments to the accounting for the non-monetary contribution transactions specified in paragraph 5 shall be applied prospectively to future transactions.

**IAS 16**

15. An entity shall apply the amendments to this Interpretation made by IAS 16 *Property, Plant and Equipment* for annual periods beginning on or after 1 January 2005. If an entity applies that Standard for an earlier period, it shall also apply these amendments for that earlier period.
- A8. In SIC-21 *Income Taxes — Recovery of Revalued Non-Depreciable Assets*, paragraphs 3 - 5 are amended to read as follows:
3. The issue is how to interpret the term “recovery” in relation to an asset that is not depreciated (non-depreciable asset) and is revalued in accordance with paragraph 31 of IAS 16.
  4. This Interpretation also applies to investment properties that are carried at revalued amounts under IAS 40.33 but would be considered non-depreciable if IAS 16 were to be applied.
  5. The deferred tax liability or asset that arises from the revaluation of a non-depreciable asset in accordance with IAS 16.31 shall be measured on the basis of the tax consequences that would follow from recovery of the carrying amount of that asset through sale, regardless of the basis of measuring the carrying amount of that asset. Accordingly, if the tax law specifies a tax rate applicable to the taxable amount derived from the sale of an asset that differs from the tax rate applicable to the taxable amount derived from using an asset, the former rate is applied in measuring the deferred tax liability or asset related to a non-depreciable asset.
- A9. [Amendment not applicable to bare Standards]
- A10. In SIC-32 *Intangible Assets — Web Site Costs*, paragraph 9(d) is amended to read as follows:
- (d) the Operating stage begins once development of a web site is complete. Expenditure incurred in this stage shall be recognised as an expense when it is incurred unless it meets the recognition criteria in IAS 38.19.
- A11. In December 2002 the Board published an Exposure Draft of Proposed Amendments to IAS 36 *Impairment of Assets* and IAS 38 *Intangible Assets*. The Board’s proposed amendments to IAS 36 and IAS 38 reflect changes related to its decisions in its Business Combinations project. Because that project is still under way, those proposed changes are not reflected in the amendments to IAS 36 and IAS 38 included in this appendix.
- A12. In July 2003 the Board published ED 4 *Disposal of Non-current Assets and Presentation of Discontinued Operations* in which it proposed amendments to IAS 38 and to IAS 40 *Investment Property*. Those proposed changes are not reflected in the amendments to IAS 38 and IAS 40 included in this appendix.
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## INTERNATIONAL ACCOUNTING STANDARD 17

IAS 17

**Leases**

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This revised Standard supersedes IAS 17 (revised 1997) *Leases* and should be applied for annual periods beginning on or after 1 January 2005. Earlier application is encouraged.

**OBJECTIVE**

1. The objective of this Standard is to prescribe, for lessees and lessors, the appropriate accounting policies and disclosure to apply in relation to leases.

**SCOPE**

2. ***This Standard shall be applied in accounting for all leases other than:***
  - (a) *leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources;*

*and*

  - (b) *licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights.*

## IAS 17

*However, this Standard shall not be applied as the basis of measurement for:*

- (a) property held by lessees that is accounted for as investment property (see IAS 40 Investment Property);*
  - (b) investment property provided by lessors under operating leases (see IAS 40);*
  - (c) biological assets held by lessees under finance leases (see IAS 41 Agriculture);*
- or*
- (d) biological assets provided by lessors under operating leases (see IAS 41).*

3. This Standard applies to agreements that transfer the right to use assets even though substantial services by the lessor may be called for in connection with the operation or maintenance of such assets. This Standard does not apply to agreements that are contracts for services that do not transfer the right to use assets from one contracting party to the other.

#### DEFINITIONS

4. *The following terms are used in this Standard with the meanings specified:*

*A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.*

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

*An operating lease is a lease other than a finance lease.*

*A non-cancellable lease is a lease that is cancellable only:*

- (a) upon the occurrence of some remote contingency;*
- (b) with the permission of the lessor;*
- (c) if the lessee enters into a new lease for the same or an equivalent asset with the same lessor;*

*or*

- (d) upon payment by the lessee of such an additional amount that, at inception of the lease, continuation of the lease is reasonably certain.*

*The inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. As at this date:*

- (a) a lease is classified as either an operating or a finance lease;*

*and*

- (b) in the case of a finance lease, the amounts to be recognised at the commencement of the lease term are determined.*

*The commencement of the lease term is the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease (ie the recognition of the assets, liabilities, income or expenses resulting from the lease, as appropriate).*

*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, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.*

*Minimum lease payments are the payments over the lease term that the lessee is or can be required to make, excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor, together with:*

(a) *for a lessee, any amounts guaranteed by the lessee or by a party related to the lessee;*

*or*

(b) *for a lessor, any residual value guaranteed to the lessor by:*

(i) *the lessee;*

(ii) *a party related to the lessee;*

*or*

(iii) *a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.*

*However, if the lessee has an option to purchase the asset at a price that is expected to be sufficiently lower than fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised, the minimum lease payments comprise the minimum payments payable over the lease term to the expected date of exercise of this purchase option and the payment required to exercise it.*

*Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.*

*Economic life is either:*

(a) *the period over which an asset is expected to be economically usable by one or more users;*

*or*

(b) *the number of production or similar units expected to be obtained from the asset by one or more users.*

*Useful life is the estimated remaining period, from the commencement 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 entity.*

*Guaranteed residual value is:*

(a) *for a lessee, that part of the residual value that is guaranteed by the lessee or by a party related to the lessee (the amount of the guarantee being the maximum amount that could, in any event, become payable);*

*and*

(b) *for a lessor, that part of the residual value that is guaranteed by the lessee or by a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.*

## IAS 17

**Unguaranteed residual value is that portion of the residual value of the leased asset, the realisation of which by the lessor is not assured or is guaranteed solely by a party related to the lessor.**

**Initial direct costs are incremental costs that are directly attributable to negotiating and arranging a lease, except for such costs incurred by manufacturer or dealer lessors.**

**Gross investment in the lease is the aggregate of:**

(a) *the minimum lease payments receivable by the lessor under a finance lease,*

*and*

(b) *any unguaranteed residual value accruing to the lessor.*

**Net investment in the lease is the gross investment in the lease discounted at the interest rate implicit in the lease.**

**Unearned finance income is the difference between:**

(a) *the gross investment in the lease,*

*and*

(b) *the net investment in the lease.*

**The interest rate implicit in the lease is the discount rate that, at the inception of the lease, causes the aggregate present value of (a) the minimum lease payments and (b) the unguaranteed residual value to be equal to the sum of (i) the fair value of the leased asset and (ii) any initial direct costs of the lessor.**

**The lessee's incremental borrowing rate of interest is the rate of interest the lessee would have to pay on a similar lease or, if that is not determinable, the rate that, at the inception of the lease, the lessee would incur to borrow over a similar term, and with a similar security, the funds necessary to purchase the asset.**

**Contingent rent is that portion of the lease payments that is not fixed in amount but is based on the future amount of a factor that changes other than with the passage of time (eg percentage of future sales, amount of future use, future price indices, future market rates of interest).**

5. A lease agreement or commitment may include a provision to adjust the lease payments for changes in the construction or acquisition cost of the leased property or for changes in some other measure of cost or value, such as general price levels, or in the lessor's costs of financing the lease, during the period between the inception of the lease and the commencement of the lease term. If so, the effect of any such changes shall be deemed to have taken place at the inception of the lease for the purposes of this Standard.
6. The definition of a lease includes contracts for the hire of an asset that contain a provision giving the hirer an option to acquire title to the asset upon the fulfilment of agreed conditions. These contracts are sometimes known as hire purchase contracts.

#### CLASSIFICATION OF LEASES

7. The classification of leases adopted in this Standard is based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. Risks include the possibilities of losses from idle capacity or technological obsolescence and of variations in return because of changing economic conditions. Rewards may be represented by the expectation of profitable operation over the asset's economic life and of gain from appreciation in value or realisation of a residual value.

8. ***A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.***
9. Because the transaction between a lessor and a lessee is based on a lease agreement between them, it is appropriate to use consistent definitions. The application of these definitions to the differing circumstances of the lessor and lessee may result in the same lease being classified differently by them. For example, this may be the case if the lessor benefits from a residual value guarantee provided by a party unrelated to the lessee.
10. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. (\*) Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:
- (a) the lease transfers ownership of the asset to the lessee by the end of the lease term;
  - (b) the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
  - (c) the lease term is for the major part of the economic life of the asset even if title is not transferred;
  - (d) at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset;
- and
- (e) the leased assets are of such a specialised nature that only the lessee can use them without major modifications.
11. Indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease are:
- (a) if the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;
  - (b) gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equalling most of the sales proceeds at the end of the lease);
- and
- (c) the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.
12. The examples and indicators in paragraphs 10 and 11 are not always conclusive. If it is clear from other features that the lease does not transfer substantially all risks and rewards incidental to ownership, the lease is classified as an operating lease. For example, this may be the case if ownership of the asset transfers at the end of the lease for a variable payment equal to its then fair value, or if there are contingent rents, as a result of which the lessee does not have substantially all such risks and rewards.

(\*) See also SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.



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13. Lease classification is made at the inception of the lease. If at any time the lessee and the lessor agree to change the provisions of the lease, other than by renewing the lease, in a manner that would have resulted in a different classification of the lease under the criteria in paragraphs 7-12 if the changed terms had been in effect at the inception of the lease, the revised agreement is regarded as a new agreement over its term. However, changes in estimates (for example, changes in estimates of the economic life or of the residual value of the leased property), or changes in circumstances (for example, default by the lessee), do not give rise to a new classification of a lease for accounting purposes.
14. Leases of land and of buildings are classified as operating or finance leases in the same way as leases of other assets. However, a characteristic of land is that it normally has an indefinite economic life and, if title is not expected to pass to the lessee by the end of the lease term, the lessee normally does not receive substantially all of the risks and rewards incidental to ownership, in which case the lease of land will be an operating lease. A payment made on entering into or acquiring a leasehold that is accounted for as an operating lease represents prepaid lease payments that are amortised over the lease term in accordance with the pattern of benefits provided.
15. The land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. If title to both elements is expected to pass to the lessee by the end of the lease term, both elements are classified as a finance lease, whether analysed as one lease or as two leases, unless it is clear from other features that the lease does not transfer substantially all risks and rewards incidental to ownership of one or both elements. When the land has an indefinite economic life, the land element is normally classified as an operating lease unless title is expected to pass to the lessee by the end of the lease term, in accordance with paragraph 14. The buildings element is classified as a finance or operating lease in accordance with paragraphs 7-13.
16. Whenever necessary in order to classify and account for a lease of land and buildings, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the buildings elements in proportion to the relative fair values of the leasehold interests in the land element and buildings element of the lease at the inception of the lease. If the lease payments cannot be allocated reliably between these two elements, the entire lease is classified as a finance lease, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.
17. For a lease of land and buildings in which the amount that would initially be recognised for the land element, in accordance with paragraph 20, is immaterial, the land and buildings may be treated as a single unit for the purpose of lease classification and classified as a finance or operating lease in accordance with paragraphs 7-13. In such a case, the economic life of the buildings is regarded as the economic life of the entire leased asset.
18. Separate measurement of the land and buildings elements is not required when the lessee's interest in both land and buildings is classified as an investment property in accordance with IAS 40 and the fair value model is adopted. Detailed calculations are required for this assessment only if the classification of one or both elements is otherwise uncertain.
19. In accordance with IAS 40, it is possible for a lessee to classify a property interest held under an operating lease as an investment property. If it does, the property interest is accounted for as if it were a finance lease and, in addition, the fair value model is used for the asset recognised. The lessee shall continue to account for the lease as a finance lease, even if a subsequent event changes the nature of the lessee's property interest so that it is no longer classified as investment property. This will be the case if, for example, the lessee:
  - (a) occupies the property, which is then transferred to owner-occupied property at a deemed cost equal to its fair value at the date of change in use;

or

  - (b) grants a sublease that transfers substantially all of the risks and rewards incidental to ownership of the interest to an unrelated third party. Such a sublease is accounted for by the lessee as a finance lease to the third party, although it may be accounted for as an operating lease by the third party.

## LEASES IN THE FINANCIAL STATEMENTS OF LESSEES

IAS 17

## Finance Leases

## Initial Recognition

20. **At the commencement of the lease term, lessees shall recognise finance leases as assets and liabilities in their balance sheets at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the lessee's incremental borrowing rate shall be used. Any initial direct costs of the lessee are added to the amount recognised as an asset.**
21. Transactions and other events are accounted for and presented in accordance with their substance and financial reality and not merely with legal form. Although the legal form of a lease agreement is that the lessee may acquire no legal title to the leased asset, in the case of finance leases the substance and financial reality are that the lessee acquires the economic benefits of the use of the leased asset for the major part of its economic life in return for entering into an obligation to pay for that right an amount approximating, at the inception of the lease, the fair value of the asset and the related finance charge.
22. If such lease transactions are not reflected in the lessee's balance sheet, the economic resources and the level of obligations of an entity are understated, thereby distorting financial ratios. Therefore, it is appropriate for a finance lease to be recognised in the lessee's balance sheet both as an asset and as an obligation to pay future lease payments. At the commencement of the lease term, the asset and the liability for the future lease payments are recognised in the balance sheet at the same amounts except for any initial direct costs of the lessee that are added to the amount recognised as an asset.
23. It is not appropriate for the liabilities for leased assets to be presented in the financial statements as a deduction from the leased assets. If for the presentation of liabilities on the face of the balance sheet a distinction is made between current and non-current liabilities, the same distinction is made for lease liabilities.
24. Initial direct costs are often incurred in connection with specific leasing activities, such as negotiating and securing leasing arrangements. The costs identified as directly attributable to activities performed by the lessee for a finance lease are added to the amount recognised as an asset.

## Subsequent Measurement

25. **Minimum lease payments shall be apportioned between the finance charge and the reduction of the outstanding liability. The finance charge shall be allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents shall be charged as expenses in the periods in which they are incurred.**
26. In practice, in allocating the finance charge to periods during the lease term, a lessee may use some form of approximation to simplify the calculation.
27. **A finance lease gives rise to depreciation expense for depreciable assets as well as finance expense for each accounting period. The depreciation policy for depreciable leased assets shall be consistent with that for depreciable assets that are owned, and the depreciation recognised shall be calculated in accordance with IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life.**
28. The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise the asset is depreciated over the shorter of the lease term and its useful life.

## IAS 17

29. The sum of the depreciation expense for the asset and the finance expense for the period is rarely the same as the lease payments payable for the period, and it is, therefore, inappropriate simply to recognise the lease payments payable as an expense. Accordingly, the asset and the related liability are unlikely to be equal in amount after the commencement of the lease term.
30. To determine whether a leased asset has become impaired, an entity applies IAS 36 *Impairment of Assets*.
31. **Lessees shall, in addition to meeting the requirements of IAS 32 Financial Instruments: Disclosure and Presentation, make the following disclosures for finance leases:**
- (a) **for each class of asset, the net carrying amount at the balance sheet date.**
  - (b) **a reconciliation between the total of future minimum lease payments at the balance sheet date, and their present value. In addition, an entity shall disclose the total of future minimum lease payments at the balance sheet date, and their present value, 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.**
  - (c) **contingent rents recognised as an expense in the period.**
  - (d) **the total of future minimum sublease payments expected to be received under non-cancellable subleases at the balance sheet date.**
  - (e) **a general description of the lessee's material leasing arrangements including, but not limited to, the following:**
    - (i) **the basis on which contingent rent payable is determined;**
    - (ii) **the existence and terms of renewal or purchase options and escalation clauses;**

**and**

    - (iii) **restrictions imposed by lease arrangements, such as those concerning dividends, additional debt, and further leasing.**
32. In addition, the requirements for disclosure in accordance with IAS 16, IAS 36, IAS 38, IAS 40 and IAS 41 apply to lessees for assets leased under finance leases.

## Operating Leases

33. **Lease payments under an operating lease shall be recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit (\*)**.
34. For operating leases, lease payments (excluding costs for services such as insurance and maintenance) are recognised as an expense on a straight-line basis unless another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on that basis.

(\*) See also SIC-15 *Operating Leases – Incentives*.

35. *Lessees shall, in addition to meeting the requirements of IAS 32, make the following disclosures for operating leases:*
- (a) *the total of future minimum lease payments under non—cancellable operating leases for each of the following periods:*
    - (i) *not later than one year;*
    - (ii) *later than one year and not later than five years;*
    - (iii) *later than five years.*
  - (b) *the total of future minimum sublease payments expected to be received under non-cancellable subleases at the balance sheet date.*
  - (c) *lease and sublease payments recognised as an expense in the period, with separate amounts for minimum lease payments, contingent rents, and sublease payments.*
  - (d) *a general description of the lessee's significant leasing arrangements including, but not limited to, the following:*
    - (i) *the basis on which contingent rent payable is determined;*
    - (ii) *the existence and terms of renewal or purchase options and escalation clauses;*

*and*

    - (iii) *restrictions imposed by lease arrangements, such as those concerning dividends, additional debt and further leasing.*

#### LEASES IN THE FINANCIAL STATEMENTS OF LESSORS

##### *Finance Leases*

##### *Initial Recognition*

36. *Lessors shall recognise assets held under a finance lease in their balance sheets and present them as a receivable at an amount equal to the net investment in the lease.*
37. Under a finance lease substantially all the risks and rewards incidental to legal ownership are transferred by the lessor, and thus the lease payment receivable is treated by the lessor as repayment of principal and finance income to reimburse and reward the lessor for its investment and services.
38. Initial direct costs are often incurred by lessors and include amounts such as commissions, legal fees and internal costs that are incremental and directly attributable to negotiating and arranging a lease. They exclude general overheads such as those incurred by a sales and marketing team. For finance leases other than those involving manufacturer or dealer lessors, initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. The interest rate implicit in the lease is defined in such a way that the initial direct costs are included automatically in the finance lease receivable; there is no need to add them separately. Costs incurred by manufacturer or dealer lessors in connection with negotiating and arranging a lease are excluded from the definition of initial direct costs. As a result, they are excluded from the net investment in the lease and are recognised as an expense when the selling profit is recognised, which for a finance lease is normally at the commencement of the lease term.

## IAS 17

## Subsequent Measurement

39. ***The recognition of finance income shall be based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease.***
40. A lessor aims to allocate finance income over the lease term on a systematic and rational basis. This income allocation is based on a pattern reflecting a constant periodic return on the lessor's net investment in the finance lease. Lease payments relating to the period, excluding costs for services, are applied against the gross investment in the lease to reduce both the principal and the unearned finance income.
41. Estimated unguaranteed residual values used in computing the lessor's gross investment in a lease are reviewed regularly. If there has been a reduction in the estimated unguaranteed residual value, the income allocation over the lease term is revised and any reduction in respect of amounts accrued is recognised immediately.
42. ***Manufacturer or dealer lessors shall recognise selling profit or loss in the period, in accordance with the policy followed by the entity for outright sales. If artificially low rates of interest are quoted, selling profit shall be restricted to that which would apply if a market rate of interest were charged. Costs incurred by manufacturer or dealer lessors in connection with negotiating and arranging a lease shall be recognised as an expense when the selling profit is recognised.***
43. Manufacturers or dealers often offer to customers the choice of either buying or leasing an asset. A finance lease of an asset by a manufacturer or dealer lessor gives rise to two types of income:
- (a) profit or loss equivalent to the profit or loss resulting from an outright sale of the asset being leased, at normal selling prices, reflecting any applicable volume or trade discounts;
- and
- (b) finance income over the lease term.
44. The sales revenue recognised at the commencement of the lease term by a manufacturer or dealer lessor is the fair value of the asset, or, if lower, the present value of the minimum lease payments accruing to the lessor, computed at a market rate of interest. The cost of sale recognised at the commencement of the lease term is the cost, or carrying amount if different, of the leased property less the present value of the unguaranteed residual value. The difference between the sales revenue and the cost of sale is the selling profit, which is recognised in accordance with the entity's policy for outright sales.
45. Manufacturer or dealer lessors sometimes quote artificially low rates of interest in order to attract customers. The use of such a rate would result in an excessive portion of the total income from the transaction being recognised at the time of sale. If artificially low rates of interest are quoted, selling profit is restricted to that which would apply if a market rate of interest were charged.
46. Costs incurred by a manufacturer or dealer lessor in connection with negotiating and arranging a finance lease are recognised as an expense at the commencement of the lease term because they are mainly related to earning the manufacturer's or dealer's selling profit.
47. ***Lessors shall, in addition to meeting the requirements in IAS 32, disclose the following for finance leases:***
- (a) ***a reconciliation between the 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 entity shall disclose the 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.***

- (b) *unearned finance income.*
- (c) *the unguaranteed residual values accruing to the benefit of the lessor.*
- (d) *the accumulated allowance for uncollectible minimum lease payments receivable.*
- (e) *contingent rents recognised as income in the period.*
- (f) *a general description of the lessor's material leasing arrangements.*

48. As an indicator of growth it is often useful also to disclose the gross investment less unearned income in new business added during the period, after deducting the relevant amounts for cancelled leases.

#### Operating Leases

49. *Lessors shall present assets subject to operating leases in their balance sheets according to the nature of the asset.*
50. *Lease income from operating leases shall be recognised in income 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 (\*).*
51. Costs, including depreciation, incurred in earning the lease income are recognised as an expense. Lease income (excluding receipts for services provided such as insurance and maintenance) is recognised on a straight-line basis over the lease term even if the receipts are not on such a basis, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.
52. *Initial direct costs incurred by lessors in negotiating and arranging an operating lease shall be added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.*
53. *The depreciation policy for depreciable leased assets shall be consistent with the lessor's normal depreciation policy for similar assets, and depreciation shall be calculated in accordance with IAS 16 and IAS 38.*
54. To determine whether a leased asset has become impaired, an entity applies IAS 36.
55. A manufacturer or dealer lessor does not recognise any selling profit on entering into an operating lease because it is not the equivalent of a sale.
56. *Lessors shall, in addition to meeting the requirements of IAS 32, disclose the following for operating leases:*
- (a) *the future minimum lease payments under 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;*
    - (iii) *later than five years.*
  - (b) *total contingent rents recognised as income in the period.*
  - (c) *a general description of the lessor's leasing arrangements.*

(\*) See also SIC-15 Operating Leases – Incentives.

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57. In addition, the disclosure requirements in IAS 16, IAS 36, IAS 38, IAS 40 and IAS 41 apply to lessors for assets provided under operating leases.

## SALE AND LEASEBACK TRANSACTIONS

58. A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. The lease payment and the sale price are usually interdependent because they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends upon the type of lease involved.
59. ***If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount shall not be immediately recognised as income by a seller-lessee. Instead, it shall be deferred and amortised over the lease term.***
60. If the leaseback is a finance lease, the transaction is a means whereby the lessor provides finance to the lessee, with the asset as security. For this reason it is not appropriate to regard an excess of sales proceeds over the carrying amount as income. Such excess is deferred and amortised over the lease term.
61. ***If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss shall be recognised immediately. If the sale price is below fair value, any profit or loss shall be recognised immediately except that, if the loss is compensated for by future lease payments at below market price, it shall be deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value shall be deferred and amortised over the period for which the asset is expected to be used.***
62. If the leaseback is an operating lease, and the lease payments and the sale price are at fair value, there has in effect been a normal sale transaction and any profit or loss is recognised immediately.
63. ***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 shall be recognised immediately.***
64. For finance leases, no such adjustment is necessary unless there has been an impairment in value, in which case the carrying amount is reduced to recoverable amount in accordance with IAS 36.
65. Disclosure requirements for lessees and lessors apply equally to sale and leaseback transactions. The required description of material leasing arrangements leads to disclosure of unique or unusual provisions of the agreement or terms of the sale and leaseback transactions.
66. Sale and leaseback transactions may trigger the separate disclosure criteria in IAS 1 *Presentation of Financial Statements*.

## TRANSITIONAL PROVISIONS

67. ***Subject to paragraph 68, retrospective application of this Standard is encouraged but not required. If the Standard is not applied retrospectively, the balance of any pre-existing finance lease is deemed to have been properly determined by the lessor and shall be accounted for thereafter in accordance with the provisions of this Standard.***
68. ***An entity that has previously applied IAS 17 (revised 1997) shall apply the amendments made by this Standard retrospectively for all leases or, if IAS 17 (revised 1997) was not applied retrospectively, for all leases entered into since it first applied that Standard.***

## EFFECTIVE DATE

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69. *An entity shall apply this Standard for annual periods beginning on or after 1 January 2005. Earlier application is encouraged. If an entity applies this Standard for a period beginning before 1 January 2005 it shall disclose that fact.*

## WITHDRAWAL OF IAS 17 (REVISED 1997)

70. This Standard supersedes IAS 17 *Leases* (revised in 1997).
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## APPENDIX

**Amendments to Other Pronouncements**

*The amendments in this appendix shall be applied for annual periods beginning on or after 1 January 2005. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.*

A1. [Amendment not applicable to bare Standards]

A2. [Amendment not applicable to bare Standards]

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## INTERNATIONAL ACCOUNTING STANDARD 21

IAS 21

**The Effects of Changes in Foreign Exchange Rates**

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This revised Standard supersedes IAS 21 (revised 1993) *The Effects of Changes in Foreign Exchange Rates* and should be applied for annual periods beginning on or after 1 January 2005. Earlier application is encouraged.

**OBJECTIVE**

1. An entity may carry on foreign activities in two ways. It may have transactions in foreign currencies or it may have foreign operations. In addition, an entity may present its financial statements in a foreign currency. The objective of this Standard is to prescribe how to include foreign currency transactions and foreign operations in the financial statements of an entity and how to translate financial statements into a presentation currency.

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2. The principal issues are which exchange rate(s) to use and how to report the effects of changes in exchange rates in the financial statements.

## SCOPE

3. *This Standard shall be applied (\*):*
- (a) *in accounting for transactions and balances in foreign currencies, except for those derivative transactions and balances that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement;*
- (b) *in translating the results and financial position of foreign operations that are included in the financial statements of the entity by consolidation, proportionate consolidation or the equity method;*
- and*
- (c) *in translating an entity's results and financial position into a presentation currency.*
4. IAS 39 applies to many foreign currency derivatives and, accordingly, these are excluded from the scope of this Standard. However, those foreign currency derivatives that are not within the scope of IAS 39 (eg some foreign currency derivatives that are embedded in other contracts) are within the scope of this Standard. In addition, this Standard applies when an entity translates amounts relating to derivatives from its functional currency to its presentation currency.
5. This Standard does not apply to hedge accounting for foreign currency items, including the hedging of a net investment in a foreign operation. IAS 39 applies to hedge accounting.
6. This Standard applies to the presentation of an entity's financial statements in a foreign currency and sets out requirements for the resulting financial statements to be described as complying with International Financial Reporting Standards. For translations of financial information into a foreign currency that do not meet these requirements, this Standard specifies information to be disclosed.
7. This Standard does not apply to the presentation in a cash flow statement of cash flows arising from transactions in a foreign currency, or to the translation of cash flows of a foreign operation (see IAS 7 *Cash Flow Statements*).

## DEFINITIONS

8. *The following terms are used in this Standard with the meanings specified:*

*Closing rate is the spot exchange rate at the balance sheet date.*

*Exchange difference is the difference resulting from translating a given number of units of one currency into another currency at different exchange rates.*

*Exchange rate is the ratio of exchange for two currencies.*

*Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.*

*Foreign currency is a currency other than the functional currency of the entity.*

*Foreign operation is an entity that is a subsidiary, associate, joint venture or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.*

(\*) See also SIC-7 *Introduction of the Euro*.

**Functional currency is the currency of the primary economic environment in which the entity operates.**

**A group is a parent and all its subsidiaries.**

**Monetary items are units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.**

**Net investment in a foreign operation is the amount of the reporting entity's interest in the net assets of that operation.**

**Presentation currency is the currency in which the financial statements are presented.**

**Spot exchange rate is the exchange rate for immediate delivery.**

#### *Elaboration on the Definitions*

#### Functional Currency

9. The primary economic environment in which an entity operates is normally the one in which it primarily generates and expends cash. An entity considers the following factors in determining its functional currency:
  - (a) the currency:
    - (i) that mainly influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled);
    - and
    - (ii) of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services.
  - (b) the currency that mainly influences labour, material and other costs of providing goods or services (this will often be the currency in which such costs are denominated and settled).
10. The following factors may also provide evidence of an entity's functional currency:
  - (a) the currency in which funds from financing activities (ie issuing debt and equity instruments) are generated.
  - (b) the currency in which receipts from operating activities are usually retained.
11. The following additional factors are considered in determining the functional currency of a foreign operation, and whether its functional currency is the same as that of the reporting entity (the reporting entity, in this context, being the entity that has the foreign operation as its subsidiary, branch, associate or joint venture):
  - (a) whether the activities of the foreign operation are carried out as an extension of the reporting entity, rather than being carried out with a significant degree of autonomy. An example of the former is when the foreign operation only sells goods imported from the reporting entity and remits the proceeds to it. An example of the latter is when the operation accumulates cash and other monetary items, incurs expenses, generates income and arranges borrowings, all substantially in its local currency.
  - (b) whether transactions with the reporting entity are a high or a low proportion of the foreign operation's activities.
  - (c) whether cash flows from the activities of the foreign operation directly affect the cash flows of the reporting entity and are readily available for remittance to it.
  - (d) whether cash flows from the activities of the foreign operation are sufficient to service existing and normally expected debt obligations without funds being made available by the reporting entity.

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12. When the above indicators are mixed and the functional currency is not obvious, management uses its judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. As part of this approach, management gives priority to the primary indicators in paragraph 9 before considering the indicators in paragraphs 10 and 11, which are designed to provide additional supporting evidence to determine an entity's functional currency.
13. An entity's functional currency reflects the underlying transactions, events and conditions that are relevant to it. Accordingly, once determined, the functional currency is not changed unless there is a change in those underlying transactions, events and conditions.
14. If the functional currency is the currency of a hyperinflationary economy, the entity's financial statements are restated in accordance with IAS 29 *Financial Reporting in Hyperinflationary Economies*. An entity cannot avoid restatement in accordance with IAS 29 by, for example, adopting as its functional currency a currency other than the functional currency determined in accordance with this Standard (such as the functional currency of its parent).

**Net Investment in a Foreign Operation**

15. An entity may have a monetary item that is receivable from or payable to a foreign operation. An item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the entity's net investment in that foreign operation, and is accounted for in accordance with paragraphs 32 and 33. Such monetary items may include long-term receivables or loans. They do not include trade receivables or trade payables.

**Monetary Items**

16. The essential feature of a monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: pensions and other employee benefits to be paid in cash; provisions that are to be settled in cash; and cash dividends that are recognised as a liability. Similarly, a contract to receive (or deliver) a variable number of the entity's own equity instruments or a variable amount of assets in which the fair value to be received (or delivered) equals a fixed or determinable number of units of currency is a monetary item. Conversely, the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: amounts prepaid for goods and services (eg prepaid rent); goodwill; intangible assets; inventories; property, plant and equipment; and provisions that are to be settled by the delivery of a non-monetary asset.

**SUMMARY OF THE APPROACH REQUIRED BY THIS STANDARD**

17. In preparing financial statements, each entity — whether a stand-alone entity, an entity with foreign operations (such as a parent) or a foreign operation (such as a subsidiary or branch) — determines its functional currency in accordance with paragraphs 9-14. The entity translates foreign currency items into its functional currency and reports the effects of such translation in accordance with paragraphs 20-37 and 50.
18. Many reporting entities comprise a number of individual entities (eg a group is made up of a parent and one or more subsidiaries). Various types of entities, whether members of a group or otherwise, may have investments in associates or joint ventures. They may also have branches. It is necessary for the results and financial position of each individual entity included in the reporting entity to be translated into the currency in which the reporting entity presents its financial statements. This Standard permits the presentation currency of a reporting entity to be any currency (or currencies). The results and financial position of any individual entity within the reporting entity whose functional currency differs from the presentation currency are translated in accordance with paragraphs 38-50.
19. This Standard also permits a stand-alone entity preparing financial statements or an entity preparing separate financial statements in accordance with IAS 27 *Consolidated and Separate Financial Statements* to present its financial statements in any currency (or currencies). If the entity's presentation currency differs from its functional currency, its results and financial position are also translated into the presentation currency in accordance with paragraphs 38-50.

## REPORTING FOREIGN CURRENCY TRANSACTIONS IN THE FUNCTIONAL CURRENCY

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*Initial Recognition*

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

*Reporting at Subsequent Balance Sheet Dates*

23. ***At each balance sheet date:***
- (a) ***foreign currency monetary items shall be translated using the closing rate;***
  - (b) ***non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction;***
- and***
- (c) ***non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined.***
24. The carrying amount of an item is determined in conjunction with other relevant Standards. For example, property, plant and equipment may be measured in terms of fair value or historical cost in accordance with IAS 16 *Property, Plant and Equipment*. Whether the carrying amount is determined on the basis of historical cost or on the basis of fair value, if the amount is determined in a foreign currency it is then translated into the functional currency in accordance with this Standard.
25. The carrying amount of some items is determined by comparing two or more amounts. For example, the carrying amount of inventories is the lower of cost and net realisable value in accordance with IAS 2 *Inventories*. Similarly, in accordance with IAS 36 *Impairment of Assets*, the carrying amount of an asset for which there is an indication of impairment is the lower of its carrying amount before considering possible impairment losses and its recoverable amount. When such an asset is non-monetary and is measured in a foreign currency, the carrying amount is determined by comparing:
- (a) the cost or carrying amount, as appropriate, translated at the exchange rate at the date when that amount was determined (ie the rate at the date of the transaction for an item measured in terms of historical cost);
- and***
- (b) the net realisable value or recoverable amount, as appropriate, translated at the exchange rate at the date when that value was determined (eg the closing rate at the balance sheet date).

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The effect of this comparison may be that an impairment loss is recognised in the functional currency but would not be recognised in the foreign currency, or vice versa.

26. When several exchange rates are available, the rate used is that at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred at the measurement date. If exchangeability between two currencies is temporarily lacking, the rate used is the first subsequent rate at which exchanges could be made.

*Recognition of Exchange Differences*

27. As noted in paragraph 3, IAS 39 applies to hedge accounting for foreign currency items. The application of hedge accounting requires an entity to account for some exchange differences differently from the treatment of exchange differences required by this Standard. For example, IAS 39 requires that exchange differences on monetary items that qualify as hedging instruments in a cash flow hedge are reported initially in equity to the extent that the hedge is effective.
28. ***Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements shall be recognised in profit or loss in the period in which they arise, except as described in paragraph 32.***
29. When monetary items arise from a foreign currency transaction and there is a change in the exchange rate between the transaction date and the date of settlement, an exchange difference results. When the transaction is settled within the same accounting period as that in which it occurred, all the exchange difference is recognised in that period. However, when the transaction is settled in a subsequent accounting period, the exchange difference recognised in each period up to the date of settlement is determined by the change in exchange rates during each period.
30. ***When a gain or loss on a non-monetary item is recognised directly in equity, any exchange component of that gain or loss shall be recognised directly in equity. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss shall be recognised in profit or loss.***
31. Other Standards require some gains and losses to be recognised directly in equity. For example, IAS 16 requires some gains and losses arising on a revaluation of property, plant and equipment to be recognised directly in equity. When such an asset is measured in a foreign currency, paragraph 23(c) of this Standard requires the revalued amount to be translated using the rate at the date the value is determined, resulting in an exchange difference that is also recognised in equity.
32. ***Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation (see paragraph 15) shall be recognised in profit or loss in the separate financial statements of the reporting entity or the individual financial statements of the foreign operation, as appropriate. In the financial statements that include the foreign operation and the reporting entity (eg consolidated financial statements when the foreign operation is a subsidiary), such exchange differences shall be recognised initially in a separate component of equity and recognised in profit or loss on disposal of the net investment in accordance with paragraph 48.***
33. When a monetary item forms part of a reporting entity's net investment in a foreign operation and is denominated in the functional currency of the reporting entity, an exchange difference arises in the foreign operation's individual financial statements in accordance with paragraph 28. Similarly, if such an item is denominated in the functional currency of the foreign operation, an exchange difference arises in the reporting entity's separate financial statements in accordance with paragraph 28. Such exchange differences are reclassified to the separate component of equity in the financial statements that include the foreign operation and the reporting entity (ie financial statements in which the foreign operation is consolidated, proportionately consolidated or accounted for using the equity method). However, a monetary item that forms part of the reporting entity's net investment in a foreign operation may be denominated in a currency other than the functional currency of either the reporting entity or the foreign operation. The exchange differences that arise on translating the monetary item into the functional currencies of the reporting entity and the foreign operation are not reclassified to the separate component of equity in the financial statements that include the foreign operation and the reporting entity (ie they remain recognised in profit or loss).

34. When an entity keeps its books and records in a currency other than its functional currency, at the time the entity prepares its financial statements all amounts are translated into the functional currency in accordance with paragraphs 20-26. This produces the same amounts in the functional currency as would have occurred had the items been recorded initially in the functional currency. For example, monetary items are translated into the functional currency using the closing rate, and non-monetary items that are measured on a historical cost basis are translated using the exchange rate at the date of the transaction that resulted in their recognition.

#### *Change in Functional Currency*

35. ***When there is a change in an entity's functional currency, the entity shall apply the translation procedures applicable to the new functional currency prospectively from the date of the change.***
36. As noted in paragraph 13, the functional currency of an entity reflects the underlying transactions, events and conditions that are relevant to the entity. Accordingly, once the functional currency is determined, it can be changed only if there is a change to those underlying transactions, events and conditions. For example, a change in the currency that mainly influences the sales prices of goods and services may lead to a change in an entity's functional currency.
37. The effect of a change in functional currency is accounted for prospectively. In other words, an entity translates all items into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for non-monetary items are treated as their historical cost. Exchange differences arising from the translation of a foreign operation previously classified in equity in accordance with paragraphs 32 and 39(c) are not recognised in profit or loss until the disposal of the operation.

### USE OF A PRESENTATION CURRENCY OTHER THAN THE FUNCTIONAL CURRENCY

#### *Translation to the Presentation Currency*

38. An entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the entity's functional currency, it translates its results and financial position into the presentation currency. For example, when a group contains individual entities with different functional currencies, the results and financial position of each entity are expressed in a common currency so that consolidated financial statements may be presented.
39. ***The results and financial position of an entity whose functional currency is not the currency of a hyperinflationary economy shall be translated into a different presentation currency using the following procedures:***
- (a) ***assets and liabilities for each balance sheet presented (ie including comparatives) shall be translated at the closing rate at the date of that balance sheet;***
  - (b) ***income and expenses for each income statement (ie including comparatives) shall be translated at exchange rates at the dates of the transactions;***
- and***
- (c) ***all resulting exchange differences shall be recognised as a separate component of equity.***
40. For practical reasons, a rate that approximates the exchange rates at the dates of the transactions, for example an average rate for the period, is often used to translate income and expense items. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.
41. The exchange differences referred to in paragraph 39(c) result from:
- (a) translating income and expenses at the exchange rates at the dates of the transactions and assets and liabilities at the closing rate. Such exchange differences arise both on income and expense items recognised in profit or loss and on those recognised directly in equity.



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- (b) translating the opening net assets at a closing rate that differs from the previous closing rate.

These exchange differences are not recognised in profit or loss because the changes in exchange rates have little or no direct effect on the present and future cash flows from operations. When the exchange differences relate to a foreign operation that is consolidated but not wholly-owned, accumulated exchange differences arising from translation and attributable to minority interests are allocated to, and recognised as part of, minority interest in the consolidated balance sheet.

42. ***The results and financial position of an entity whose functional currency is the currency of a hyperinflationary economy shall be translated into a different presentation currency using the following procedures:***

(a) ***all amounts (ie assets, liabilities, equity items, income and expenses, including comparatives) shall be translated at the closing rate at the date of the most recent balance sheet, except that***

(b) ***when amounts are translated into the currency of a non-hyperinflationary economy, comparative amounts shall be those that were presented as current year amounts in the relevant prior year financial statements (ie not adjusted for subsequent changes in the price level or subsequent changes in exchange rates).***

43. ***When an entity's functional currency is the currency of a hyperinflationary economy, the entity shall restate its financial statements in accordance with IAS 29 Financial Reporting in Hyperinflationary Economies before applying the translation method set out in paragraph 42, except for comparative amounts that are translated into a currency of a non-hyperinflationary economy (see paragraph 42(b)). When the economy ceases to be hyperinflationary and the entity no longer restates its financial statements in accordance with IAS 29, it shall use as the historical costs for translation into the presentation currency the amounts restated to the price level at the date the entity ceased restating its financial statements.***

*Translation of a Foreign Operation*

44. Paragraphs 45-47, in addition to paragraphs 38-43, apply when the results and financial position of a foreign operation are translated into a presentation currency so that the foreign operation can be included in the financial statements of the reporting entity by consolidation, proportionate consolidation or the equity method.
45. The incorporation of the results and financial position of a foreign operation with those of the reporting entity follows normal consolidation procedures, such as the elimination of intragroup balances and intragroup transactions of a subsidiary (see IAS 27 *Consolidated and Separate Financial Statements* and IAS 31 *Interests in Joint Ventures*). However, an intragroup monetary asset (or liability), whether short-term or long-term, cannot be eliminated against the corresponding intragroup liability (or asset) without showing the results of currency fluctuations in the consolidated financial statements. This is because the monetary item represents a commitment to convert one currency into another and exposes the reporting entity to a gain or loss through currency fluctuations. Accordingly, in the consolidated financial statements of the reporting entity, such an exchange difference continues to be recognised in profit or loss or, if it arises from the circumstances described in paragraph 32, it is classified as equity until the disposal of the foreign operation.
46. When the financial statements of a foreign operation are as of a date different from that of the reporting entity, the foreign operation often prepares additional statements as of the same date as the reporting entity's financial statements. When this is not done, IAS 27 allows the use of a different reporting date provided that the difference is no greater than three months and adjustments are made for the effects of any significant transactions or other events that occur between the different dates. In such a case, the assets and liabilities of the foreign operation are translated at the exchange rate at the balance sheet date of the foreign operation. Adjustments are made for significant changes in exchange rates up to the balance sheet date of the reporting entity in accordance with IAS 27. The same approach is used in applying the equity method to associates and joint ventures and in applying proportionate consolidation to joint ventures in accordance with IAS 28 *Investments in Associates* and IAS 31.

47. **Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation shall be treated as assets and liabilities of the foreign operation. Thus they shall be expressed in the functional currency of the foreign operation and shall be translated at the closing rate in accordance with paragraphs 39 and 42.**

*Disposal of a Foreign Operation*

48. **On the disposal of a foreign operation, the cumulative amount of the exchange differences deferred in the separate component of equity relating to that foreign operation shall be recognised in profit or loss when the gain or loss on disposal is recognised.**
49. An entity may dispose of its interest in a foreign operation through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity. The payment of a dividend is part of a disposal only when it constitutes a return of the investment, for example when the dividend is paid out of pre-acquisition profits. In the case of a partial disposal, only the proportionate share of the related accumulated exchange difference is included in the gain or loss. A write-down of the carrying amount of a foreign operation does not constitute a partial disposal. Accordingly, no part of the deferred foreign exchange gain or loss is recognised in profit or loss at the time of a write-down.

**TAX EFFECTS OF ALL EXCHANGE DIFFERENCES**

50. Gains and losses on foreign currency transactions and exchange differences arising on translating the results and financial position of an entity (including a foreign operation) into a different currency may have tax effects. IAS 12 *Income Taxes* applies to these tax effects.

**DISCLOSURE**

51. **In paragraphs 53 and 55-57 references to 'functional currency' apply, in the case of a group, to the functional currency of the parent.**
52. **An entity shall disclose:**
- (a) **the amount of exchange differences recognised in profit or loss except for those arising on financial instruments measured at fair value through profit or loss in accordance with IAS 39;**
- and**
- (b) **net exchange differences classified in a separate component of equity, and a reconciliation of the amount of such exchange differences at the beginning and end of the period.**
53. **When the presentation currency is different from the functional currency, that fact shall be stated, together with disclosure of the functional currency and the reason for using a different presentation currency.**
54. **When there is a change in the functional currency of either the reporting entity or a significant foreign operation, that fact and the reason for the change in functional currency shall be disclosed.**
55. **When an entity presents its financial statements in a currency that is different from its functional currency, it shall describe the financial statements as complying with International Financial Reporting Standards only if they comply with all the requirements of each applicable Standard and each applicable Interpretation of those Standards including the translation method set out in paragraphs 39 and 42.**

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56. An entity sometimes presents its financial statements or other financial information in a currency that is not its functional currency without meeting the requirements of paragraph 55. For example, an entity may convert into another currency only selected items from its financial statements. Or, an entity whose functional currency is not the currency of a hyperinflationary economy may convert the financial statements into another currency by translating all items at the most recent closing rate. Such conversions are not in accordance with International Financial Reporting Standards and the disclosures set out in paragraph 57 are required.
57. **When an entity displays its financial statements or other financial information in a currency that is different from either its functional currency or its presentation currency and the requirements of paragraph 55 are not met, it shall:**
- (a) **clearly identify the information as supplementary information to distinguish it from the information that complies with International Financial Reporting Standards;**
  - (b) **disclose the currency in which the supplementary information is displayed;**
- and**
- (c) **disclose the entity's functional currency and the method of translation used to determine the supplementary information.**

## EFFECTIVE DATE AND TRANSITION

58. **An entity shall apply this Standard for annual periods beginning on or after 1 January 2005. Earlier application is encouraged. If an entity applies this Standard for a period beginning before 1 January 2005, it shall disclose that fact.**
59. **An entity shall apply paragraph 47 prospectively to all acquisitions occurring after the beginning of the financial reporting period in which this Standard is first applied. Retrospective application of paragraph 47 to earlier acquisitions is permitted. For an acquisition of a foreign operation treated prospectively but which occurred before the date on which this Standard is first applied, the entity shall not restate prior years and accordingly may, when appropriate, treat goodwill and fair value adjustments arising on that acquisition as assets and liabilities of the entity rather than as assets and liabilities of the foreign operation. Therefore, those goodwill and fair value adjustments either are already expressed in the entity's functional currency or are non-monetary foreign currency items, which are reported using the exchange rate at the date of the acquisition.**
60. **All other changes resulting from the application of this Standard shall be accounted for in accordance with the requirements of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.**

## WITHDRAWAL OF OTHER PRONOUNCEMENTS

61. This Standard supersedes IAS 21 *The Effects of Changes in Foreign Exchange Rates* (revised in 1993).
62. This Standard supersedes the following Interpretations:
- (a) SIC-11 *Foreign Exchange — Capitalisation of Losses Resulting from Severe Currency Devaluations*;
  - (b) SIC-19 *Reporting Currency — Measurement and Presentation of Financial Statements* under IAS 21 and IAS 29;
- and
- (c) SIC-30 *Reporting Currency — Translation from Measurement Currency to Presentation Currency*.

## APPENDIX

IAS 21

**Amendments to Other Pronouncements**

*The amendments in this appendix shall be applied for annual periods beginning on or after 1 January 2005. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.*

A1. In IAS 7 *Cash Flow Statements*, paragraphs 25 and 26 are amended to read as follows:

25. ***Cash flows arising from transactions in a foreign currency shall be recorded in an entity's functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow.***
26. ***The cash flows of a foreign subsidiary shall be translated at the exchange rates between the functional currency and the foreign currency at the dates of the cash flows.***

A2. IAS 12 *Income Taxes* is amended as described below:

Paragraph 1 of the Introduction (now numbered paragraph IN 2) is amended to read as follows:

IN2. ...

Furthermore, there are some temporary differences which are not timing differences, for example those temporary differences that arise when:

- (a) the non-monetary assets and liabilities of an entity are measured in its functional currency but the taxable profit or tax loss (and, hence, the tax base of its non-monetary assets and liabilities is determined in a difference currency;
- (b) ...

Paragraphs 41 and 62 are amended to read as follows:

41. The non-monetary assets and liabilities of an entity are measured in its functional currency (see IAS 21 *The Effects of Changes in Foreign Exchange Rates*). If the entity's taxable profit or tax loss (and, hence, the tax base of its non-monetary assets and liabilities) is determined in a different currency, changes in the exchange rate give rise to temporary differences that result in a recognised deferred tax liability or (subject to paragraph 24) asset. The resulting deferred tax is charged or credited to profit or loss (see paragraph 58).
62. International Financial Reporting Standards require or permit certain items to be credited or charged directly to equity. Examples of such items are:
- ...
- (c) exchange differences arising on the translation of the financial statements of a foreign operation (see IAS 21 *The Effects of Changes in Foreign Exchange Rates*);

and

...

A3. IAS 29 *Financial Reporting in Hyperinflationary Economies* is amended as described below:

Paragraph 1 is amended to read as follows:

1. ***This Standard shall be applied to the individual financial statements, including the consolidated financial statements, of any entity whose functional currency is the currency of a hyperinflationary economy.***

## IAS 21

Paragraph 8 is amended to read as follows:

8. *The financial statements of an entity whose functional currency is the currency of a hyperinflationary economy, whether they are based on a historical cost approach or a current cost approach, shall be stated in terms of the measuring unit current at the balance sheet date. The corresponding figures for the previous period required by IAS 1 Presentation of Financial Statements, and any information in respect of earlier periods shall also be stated in terms of the measuring unit current at the balance sheet date. For the purpose of presenting comparative amounts in a different presentation currency, paragraphs 42(b) and 43 of IAS 21 The Effects of Changes in Foreign Exchange Rates (as revised in 2003) apply.*

Paragraph 17 is amended to read as follows:

17. A general price index may not be available for the periods for which the restatement of property, plant and equipment is required by this Standard. In these circumstances, it may be necessary to use an estimate based, for example, on the movements in the exchange rate between the functional currency and a relatively stable foreign currency.

Paragraph 23 is deleted.

Paragraph 31 is amended to read as follows:

31. The gain or loss on the net monetary position is accounted for in accordance with paragraphs 27 and 28.

Paragraph 34 is amended to read as follows:

34. Corresponding figures for the previous reporting period, whether they were based on a historical cost approach or a current cost approach, are restated by applying a general price index so that the comparative financial statements are presented in terms of the measuring unit current at the end of the reporting period. Information that is disclosed in respect of earlier periods is also expressed in terms of the measuring unit current at the end of the reporting period. For the purpose of presenting comparative amounts in a different presentation currency, paragraphs 42(b) and 43 of IAS 21 *The Effects of Changes in Foreign Exchange Rates* (as revised in 2003) apply.

Paragraph 39 is amended to read as follows:

39. ***The following disclosures shall be made:***

- (a) ***the fact that the financial statements and the corresponding figures for previous periods have been restated for the changes in the general purchasing power of the functional currency and, as a result, are stated in terms of the measuring unit current at the balance sheet date;***

...

A4. [Amendment not applicable to bare Standards]

A5. [Amendment not applicable to bare Standards]

A6. In IAS 38 Intangible Assets, paragraph 107 is amended to read as follows:

107. ***The financial statements shall disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:***

...

- (e) ***a reconciliation of the carrying amount at the beginning and end of the period showing:***

...

- (vii) ***net exchange differences arising on the translation of the financial statements into a different presentation currency, and on the translation of a foreign operation into the presentation currency of the reporting entity;***

***and***

...

A7. In IAS 41 *Agriculture*, paragraph 50 is amended to read as follows:

50. **An entity shall present a reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period. The reconciliation shall include:**

...

(f) **net exchange differences arising on the translation of financial statements into a different presentation currency, and on the translation of a foreign operation into the presentation currency of the reporting entity;**

**and**

...

A8. SIC-7 *Introduction of the Euro* is amended as described below.

Paragraph 4 is amended to read as follows:

4. This means that, in particular:

(a) foreign currency monetary assets and liabilities resulting from transactions shall continue to be translated into the functional currency at the closing rate. Any resultant exchange differences shall be recognised as income or expense immediately, except that an entity shall continue to apply its existing accounting policy for exchange gains and losses related to hedges of the currency risk of a forecast transaction.

(b) cumulative exchange differences relating to the translation of financial statements of foreign operations shall continue to be classified as equity and shall be recognised as income or expense only on the disposal of the net investment in the foreign operation.

...

The statement of effective date is amended to read as follows:

**Effective Date:** This Interpretation becomes effective on 1 June 1998. Changes in accounting policies shall be accounted for according to the requirements of IAS 8.

A9. IFRS 1 *First-time Adoption of International Financial Reporting Standards* is amended as described below.

In Appendix B, paragraphs B1A and B1B are added:

B1A An entity need not apply IAS 21 *The Effects of Changes in Foreign Exchange Rates* retrospectively to fair value adjustments and goodwill arising in business combinations that occurred before the date of transition to IFRSs. If the entity does not apply IAS 21 retrospectively to those fair value adjustments and goodwill, it shall treat them as assets and liabilities of the entity rather than as assets and liabilities of the acquiree. Therefore, those goodwill and fair value adjustments either are already expressed in the entity's functional currency or are non-monetary foreign currency items, which are reported using the exchange rate applied under previous GAAP.

B1B An entity may apply IAS 21 retrospectively to fair value adjustments and goodwill arising in either:

(a) all business combinations that occurred before the date of transition to IFRSs;

or

(b) all business combinations that the entity elects to restate to comply with IAS 22, as permitted by paragraph B1 above.

## IAS 24

## INTERNATIONAL ACCOUNTING STANDARD 24

**Related Party Disclosures**

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This revised Standard supersedes IAS 24 (reformatted 1994) *Related Party Disclosures* and should be applied for annual periods beginning on or after 1 January 2005. Earlier application is encouraged.

**OBJECTIVE**

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

**SCOPE**

2. ***This Standard shall be applied in:***

(a) ***identifying related party relationships and transactions;***

(b) ***identifying outstanding balances between an entity and its related parties;***

(c) ***identifying the circumstances in which disclosure of the items in (a) and (b) is required;***

***and***

(d) ***determining the disclosures to be made about those items.***

3. ***This Standard requires disclosure of related party transactions and outstanding balances in the separate financial statements of a parent, venturer or investor presented in accordance with IAS 27 Consolidated and Separate Financial Statements.***

4. Related party transactions and outstanding balances with other entities in a group are disclosed in an entity's financial statements. Intragroup related party transactions and outstanding balances are eliminated in the preparation of consolidated financial statements of the group.

**PURPOSE OF RELATED PARTY DISCLOSURES**

IAS 24

5. Related party relationships are a normal feature of commerce and business. For example, entities frequently carry on parts of their activities through subsidiaries, joint ventures and associates. In these circumstances, the entity's ability to affect the financial and operating policies of the investee is through the presence of control, joint control or significant influence.
6. A related party relationship could have an effect on the profit or loss and financial position of an entity. Related parties may enter into transactions that unrelated parties would not. For example, an entity that sells goods to its parent at cost might not sell on those terms to another customer. Also, transactions between related parties may not be made at the same amounts as between unrelated parties.
7. The profit or loss and financial position of an entity may be affected by a related party relationship even if related party transactions do not occur. The mere existence of the relationship may be sufficient to affect the transactions of the entity with other parties. For example, a subsidiary may terminate relations with a trading partner on acquisition by the parent of a fellow subsidiary engaged in the same activity as the former trading partner. Alternatively, one party may refrain from acting because of the significant influence of another — for example, a subsidiary may be instructed by its parent not to engage in research and development.
8. For these reasons, knowledge of related party transactions, outstanding balances and relationships may affect assessments of an entity's operations by users of financial statements, including assessments of the risks and opportunities facing the entity.

**DEFINITIONS**

9. *The following terms are used in this Standard with the meanings specified:*

**Related party:** *A party is related to an entity if:*

*(a) directly, or indirectly through one or more intermediaries, the party:*

*(i) controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);*

*(ii) has an interest in the entity that gives it significant influence over the entity;*

*or*

*(iii) has joint control over the entity;*

*(b) the party is an associate (as defined in IAS 28 Investments in Associates) of the entity;*

*(c) the party is a joint venture in which the entity is a venturer (see IAS 31 Interests in Joint Ventures);*

*(d) the party is a member of the key management personnel of the entity or its parent;*

*(e) the party is a close member of the family of any individual referred to in (a) or (d);*



## IAS 24

- (f) *the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e);*

*or*

- (g) *the party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.*

*A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.*

*Close members of the family of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity. They may include:*

- (a) *the individual's domestic partner and children;*
- (b) *children of the individual's domestic partner;*

*and*

- (c) *dependants of the individual or the individual's domestic partner.*

*Compensation includes all employee benefits (as defined in IAS 19 Employee Benefits) including employee benefits to which IFRS 2 Share-based Payment applies. Employee benefits are all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered to the entity. It also includes such consideration paid on behalf of a parent of the entity in respect of the entity. Compensation includes:*

- (a) *short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;*
- (b) *post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care;*
- (c) *other long-term employee benefits, including long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are not payable wholly within twelve months after the end of the period, profit-sharing, bonuses and deferred compensation;*
- (d) *termination benefits;*

*and*

- (e) *share-based payment.*

*Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.*

*Joint control is the contractually agreed sharing of control over an economic activity.*

*Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.*

**Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies. Significant influence may be gained by share ownership, statute or agreement.**

10. In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.
11. In the context of this Standard, the following are not necessarily related parties:
  - (a) two entities simply because they have a director or other member of key management personnel in common, notwithstanding (d) and (f) in the definition of 'related party'.
  - (b) two venturers simply because they share joint control over a joint venture.
  - (c) (i) providers of finance,  
  
(ii) trade unions,  
  
(iii) public utilities,  
  
and  
  
(iv) government departments and agencies,  
  
simply by virtue of their normal dealings with an entity (even though they may affect the freedom of action of an entity or participate in its decision-making process);  
  
and
  - (d) a customer, supplier, franchisor, distributor or general agent with whom an entity transacts a significant volume of business, merely by virtue of the resulting economic dependence.

#### DISCLOSURE

12. **Relationships between parents and subsidiaries shall be disclosed irrespective of whether there have been transactions between those related parties. An entity shall disclose the name of the entity's parent and, if different, the ultimate controlling party. If neither the entity's parent nor the ultimate controlling party produces financial statements available for public use, the name of the next most senior parent that does so shall also be disclosed.**
13. To enable users of financial statements to form a view about the effects of related party relationships on an entity, it is appropriate to disclose the related party relationship when control exists, irrespective of whether there have been transactions between the related parties.
14. The identification of related party relationships between parents and subsidiaries is in addition to the disclosure requirements in IAS 27, IAS 28 and IAS 31, which require an appropriate listing and description of significant investments in subsidiaries, associates and jointly controlled entities.
15. When neither the entity's parent nor the ultimate controlling party produces financial statements available for public use, the entity discloses the name of the next most senior parent that does so. The next most senior parent is the first parent in the group above the immediate parent that produces consolidated financial statements available for public use.
16. **An entity shall disclose key management personnel compensation in total and for each of the following categories:**
  - (a) **short-term employee benefits;**
  - (b) **post-employment benefits;**

## IAS 24

- (c) *other long-term benefits;*
  - (d) *termination benefits;*
  - and*
  - (e) *share-based payment.*
17. *If there have been transactions between related parties, an entity shall disclose the nature of the related party relationship as well as information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to the requirements in paragraph 16 to disclose key management personnel compensation. At a minimum, disclosures shall include:*
- (a) *the amount of the transactions;*
  - (b) *the amount of outstanding balances and:*
    - (i) *their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement;*
    - and*
    - (ii) *details of any guarantees given or received;*
  - (c) *provisions for doubtful debts related to the amount of outstanding balances;*
  - and*
  - (d) *the expense recognised during the period in respect of bad or doubtful debts due from related parties.*
18. *The disclosures required by paragraph 17 shall be made separately for each of the following categories:*
- (a) *the parent;*
  - (b) *entities with joint control or significant influence over the entity;*
  - (c) *subsidiaries;*
  - (d) *associates;*
  - (e) *joint ventures in which the entity is a venturer;*
  - (f) *key management personnel of the entity or its parent;*
  - and*
  - (g) *other related parties.*
19. *The classification of amounts payable to, and receivable from, related parties in the different categories as required in paragraph 18 is an extension of the disclosure requirement in IAS 1 *Presentation of Financial Statements* for information to be presented either on the balance sheet or in the notes. The categories are extended to provide a more comprehensive analysis of related party balances and apply to related party transactions.*
20. *The following are examples of transactions that are disclosed if they are with a related party:*
- (a) *purchases or sales of goods (finished or unfinished);*
  - (b) *purchases or sales of property and other assets;*

- (c) rendering or receiving of services;
  - (d) leases;
  - (e) transfers of research and development;
  - (f) transfers under licence agreements;
  - (g) transfers under finance arrangements (including loans and equity contributions in cash or in kind);
  - (h) provision of guarantees or collateral;
- and
- (i) settlement of liabilities on behalf of the entity or by the entity on behalf of another party.
21. Disclosures that related party transactions were made on terms equivalent to those that prevail in arm's length transactions are made only if such terms can be substantiated.
22. ***Items of a 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 entity.***

#### EFFECTIVE DATE

23. ***An entity shall apply this Standard for annual periods beginning on or after 1 January 2005. Earlier application is encouraged. If an entity applies this Standard for a period beginning before 1 January 2005, it shall disclose that fact.***

#### WITHDRAWAL OF IAS 24 (REFORMATTED 1994)

24. This Standard supersedes IAS 24 *Related Party Disclosures* (reformatted in 1994).
-

## IAS 24

## APPENDIX

**Amendment to IAS 30**

*This amendment in this appendix shall be applied for annual periods beginning on or after 1 January 2005. If an entity applies this Standard for an earlier period, this amendment shall be applied for that earlier period.*

A1. In IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, paragraph 58 is amended to read as follows:

58. When a bank has entered into transactions with related parties, it is appropriate to disclose the nature of the related party relationship as well as information about the transactions and outstanding balances necessary for an understanding of the potential effects of the relationship on the financial statements of the bank. The disclosures are made in accordance with IAS 24 and include disclosures relating to a bank's policy for lending to related parties and, in respect of related party transactions, the amount included in:

(a) ...

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## INTERNATIONAL ACCOUNTING STANDARD 27

IAS 27

**Consolidated and Separate Financial Statements**

SUMMARY	Paragraphs
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This revised Standard supersedes IAS 27 (revised 2000) *Consolidated Financial Statements and Accounting for Investments in Subsidiaries* and should be applied for annual periods beginning on or after 1 January 2005. Earlier application is encouraged.

**SCOPE**

- This Standard shall be applied in the preparation and presentation of consolidated financial statements for a group of entities under the control of a parent.***
- This Standard does not deal with methods of accounting for business combinations and their effects on consolidation, including goodwill arising on a business combination (see IAS 22 *Business Combinations*).
- This Standard shall also be applied in accounting for investments in subsidiaries, jointly controlled entities and associates when an entity elects, or is required by local regulations, to present separate financial statements.***

**DEFINITIONS**

- The following terms are used in this Standard with the meanings specified:***

***Consolidated financial statements are the financial statements of a group presented as those of a single economic entity.***

***Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.***

***The cost method is a method of accounting for an investment whereby the investment is recognised at cost. The investor recognises income from the investment only to the extent that the investor receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognised as a reduction of the cost of the investment.***

***A group is a parent and all its subsidiaries.***

## IAS 27

**Minority interest is that portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent.**

**A parent is an entity that has one or more subsidiaries.**

**Separate financial statements are those presented by a parent, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.**

**A subsidiary is an entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as the parent).**

5. A parent or its subsidiary may be an investor in an associate or a venturer in a jointly controlled entity. In such cases, consolidated financial statements prepared and presented in accordance with this Standard are also prepared so as to comply with IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*.
6. For an entity described in paragraph 5, separate financial statements are those prepared and presented in addition to the financial statements referred to in paragraph 5. Separate financial statements need not be appended to, or accompany, those statements.
7. The financial statements of an entity that does not have a subsidiary, associate or venturer's interest in a jointly controlled entity are not separate financial statements.
8. A parent that is exempted in accordance with paragraph 10 from presenting consolidated financial statements may present separate financial statements as its only financial statements.

#### PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

9. **A parent, other than a parent described in paragraph 10, shall present consolidated financial statements in which it consolidates its investments in subsidiaries in accordance with this Standard.**
10. **A parent need not present consolidated financial statements if and only if:**
  - (a) **the parent is itself a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;**
  - (b) **the parent's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);**
  - (c) **the parent did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market;**

**and**

  - (d) **the ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use that comply with International Financial Reporting Standards.**
11. A parent that elects in accordance with paragraph 10 not to present consolidated financial statements, and presents only separate financial statements, complies with paragraphs 37-42.

#### SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

12. **Consolidated financial statements shall include all subsidiaries of the parent, except those referred to in paragraph 16.**

13. Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. Control also exists when the parent owns half or less of the voting power of an entity when there is: (\*)
- (a) power over more than half of the voting rights by virtue of an agreement with other investors;
  - (b) power to govern the financial and operating policies of the entity under a statute or an agreement;
  - (c) power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body;
- or
- (d) power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.
14. An entity may own share warrants, share call options, debt or equity instruments that are convertible into ordinary shares, or other similar instruments that have the potential, if exercised or converted, to give the entity voting power or reduce another party's voting power over the financial and operating policies of another entity (potential voting rights). The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by another entity, are considered when assessing whether an entity has the power to govern the financial and operating policies of another entity. Potential voting rights are not currently exercisable or convertible when, for example, they cannot be exercised or converted until a future date or until the occurrence of a future event.
15. In assessing whether potential voting rights contribute to control, the entity examines all facts and circumstances (including the terms of exercise of the potential voting rights and any other contractual arrangements whether considered individually or in combination) that affect potential voting rights, except the intention of management and the financial ability to exercise or convert.
16. ***A subsidiary shall be excluded from consolidation when there is evidence that (a) control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its disposal within twelve months from acquisition and (b) management is actively seeking a buyer. Investments in such subsidiaries shall be classified as held for trading and accounted for in accordance with IAS 39 Financial Instruments: Recognition and Measurement.***
17. When a subsidiary previously excluded from consolidation in accordance with paragraph 16 is not disposed of within twelve months, it shall be consolidated as from the date of acquisition (see IAS 22). Financial statements for the periods since acquisition shall be restated.
18. Exceptionally, an entity may have found a buyer for a subsidiary excluded from consolidation in accordance with paragraph 16, but may not have completed the sale within twelve months of acquisition because of the need for approval by regulators or others. The entity is not required to consolidate such a subsidiary if the sale is in process at the balance sheet date and there is no reason to believe that it will not be completed shortly after the balance sheet date.
19. A subsidiary is not excluded from consolidation simply because the investor is a venture capital organisation, mutual fund, unit trust or similar entity.
20. A subsidiary is not excluded from consolidation because its business activities are dissimilar from those of the other entities within the group. Relevant information is provided by consolidating such subsidiaries and disclosing additional information in the consolidated financial statements about the different business activities of subsidiaries. For example, the disclosures required by IAS 14 *Segment Reporting* help to explain the significance of different business activities within the group.

(\*) See also SIC-12 *Consolidation — Special Purpose Entities*.



## IAS 27

21. A parent loses control when it loses the power to govern the financial and operating policies of an investee so as to obtain benefit from its activities. The loss of control can occur with or without a change in absolute or relative ownership levels. It could occur, for example, when a subsidiary becomes subject to the control of a government, court, administrator or regulator. It could also occur as a result of a contractual agreement.

## CONSOLIDATION PROCEDURES

22. In preparing consolidated financial statements, an entity combines the financial statements of the parent and its subsidiaries line by line by adding together like items of assets, liabilities, equity, income and expenses. In order that the consolidated financial statements present financial information about the group as that of a single economic entity, the following steps are then taken:

(a) the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary are eliminated (see IAS 22, which describes the treatment of any resultant goodwill);

(b) minority interests in the profit or loss of consolidated subsidiaries for the reporting period are identified;

and

(c) minority interests in the net assets of consolidated subsidiaries are identified separately from the parent shareholders' equity in them. Minority interests in the net assets consist of:

(i) the amount of those minority interests at the date of the original combination calculated in accordance with IAS 22;

and

(ii) the minority's share of changes in equity since the date of the combination.

23. When potential voting rights exist, the proportions of profit or loss and changes in equity allocated to the parent and minority interests are determined on the basis of present ownership interests and do not reflect the possible exercise or conversion of potential voting rights.

**24. Intragroup balances, transactions, income and expenses shall be eliminated in full.**

25. Intragroup balances and transactions, including income, expenses and dividends, are eliminated in full. Profits and losses resulting from intragroup transactions that are recognised in assets, such as inventory and fixed assets, are eliminated in full. Intragroup losses may indicate an impairment that requires recognition in the consolidated financial statements. IAS 12 *Income Taxes* applies to temporary differences that arise from the elimination of profits and losses resulting from intragroup transactions.

**26. The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall be prepared as of the same reporting date. When the reporting dates of the parent and a subsidiary are different, the subsidiary prepares, for consolidation purposes, additional financial statements as of the same date as the financial statements of the parent unless it is impracticable to do so.**

**27. When, in accordance with paragraph 26, the financial statements of a subsidiary used in the preparation of consolidated financial statements are prepared as of a reporting date different from that of the parent, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the parent's financial statements. In any case, the difference between the reporting date of the subsidiary and that of the parent shall be no more than three months. The length of the reporting periods and any difference in the reporting dates shall be the same from period to period.**

**28. Consolidated financial statements shall be prepared using uniform accounting policies for like transactions and other events in similar circumstances.**

29. If a member of the group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.
30. The income and expenses of a subsidiary are included in the consolidated financial statements from the date of acquisition as defined in IAS 22. The income and expenses of a subsidiary are included in the consolidated financial statements until the date on which the parent ceases to control the subsidiary. The difference between the proceeds from the disposal of the subsidiary and its carrying amount as of the date of disposal, including the cumulative amount of any exchange differences that relate to the subsidiary recognised in equity in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates*, is recognised in the consolidated income statement as the gain or loss on the disposal of the subsidiary.
31. ***An investment in an entity shall be accounted for in accordance with IAS 39 Financial Instruments: Recognition and Measurement from the date that it ceases to be a subsidiary, provided that it does not become an associate as defined in IAS 28 or a jointly controlled entity as described in IAS 31.***
32. ***The carrying amount of the investment at the date that the entity ceases to be a subsidiary shall be regarded as the cost on initial measurement of a financial asset in accordance with IAS 39.***
33. ***Minority interests shall be presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity. Minority interests in the profit or loss of the group shall also be separately disclosed.***
34. The profit or loss is attributed to the parent shareholders and minority interests. Because both are equity, the amount attributed to minority interests is not income or expense.
35. Losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the subsidiary's equity. The excess, and any further losses applicable to the minority, are allocated against the majority interest except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered.
36. If a subsidiary has outstanding cumulative preference shares that are held by minority interests and classified as equity, the parent computes its share of profits or losses after adjusting for the dividends on such shares, whether or not dividends have been declared.

**ACCOUNTING FOR INVESTMENTS IN SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES IN SEPARATE FINANCIAL STATEMENTS**

37. ***When separate financial statements are prepared, investments in subsidiaries, jointly controlled entities and associates shall be accounted for either:***
- (a) ***at cost,***
- or***
- (b) ***in accordance with IAS 39.***

***The same accounting shall be applied for each category of investments.***

38. This Standard does not mandate which entities produce separate financial statements available for public use. Paragraphs 37 and 39-42 apply when an entity prepares separate financial statements that comply with International Financial Reporting Standards. The entity also produces consolidated financial statements available for public use as required by paragraph 9, unless the exemption provided in paragraph 10 is applicable.

## IAS 27

39. *Investments in jointly controlled entities and associates that are accounted for in accordance with IAS 39 in the consolidated financial statements shall be accounted for in the same way in the investor's separate financial statements.*

## DISCLOSURE

40. *The following disclosures shall be made in consolidated financial statements:*

- (a) *the fact that a subsidiary is not consolidated in accordance with paragraph 16;*
- (b) *[Deleted]*
- (c) *the nature of the relationship between the parent and a subsidiary when the parent does not own, directly or indirectly through subsidiaries, more than half of the voting power;*
- (d) *the reasons why the ownership, directly or indirectly through subsidiaries, of more than half of the voting or potential voting power of an investee does not constitute control;*
- (e) *the reporting date of the financial statements of a subsidiary when such financial statements are used to prepare consolidated financial statements and are as of a reporting date or for a period that is different from that of the parent, and the reason for using a different reporting date or period;*

*and*

- (f) *the nature and extent of any significant restrictions (eg resulting from borrowing arrangements or regulatory requirements) on the ability of subsidiaries to transfer funds to the parent in the form of cash dividends or to repay loans or advances.*
41. *When separate financial statements are prepared for a parent that, in accordance with paragraph 10, elects not to prepare consolidated financial statements, those separate financial statements shall disclose:*

- (a) *the fact that the financial statements are separate financial statements; that the exemption from consolidation has been used; the name and country of incorporation or residence of the entity whose consolidated financial statements that comply with International Financial Reporting Standards have been produced for public use; and the address where those consolidated financial statements are obtainable;*
- (b) *a list of significant investments in subsidiaries, jointly controlled entities and associates, including the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held;*

*and*

- (c) *a description of the method used to account for the investments listed under (b).*

42. *When a parent (other than a parent covered by paragraph 41), venturer with an interest in a jointly controlled entity or an investor in an associate prepares separate financial statements, those separate financial statements shall disclose:*

- (a) *the fact that the statements are separate financial statements and the reasons why those statements are prepared if not required by law;*
- (b) *a list of significant investments in subsidiaries, jointly controlled entities and associates, including the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held;*

*and*

- (c) *a description of the method used to account for the investments listed under (b);*

*and shall identify the financial statements prepared in accordance with paragraph 9 of this Standard, IAS 28 and IAS 31 to which they relate.*

IAS 27

#### EFFECTIVE DATE

43. *An entity shall apply this Standard for annual periods beginning on or after 1 January 2005. Earlier application is encouraged. If an entity applies this Standard for a period beginning before 1 January 2005, it shall disclose that fact.*

#### WITHDRAWAL OF OTHER PRONOUNCEMENTS

44. This Standard supersedes IAS 27 *Consolidated Financial Statements and Accounting for Investments in Subsidiaries* (revised in 2000).
45. This Standard supersedes SIC-33 *Consolidation and Equity Method— Potential Voting Rights and Allocation of Ownership Interests*.
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**Amendments to Other Pronouncements**

*The amendments in this appendix shall be applied for annual periods beginning on or after 1 January 2005. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.*

A1. In IAS 22 *Business Combinations* paragraph 1 is amended to read as follows:

1. The following terms are used in this Standard with the meanings specified:

...

***A subsidiary is an entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as the parent).***

***Minority interest is that portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent.***

A2. [Amendment not applicable to bare Standards]

A3. SIC-12 *Consolidation — Special Purpose Entities* is amended as described below.

The reference is amended to read as follows:

**Reference:** IAS 27 *Consolidated and Separate Financial Statements*

Paragraphs 9, 10 and 11 are amended to read as follows:

9. In the context of an SPE, control may arise through the predetermination of the activities of the SPE (operating on 'autopilot') or otherwise. IAS 27.13 indicates several circumstances which result in control even in cases where an entity owns one half or less of the voting power of another entity. Similarly, control may exist even in cases where an entity owns little or none of the SPE's equity. The application of the control concept requires, in each case, judgement in the context of all relevant factors.
10. In addition to the situations described in IAS 27.13, the following circumstances, for example, may indicate a relationship in which an entity controls an SPE and consequently should consolidate the SPE (additional guidance is provided in the Appendix to this Interpretation):
  - (a) in substance, the activities of the SPE are being conducted on behalf of the entity according to its specific business needs so that the entity obtains benefits from the SPE's operation;
  - (b) in substance, the entity has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an 'autopilot' mechanism, the entity has delegated these decision-making powers;
  - (c) in substance, the entity has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE;

or

- (d) in substance, the entity retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

11. [Deleted]

**IAS 27**

- A4. In International Financial Reporting Standards, including International Accounting Standards and Interpretations, applicable at December 2003, references to the current version of IAS 27 *Consolidated Financial Statements and Accounting for Investments in Subsidiaries* are amended to IAS 27 *Consolidated and Separate Financial Statements*.
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## IAS 28

## INTERNATIONAL ACCOUNTING STANDARD 28

**Investments in Associates**

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This revised Standard supersedes IAS 28 (revised 2000) *Accounting for Investments in Associates* and should be applied for annual periods beginning on or after 1 January 2005. Earlier application is encouraged.

**SCOPE**

1. ***This Standard shall be applied in accounting for investments in associates. However, it does not apply to investments in associates held by:***

(a) *venture capital organisations,*

*or*

(b) *mutual funds, unit trusts and similar entities including investment-linked insurance funds*

*that upon initial recognition are designated as at fair value through profit or loss or are classified as held for trading and accounted for in accordance with IAS 39 Financial Instruments: Recognition and Measurement. Such investments shall be measured at fair value in accordance with IAS 39, with changes in fair value recognised in profit or loss in the period of the change.*

**DEFINITIONS**

2. ***The following terms are used in this Standard with the meanings specified:***

***An associate is an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.***

***Consolidated financial statements are the financial statements of a group presented as those of a single economic entity.***

**Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.**

**The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.**

**Joint control is the contractually agreed sharing of control over an economic activity.**

**Separate financial statements are those presented by a parent, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.**

**Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.**

**A subsidiary is an entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as the parent).**

3. Financial statements in which the equity method is applied are not separate financial statements, nor are the financial statements of an entity that does not have a subsidiary, associate or venturer's interest in a joint venture.
4. Separate financial statements are those presented in addition to consolidated financial statements, financial statements in which investments are accounted for using the equity method and financial statements in which venturers' interests in joint ventures are proportionately consolidated. Separate financial statements may or may not be appended to, or accompany, those financial statements.
5. Entities that are exempted in accordance with paragraph 10 of IAS 27 *Consolidated and Separate Financial Statements* from consolidation, paragraph 2 of IAS 31 *Interests in Joint Ventures* from applying proportionate consolidation or paragraph 13(c) of this Standard from applying the equity method may present separate financial statements as their only financial statements.

#### *Significant Influence*

6. If an investor holds, directly or indirectly (eg through subsidiaries), 20 per cent or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds, directly or indirectly (eg through subsidiaries), less than 20 per cent of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an investor from having significant influence.
7. The existence of significant influence by an investor is usually evidenced in one or more of the following ways:
  - (a) representation on the board of directors or equivalent governing body of the investee;
  - (b) participation in policy-making processes, including participation in decisions about dividends or other distributions;
  - (c) material transactions between the investor and the investee;
  - (d) interchange of managerial personnel;or
  - (e) provision of essential technical information.



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8. An entity may own share warrants, share call options, debt or equity instruments that are convertible into ordinary shares, or other similar instruments that have the potential, if exercised or converted, to give the entity additional voting power or reduce another party's voting power over the financial and operating policies of another entity (ie potential voting rights). The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether an entity has significant influence. Potential voting rights are not currently exercisable or convertible when, for example, they cannot be exercised or converted until a future date or until the occurrence of a future event.
9. In assessing whether potential voting rights contribute to significant influence, the entity examines all facts and circumstances (including the terms of exercise of the potential voting rights and any other contractual arrangements whether considered individually or in combination) that affect potential rights, except the intention of management and the financial ability to exercise or convert.
10. An entity loses significant influence over an investee when it loses the power to participate in the financial and operating policy decisions of that investee. The loss of significant influence can occur with or without a change in absolute or relative ownership levels. It could occur, for example, when an associate becomes subject to the control of a government, court, administrator or regulator. It could also occur as a result of a contractual agreement.

*Equity Method*

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

## APPLICATION OF THE EQUITY METHOD

13. *An investment in an associate shall be accounted for using the equity method except when:*
  - (a) *there is evidence that the investment is acquired and held exclusively with a view to its disposal within twelve months from acquisition and that management is actively seeking a buyer;*
  - (b) *the exception in paragraph 10 of IAS 27, allowing a parent that also has an investment in an associate not to present consolidated financial statements, applies;*

*or*

  - (c) *all of the following apply:*
    - (i) *the investor is a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the investor not applying the equity method;*
    - (ii) *the investor's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);*

(iii) *the investor did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation, for the purpose of issuing any class of instruments in a public market;*

*and*

(iv) *the ultimate or any intermediate parent of the investor produces consolidated financial statements available for public use that comply with International Financial Reporting Standards.*

14. *Investments described in paragraph 13(a) shall be classified as held for trading and accounted for in accordance with IAS 39.*
15. When an investment in an associate previously accounted for in accordance with IAS 39 is not disposed of within twelve months, it shall be accounted for using the equity method as from the date of acquisition (see IAS 22 *Business Combinations*). Financial statements for the periods since acquisition shall be restated.
16. Exceptionally, an entity may have found a buyer for an associate described in paragraph 13(a), but may not have completed the sale within twelve months because of the need for approval by regulators or others. The entity is not required to apply the equity method to an investment in such an associate if the sale is in process at the balance sheet date and there is no reason to believe that it will not be completed shortly after the balance sheet date.
17. The recognition of income on the basis of distributions received may not be an adequate measure of the income earned by an investor on an investment in an associate because the distributions received may bear little relation to the performance of the associate. Because the investor has significant influence over the associate, the investor has an interest in the associate's performance and, as a result, the return on its investment. The investor accounts for this interest by extending the scope of its financial statements to include its share of profits or losses of such an associate. As a result, application of the equity method provides more informative reporting of the net assets and profit or loss of the investor.
18. *An investor shall discontinue the use of the equity method from the date that it ceases to have significant influence over an associate and shall account for the investment in accordance with IAS 39 from that date, provided the associate does not become a subsidiary or a joint venture as defined in IAS 31.*
19. *The carrying amount of the investment at the date that it ceases to be an associate shall be regarded as its cost on initial measurement as a financial asset in accordance with IAS 39.*
20. Many of the procedures appropriate for the application of the equity method are similar to the consolidation procedures described in IAS 27. Furthermore, the concepts underlying the procedures used in accounting for the acquisition of a subsidiary are also adopted in accounting for the acquisition of an investment in an associate.
21. A group's share in an associate is the aggregate of the holdings in that associate by the parent and its subsidiaries. The holdings of the group's other associates or joint ventures are ignored for this purpose. When an associate has subsidiaries, associates, or joint ventures, the profits or losses and net assets taken into account in applying the equity method are those recognised in the associate's financial statements (including the associate's share of the profits or losses and net assets of its associates and joint ventures), after any adjustments necessary to give effect to uniform accounting policies (see paragraphs 26 and 27).
22. Profits and losses resulting from 'upstream' and 'downstream' transactions between an investor (including its consolidated subsidiaries) and an associate are recognised in the investor's financial statements only to the extent of unrelated investors' interests in the associate. 'Upstream' transactions are, for example, sales of assets from an associate to the investor. 'Downstream' transactions are, for example, sales of assets from the investor to an associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated.

## IAS 28

23. An investment in an associate is accounted for using the equity method from the date on which it becomes an associate. On acquisition of the investment any difference (whether positive or negative) between the cost of the investment and the investor's share of the fair values of the net identifiable assets of the associate is treated as goodwill (see IAS 22). Goodwill relating to an associate is included in the carrying amount of the investment. Appropriate adjustments to the investor's share of the profits or losses after acquisition are made to account, for example, for depreciation of the depreciable assets, based on their fair values at the date of acquisition.
24. ***The most recent available financial statements of the associate are used by the investor in applying the equity method. When the reporting dates of the investor and the associate are different, the associate prepares, for the use of the investor, financial statements as of the same date as the financial statements of the investor unless it is impracticable to do so.***
25. ***When, in accordance with paragraph 24, the financial statements of an associate used in applying the equity method are prepared as of a different reporting date from that of the investor, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the investor's financial statements. In any case, the difference between the reporting date of the associate and that of the investor shall be no more than three months. The length of the reporting periods and any difference in the reporting dates shall be the same from period to period.***
26. ***The investor's financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances.***
27. If an associate uses accounting policies other than those of the investor for like transactions and events in similar circumstances, adjustments shall be made to conform the associate's accounting policies to those of the investor when the associate's financial statements are used by the investor in applying the equity method.
28. If an associate has outstanding cumulative preference shares that are held by parties other than the investor and classified as equity, the investor computes its share of profits or losses after adjusting for the dividends on such shares, whether or not the dividends have been declared.
29. If an investor's share of losses of an associate equals or exceeds its interest in the associate, the investor discontinues recognising its share of further losses. The interest in an associate is the carrying amount of the investment in the associate under the equity method together with any long-term interests that, in substance, form part of the investor's net investment in the associate. For example, an item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension of the entity's investment in that associate. Such items may include preference shares and long-term receivables or loans but do not include trade receivables, trade payables or any long-term receivables for which adequate collateral exists, such as secured loans. Losses recognised under the equity method in excess of the investor's investment in ordinary shares are applied to the other components of the investor's interest in an associate in the reverse order of their seniority (ie priority in liquidation).
30. After the investor's interest is reduced to zero, additional losses are provided for, and a liability is recognised, only to the extent that the investor has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

*Impairment Losses*

31. After application of the equity method, including recognising the associate's losses in accordance with paragraph 29, the investor applies the requirements of IAS 39 to determine whether it is necessary to recognise any additional impairment loss with respect to the investor's net investment in the associate.
32. The investor also applies the requirements of IAS 39 to determine whether any additional impairment loss is recognised with respect to the investor's interest in the associate that does not constitute part of the net investment and the amount of that impairment loss.

33. If application of the requirements in IAS 39 indicates that the investment may be impaired, an entity applies IAS 36 *Impairment of Assets*. In determining the value in use of the investment, an entity estimates:
- (a) its share of the present value of the estimated future cash flows expected to be generated by the investee, including the cash flows from the operations of the investee and the proceeds on the ultimate disposal of the investment;
- or
- (b) the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Under appropriate assumptions, both methods give the same result. Any resulting impairment loss for the investment is allocated in accordance with IAS 36. Therefore, it is allocated first to any remaining goodwill (see paragraph 23).

34. The recoverable amount of an investment in an associate is assessed for each associate, unless the associate does not generate cash inflows from continuing use that are largely independent of those from other assets of the entity.

#### *Separate Financial Statements*

35. **An investment in an associate shall be accounted for in the investor's separate financial statements in accordance with paragraphs 37-42 of IAS 27.**
36. This Standard does not mandate which entities produce separate financial statements available for public use.

#### DISCLOSURE

37. **The following disclosures shall be made:**
- (a) **the fair value of investments in associates for which there are published price quotations;**
  - (b) **summarised financial information of associates, including the aggregated amounts of assets, liabilities, revenues and profit or loss;**
  - (c) **the reasons why the presumption that an investor does not have significant influence is overcome if the investor holds, directly or indirectly through subsidiaries, less than 20 per cent of the voting or potential voting power of the investee but concludes that it has significant influence;**
  - (d) **the reasons why the presumption that an investor has significant influence is overcome if the investor holds, directly or indirectly through subsidiaries, 20 per cent or more of the voting or potential voting power of the investee but concludes that it does not have significant influence;**
  - (e) **the reporting date of the financial statements of an associate, when such financial statements are used in applying the equity method and are as of a reporting date or for a period that is different from that of the investor, and the reason for using a different reporting date or different period;**
  - (f) **the nature and extent of any significant restrictions (eg resulting from borrowing arrangements or regulatory requirements) on the ability of associates to transfer funds to the investor in the form of cash dividends, or repayment of loans or advances;**
  - (g) **the unrecognised share of losses of an associate, both for the period and cumulatively, if an investor has discontinued recognition of its share of losses of an associate;**

## IAS 28

- (h) *the fact that an associate is not accounted for using the equity method in accordance with paragraph 13;*
- and*
- (i) *summarised financial information of associates, either individually or in groups, that are not accounted for using the equity method, including the amounts of total assets, total liabilities, revenues and profit or loss.*
38. *Investments in associates accounted for using the equity method shall be classified as non-current assets. The investor's share of the profit or loss of such associates, and the carrying amount of those investments, shall be separately disclosed. The investor's share of any discontinuing operations of such associates shall also be separately disclosed.*
39. *The investor's share of changes recognised directly in the associate's equity shall be recognised directly in equity by the investor and shall be disclosed in the statement of changes in equity as required by IAS 1 Presentation of Financial Statements.*
40. *In accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, the investor shall disclose:*
- (a) *its share of the contingent liabilities of an associate incurred jointly with other investors;*
- and*
- (b) *those contingent liabilities that arise because the investor is severally liable for all or part of the liabilities of the associate.*

## EFFECTIVE DATE

41. *An entity shall apply this Standard for annual periods beginning on or after 1 January 2005. Earlier application is encouraged. If an entity applies this Standard for a period beginning before 1 January 2005, it shall disclose that fact.*

## WITHDRAWAL OF OTHER PRONOUNCEMENTS

42. This Standard supersedes IAS 28 *Accounting for Investments in Associates* (revised in 2000).
43. This Standard supersedes the following Interpretations:
- (a) SIC-3 *Elimination of Unrealised Profits and Losses on Transactions with Associates*;
- (b) SIC-20 *Equity Accounting Method — Recognition of Losses*;
- and*
- (c) SIC-33 *Consolidation and Equity Method — Potential Voting Rights and Allocation of Ownership Interests*.

## APPENDIX

IAS 28

**Amendments to Other Pronouncements**

*The amendments in this appendix shall be applied for annual periods beginning on or after 1 January 2005. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.*

- A1. In International Financial Reporting Standards, including International Accounting Standards and Interpretations, applicable at December 2003, references to the current version of IAS 28 *Accounting for Investments in Associates* are amended to IAS 28 *Investments in Associates*.
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## IAS 31

## INTERNATIONAL ACCOUNTING STANDARD 31

**Interests in Joint Ventures**

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This revised Standard supersedes IAS 31 (revised 2000) Financial Reporting of Interests in Joint Ventures and should be applied for annual periods beginning on or after 1 January 2005. Earlier application is encouraged.

**SCOPE**

1. ***This Standard shall be applied in accounting for interests in joint ventures and the reporting of joint venture assets, liabilities, income and expenses in the financial statements of venturers and investors, regardless of the structures or forms under which the joint venture activities take place. However, it does not apply to venturers' interests in jointly controlled entities held by:***

(a) *venture capital organisations,*

*or*

(b) *mutual funds, unit trusts and similar entities including investment-linked insurance funds*

that upon initial recognition are designated as at fair value through profit or loss or are classified as held for trading and accounted for in accordance with IAS 39 Financial Instruments: Recognition and Measurement. Such investments shall be measured at fair value in accordance with IAS 39, with changes in fair value recognised in profit or loss in the period of the change.

2. A venturer with an interest in a jointly controlled entity is exempted from paragraphs 30 (proportionate consolidation) and 38 (equity method) when it meets the following conditions:

- (a) there is evidence that the interest is acquired and held exclusively with a view to its disposal within twelve months from acquisition and that management is actively seeking a buyer;
- (b) the exception in paragraph 10 of IAS 27 Consolidated and Separate Financial Statements allowing a parent that also has an interest in a jointly controlled entity not to present consolidated financial statements is applicable;

or

- (c) all of the following apply:

- (i) the venturer is a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the venturer not applying proportionate consolidation or the equity method;
- (ii) the venturer's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);
- (iii) the venturer did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation, for the purpose of issuing any class of instruments in a public market;

and

- (iv) the ultimate or any intermediate parent of the venturer produces consolidated financial statements available for public use that comply with International Financial Reporting Standards.

#### DEFINITIONS

3. The following terms are used in this Standard with the meanings specified:

*Control is the power to govern the financial and operating policies of an economic activity so as to obtain benefits from it.*

*The equity method is a method of accounting whereby an interest in a jointly controlled entity is initially recorded at cost and adjusted thereafter for the post-acquisition change in the venturer's share of net assets of the jointly controlled entity. The profit or loss of the venturer includes the venturer's share of the profit or loss of the jointly controlled entity.*

*An investor in a joint venture is a party to a joint venture and does not have joint control over that joint venture.*

*Joint control is the contractually agreed sharing of control over an economic activity.*



## IAS 31

***A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.***

***Proportionate consolidation is a method of accounting whereby a venturer's share of each of the assets, liabilities, income and expenses of a jointly controlled entity is combined line by line with similar items in the venturer's financial statements or reported as separate line items in the venturer's financial statements.***

***Separate financial statements are those presented by a parent, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.***

***Significant influence is the power to participate in the financial and operating policy decisions of an economic activity but is not control or joint control over those policies.***

***A venturer is a party to a joint venture and has joint control over that joint venture.***

4. Financial statements in which proportionate consolidation or the equity method is applied are not separate financial statements, nor are the financial statements of an entity that does not have a subsidiary, associate or venturer's interest in a jointly controlled entity.
5. Separate financial statements are those presented in addition to consolidated financial statements, financial statements in which investments are accounted for using the equity method and financial statements in which venturers' interests in joint ventures are proportionately consolidated. Separate financial statements need not be appended to, or accompany, those statements.
6. Entities that are exempted in accordance with paragraph 10 of IAS 27 from consolidation, paragraph 13(c) of IAS 28 *Investments in Associates* from applying the equity method or paragraph 2 of this Standard from applying proportionate consolidation or the equity method may present separate financial statements as their only financial statements.

#### *Forms of Joint Venture*

7. Joint ventures take many different forms and structures. This Standard identifies three broad types — jointly controlled operations, jointly controlled assets and jointly controlled entities — that are commonly described as, and meet the definition of, joint ventures. The following characteristics are common to all joint ventures:
  - (a) two or more venturers are bound by a contractual arrangement;
  - and
  - (b) the contractual arrangement establishes joint control.

#### *Joint Control*

8. Joint control may be precluded when an investee is in legal reorganisation or in bankruptcy, or operates under severe long-term restrictions on its ability to transfer funds to the venturer. If joint control is continuing, these events are not enough in themselves to justify not accounting for joint ventures in accordance with this Standard.

#### *Contractual Arrangement*

9. The existence of a contractual arrangement distinguishes interests that involve joint control from investments in associates in which the investor has significant influence (see IAS 28). Activities that have no contractual arrangement to establish joint control are not joint ventures for the purposes of this Standard.

10. The contractual arrangement may be evidenced in a number of ways, for example by a contract between the venturers or minutes of discussions between the venturers. In some cases, the arrangement is incorporated in the articles or other by-laws of the joint venture. Whatever its form, the contractual arrangement is usually in writing and deals with such matters as:
- (a) the activity, duration and reporting obligations of the joint venture;
  - (b) the appointment of the board of directors or equivalent governing body of the joint venture and the voting rights of the venturers;
  - (c) capital contributions by the venturers;
- and
- (d) the sharing by the venturers of the output, income, expenses or results of the joint venture.
11. The contractual arrangement establishes joint control over the joint venture. Such a requirement ensures that no single venturer is in a position to control the activity unilaterally. The arrangement identifies those decisions in areas essential to the goals of the joint venture which require the consent of all the venturers and those decisions which may require the consent of a specified majority of the venturers.
12. The contractual arrangement may identify one venturer as the operator or manager of the joint venture. The operator does not control the joint venture but acts within the financial and operating policies that have been agreed by the venturers in accordance with the contractual arrangement and delegated to the operator. If the operator has the power to govern the financial and operating policies of the economic activity, it controls the venture and the venture is a subsidiary of the operator and not a joint venture.

#### JOINTLY CONTROLLED OPERATIONS

13. The operation of some joint ventures involves the use of the assets and other resources of the venturers rather than the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the venturers themselves. Each venturer uses its own property, plant and equipment and carries its own inventories. It also incurs its own expenses and liabilities and raises its own finance, which represent its own obligations. The joint venture activities may be carried out by the venturer's employees alongside the venturer's similar activities. The joint venture agreement usually provides a means by which the revenue from the sale of the joint product and any expenses incurred in common are shared among the venturers.
14. An example of a jointly controlled operation is when two or more venturers combine their operations, resources and expertise to manufacture, market and distribute jointly a particular product, such as an aircraft. Different parts of the manufacturing process are carried out by each of the venturers. Each venturer bears its own costs and takes a share of the revenue from the sale of the aircraft, such share being determined in accordance with the contractual arrangement.
15. ***In respect of its interests in jointly controlled operations, a venturer shall recognise in its financial statements:***
- (a) ***the assets that it controls and the liabilities that it incurs;***
- and***
- (b) ***the expenses that it incurs and its share of the income that it earns from the sale of goods or services by the joint venture.***
16. Because the assets, liabilities, income and expenses are recognised in the financial statements of the venturer, no adjustments or other consolidation procedures are required in respect of these items when the venturer presents consolidated financial statements.

## IAS 31

17. Separate accounting records may not be required for the joint venture itself and financial statements may not be prepared for the joint venture. However, the venturers may prepare management accounts so that they may assess the performance of the joint venture.

**JOINTLY CONTROLLED ASSETS**

18. Some joint ventures involve the joint control, and often the joint ownership, by the venturers of one or more assets contributed to, or acquired for the purpose of, the joint venture and dedicated to the purposes of the joint venture. The assets are used to obtain benefits for the venturers. Each venturer may take a share of the output from the assets and each bears an agreed share of the expenses incurred.
19. These joint ventures do not involve the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the venturers themselves. Each venturer has control over its share of future economic benefits through its share of the jointly controlled asset.
20. Many activities in the oil, gas and mineral extraction industries involve jointly controlled assets. For example, a number of oil production companies may jointly control and operate an oil pipeline. Each venturer uses the pipeline to transport its own product in return for which it bears an agreed proportion of the expenses of operating the pipeline. Another example of a jointly controlled asset is when two entities jointly control a property, each taking a share of the rents received and bearing a share of the expenses.
21. ***In respect of its interest in jointly controlled assets, a venturer shall recognise in its financial statements:***
- (a) its share of the jointly controlled assets, classified according to the nature of the assets;***
  - (b) any liabilities that it has incurred;***
  - (c) its share of any liabilities incurred jointly with the other venturers in relation to the joint venture;***
  - (d) any income from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture;***
- and***
- (e) any expenses that it has incurred in respect of its interest in the joint venture.***
22. In respect of its interest in jointly controlled assets, each venturer includes in its accounting records and recognises in its financial statements:
- (a) its share of the jointly controlled assets, classified according to the nature of the assets rather than as an investment. For example, a share of a jointly controlled oil pipeline is classified as property, plant and equipment.
  - (b) any liabilities that it has incurred, for example those incurred in financing its share of the assets.
  - (c) its share of any liabilities incurred jointly with other venturers in relation to the joint venture.
  - (d) any income from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture.
  - (e) any expenses that it has incurred in respect of its interest in the joint venture, for example those related to financing the venturer's interest in the assets and selling its share of the output.

Because the assets, liabilities, income and expenses are recognised in the financial statements of the venturer, no adjustments or other consolidation procedures are required in respect of these items when the venturer presents consolidated financial statements.

23. The treatment of jointly controlled assets reflects the substance and economic reality and, usually, the legal form of the joint venture. Separate accounting records for the joint venture itself may be limited to those expenses incurred in common by the venturers and ultimately borne by the venturers according to their agreed shares. Financial statements may not be prepared for the joint venture, although the venturers may prepare management accounts so that they may assess the performance of the joint venture.

### JOINTLY CONTROLLED ENTITIES

24. A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity.
25. A jointly controlled entity controls the assets of the joint venture, incurs liabilities and expenses and earns income. It may enter into contracts in its own name and raise finance for the purposes of the joint venture activity. Each venturer is entitled to a share of the profits of the jointly controlled entity, although some jointly controlled entities also involve a sharing of the output of the joint venture.
26. A common example of a jointly controlled entity is when two entities combine their activities in a particular line of business by transferring the relevant assets and liabilities into a jointly controlled entity. Another example is when an entity commences a business in a foreign country in conjunction with the government or other agency in that country, by establishing a separate entity that is jointly controlled by the entity and the government or agency.
27. Many jointly controlled entities are similar in substance to those joint ventures referred to as jointly controlled operations or jointly controlled assets. For example, the venturers may transfer a jointly controlled asset, such as an oil pipeline, into a jointly controlled entity, for tax or other reasons. Similarly, the venturers may contribute into a jointly controlled entity assets that will be operated jointly. Some jointly controlled operations also involve the establishment of a jointly controlled entity to deal with particular aspects of the activity, for example, the design, marketing, distribution or after-sales service of the product.
28. A jointly controlled entity maintains its own accounting records and prepares and presents financial statements in the same way as other entities in conformity with International Financial Reporting Standards.
29. Each venturer usually contributes cash or other resources to the jointly controlled entity. These contributions are included in the accounting records of the venturer and recognised in its financial statements as an investment in the jointly controlled entity.

#### *Financial Statements of a Venturer*

#### Proportionate Consolidation

30. ***A venturer shall recognise its interest in a jointly controlled entity using proportionate consolidation or the alternative method described in paragraph 38. When proportionate consolidation is used, one of the two reporting formats identified below shall be used.***
31. A venturer investor recognises its interest in a jointly controlled entity using one of the two reporting formats for proportionate consolidation irrespective of whether it also has investments in subsidiaries or whether it describes its financial statements as consolidated financial statements.

## IAS 31

32. When recognising an interest in a jointly controlled entity, it is essential that a venturer reflects the substance and economic reality of the arrangement, rather than the joint venture's particular structure or form. In a jointly controlled entity, a venturer has control over its share of future economic benefits through its share of the assets and liabilities of the venture. This substance and economic reality are reflected in the consolidated financial statements of the venturer when the venturer recognises its interests in the assets, liabilities, income and expenses of the jointly controlled entity by using one of the two reporting formats for proportionate consolidation described in paragraph 34.
33. The application of proportionate consolidation means that the balance sheet of the venturer includes its share of the assets that it controls jointly and its share of the liabilities for which it is jointly responsible. The income statement of the venturer includes its share of the income and expenses of the jointly controlled entity. Many of the procedures appropriate for the application of proportionate consolidation are similar to the procedures for the consolidation of investments in subsidiaries, which are set out in IAS 27.
34. Different reporting formats may be used to give effect to proportionate consolidation. The venturer may combine its share of each of the assets, liabilities, income and expenses of the jointly controlled entity with the similar items, line by line, in its financial statements. For example, it may combine its share of the jointly controlled entity's inventory with its inventory and its share of the jointly controlled entity's property, plant and equipment with its property, plant and equipment. Alternatively, the venturer may include separate line items for its share of the assets, liabilities, income and expenses of the jointly controlled entity in its financial statements. For example, it may show its share of a current asset of the jointly controlled entity separately as part of its current assets; it may show its share of the property, plant and equipment of the jointly controlled entity separately as part of its property, plant and equipment. Both these reporting formats result in the reporting of identical amounts of profit or loss and of each major classification of assets, liabilities, income and expenses; both formats are acceptable for the purposes of this Standard.
35. Whichever format is used to give effect to proportionate consolidation, it is inappropriate to offset any assets or liabilities by the deduction of other liabilities or assets or any income or expenses by the deduction of other expenses or income, unless a legal right of set-off exists and the offsetting represents the expectation as to the realisation of the asset or the settlement of the liability.
36. ***A venturer shall discontinue the use of proportionate consolidation from the date on which it ceases to have joint control over a jointly controlled entity.***
37. A venturer discontinues the use of proportionate consolidation from the date on which it ceases to share in the control of a jointly controlled entity. This may happen, for example, when the venturer disposes of its interest or when such external restrictions are placed on the jointly controlled entity that the venturer no longer has joint control.

## Equity Method

38. ***As an alternative to proportionate consolidation described in paragraph 30, a venturer shall recognise its interest in a jointly controlled entity using the equity method.***
39. A venturer recognises its interest in a jointly controlled entity using the equity method irrespective of whether it also has investments in subsidiaries or whether it describes its financial statements as consolidated financial statements.
40. Some venturers recognise their interests in jointly controlled entities using the equity method, as described in IAS 28. The use of the equity method is supported by those who argue that it is inappropriate to combine controlled items with jointly controlled items and by those who believe that venturers have significant influence, rather than joint control, in a jointly controlled entity. This Standard does not recommend the use of the equity method because proportionate consolidation better reflects the substance and economic reality of a venturer's interest in a jointly controlled entity, that is to say, control over the venturer's share of the future economic benefits. Nevertheless, this Standard permits the use of the equity method, as an alternative treatment, when recognising interests in jointly controlled entities.
41. ***A venturer shall discontinue the use of the equity method from the date on which it ceases to have joint control over, or have significant influence in, a jointly controlled entity.***

## Exceptions to Proportionate Consolidation and Equity Method

IAS 31

42. ***Interests in jointly controlled entities that meet the condition set out in paragraph 2(a) shall be classified as held for trading and accounted for in accordance with IAS 39.***
43. When, in accordance with paragraphs 2(a) and 42, an interest in a jointly controlled entity previously accounted for in accordance with IAS 39 is not disposed of within twelve months, it shall be accounted for using proportionate consolidation or the equity method as from the date of acquisition (see IAS 22 *Business Combinations*). Financial statements for the periods since acquisition shall be restated.
44. Exceptionally, a venturer may have found a buyer for an interest described in paragraph 2(a), but may not have completed the sale within twelve months of acquisition because of the need for approval by regulators or others. The venturer is not required to apply proportionate consolidation or the equity method to an interest in a jointly controlled entity if the sale is in process at the balance sheet date and there is no reason to believe that it will not be completed shortly after the balance sheet date.
45. ***From the date on which a jointly controlled entity becomes a subsidiary of a venturer, the venturer shall account for its interest in accordance with IAS 27. From the date on which a jointly controlled entity becomes an associate of a venturer, the venturer shall account for its interest in accordance with IAS 28.***

*Separate Financial Statements of a Venturer*

46. ***An interest in a jointly controlled entity shall be accounted for in a venturer's separate financial statements in accordance with paragraphs 37-42 of IAS 27.***
47. This Standard does not mandate which entities produce separate financial statements available for public use.

## TRANSACTIONS BETWEEN A VENTURER AND A JOINT VENTURE

48. ***When a venturer contributes or sells assets to a joint venture, recognition of any portion of a gain or loss from the transaction shall reflect the substance of the transaction. While the assets are retained by the joint venture, and provided the venturer has transferred the significant risks and rewards of ownership, the venturer shall recognise only that portion of the gain or loss that is attributable to the interests of the other venturers. (\*) The venturer shall recognise the full amount of any loss when the contribution or sale provides evidence of a reduction in the net realisable value of current assets or an impairment loss.***
49. ***When a venturer purchases assets from a joint venture, the venturer shall not recognise its share of the profits of the joint venture from the transaction until it resells the assets to an independent party. A venturer shall recognise its share of the losses resulting from these transactions in the same way as profits except that losses shall be recognised immediately when they represent a reduction in the net realisable value of current assets or an impairment loss.***
50. To assess whether a transaction between a venturer and a joint venture provides evidence of impairment of an asset, the venturer determines the recoverable amount of the asset in accordance with IAS 36 *Impairment of Assets*. In determining value in use, the venturer estimates future cash flows from the asset on the basis of continuing use of the asset and its ultimate disposal by the joint venture.

## REPORTING INTERESTS IN JOINT VENTURES IN THE FINANCIAL STATEMENTS OF AN INVESTOR

51. ***An investor in a joint venture that does not have joint control shall account for that investment in accordance with IAS 39 or, if it has significant influence in the joint venture, in accordance with IAS 28.***

## OPERATORS OF JOINT VENTURES

52. ***Operators or managers of a joint venture shall account for any fees in accordance with IAS 18 Revenue.***

(\*) See also SIC-13 *Jointly Controlled Entities — Non-Monetary Contributions by Venturers*.

## IAS 31

53. One or more venturers may act as the operator or manager of a joint venture. Operators are usually paid a management fee for such duties. The fees are accounted for by the joint venture as an expense.

## DISCLOSURE

54. *A venturer shall disclose the aggregate amount of the following contingent liabilities, unless the probability of loss is remote, separately from the amount of other contingent liabilities:*
- (a) any contingent liabilities that the venturer has incurred in relation to its interests in joint ventures and its share in each of the contingent liabilities that have been incurred jointly with other venturers;*
  - (b) its share of the contingent liabilities of the joint ventures themselves for which it is contingently liable;*
- and*
- (c) those contingent liabilities that arise because the venturer is contingently liable for the liabilities of the other venturers of a joint venture.*
55. *A venturer shall disclose the aggregate amount of the following commitments in respect of its interests in joint ventures separately from other commitments:*
- (a) 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;*
- and*
- (b) its share of the capital commitments of the joint ventures themselves.*
56. *A venturer shall disclose a listing and description of interests in significant joint ventures and the proportion of ownership interest held in jointly controlled entities. A venturer that recognises its interests in jointly controlled entities using the line-by-line reporting format for proportionate consolidation or the equity method shall disclose the 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.*
57. *A venturer shall disclose the method it uses to recognise its interests in jointly controlled entities.*

## EFFECTIVE DATE

58. *An entity shall apply this Standard for annual periods beginning on or after 1 January 2005. Earlier application is encouraged. If an entity applies this Standard for a period beginning before 1 January 2005, it shall disclose that fact.*

## WITHDRAWAL OF IAS 31 (REVISED 2000)

59. This Standard supersedes IAS 31 Financial Reporting of *Interests in Joint Ventures* (revised in 2000).
-

## APPENDIX

## IAS 31

**Amendments to Other Pronouncements**

*The amendments in this appendix shall be applied for annual periods beginning on or after 1 January 2005. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.*

A1. SIC-13 *Jointly Controlled Entities — Non-Monetary Contributions by Venturers* is amended as described below.

The reference is amended to read as follows:

**Reference:** IAS 31 *Interests in Joint Ventures*

Paragraph 1 is amended to read as follows:

1. IAS 31.48 refers to both contributions and sales between a venturer and a joint venture as follows: 'When a venturer contributes or sells assets to a joint venture, recognition of any portion of a gain or loss from the transaction shall reflect the substance of the transaction'. In addition, IAS 31.24 says that 'a jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest.' There is no explicit guidance on the recognition of gains and losses resulting from contributions of non-monetary assets to jointly controlled entities ('JCEs').

...

A2. In International Financial Reporting Standards, including International Accounting Standards and Interpretations, applicable at December 2003, references to the current version of IAS 31 *Financial Reporting of Interests in Joint Ventures* are amended to IAS 31 *Interests in Joint Ventures*.

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## IAS 33

## INTERNATIONAL ACCOUNTING STANDARD 33

**Earnings per Share**

## SUMMARY

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This revised Standard supersedes IAS 33 (1997) *Earnings Per Share* and should be applied for annual periods beginning on or after 1 January 2005. Earlier application is encouraged.

**OBJECTIVE**

1. The objective of this Standard is to prescribe principles for the determination and presentation of earnings per share, so as to improve performance comparisons between different entities in the same reporting period and between different reporting periods for the same entity. Even though earnings per share data have limitations because of the different accounting policies that may be used for determining 'earnings', a consistently determined denominator enhances financial reporting. The focus of this Standard is on the denominator of the earnings per share calculation.

## SCOPE

IAS 33

2. *This Standard shall be applied by entities whose ordinary shares or potential ordinary shares are publicly traded and by entities that are in the process of issuing ordinary shares or potential ordinary shares in public markets.*
3. *An entity that discloses earnings per share shall calculate and disclose earnings per share in accordance with this Standard.*
4. *When an entity presents both consolidated financial statements and separate financial statements prepared in accordance with IAS 27 Consolidated and Separate Financial Statements, the disclosures required by this Standard need be presented only on the basis of the consolidated information. An entity that chooses to disclose earnings per share based on its separate financial statements shall present such earnings per share information only on the face of its separate income statement. An entity shall not present such earnings per share information in the consolidated financial statements.*

## DEFINITIONS

5. *The following terms are used in this Standard with the meanings specified:*

*Antidilution is an increase in earnings per share or a reduction in loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions.*

*A contingent share agreement is an agreement to issue shares that is dependent on the satisfaction of specified conditions.*

*Contingently issuable ordinary shares are ordinary shares issuable for little or no cash or other consideration upon the satisfaction of specified conditions in a contingent share agreement.*

*Dilution is a reduction in earnings per share or an increase in loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions.*

*Options, warrants and their equivalents are financial instruments that give the holder the right to purchase ordinary shares.*

*An ordinary share is an equity instrument that is subordinate to all other classes of equity instruments.*

*A potential ordinary share is a financial instrument or other contract that may entitle its holder to ordinary shares.*

*Put options on ordinary shares are contracts that give the holder the right to sell ordinary shares at a specified price for a given period.*

6. *Ordinary shares participate in profit for the period only after other types of shares such as preference shares have participated. An entity may have more than one class of ordinary shares. Ordinary shares of the same class have the same rights to receive dividends.*
7. *Examples of potential ordinary shares are:*
  - (a) *financial liabilities or equity instruments, including preference shares, that are convertible into ordinary shares;*
  - (b) *options and warrants;*
  - (c) *shares that would be issued upon the satisfaction of conditions resulting from contractual arrangements, such as the purchase of a business or other assets.*

## IAS 33

8. Terms defined in IAS 32 *Financial Instruments: Disclosure and Presentation* are used in this Standard with the meanings specified in paragraph 11 of IAS 32, unless otherwise noted. IAS 32 defines financial instrument, financial asset, financial liability, equity instrument and fair value, and provides guidance on applying those definitions.

## MEASUREMENT

*Basic Earnings per Share*

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

*Earnings*

12. **For the purpose of calculating basic earnings per share, the amounts attributable to ordinary equity holders of the parent entity in respect of:**

(a) **profit or loss from continuing operations attributable to the parent entity;**

**and**

(b) **profit or loss attributable to the parent entity**

**shall be the amounts in (a) and (b) adjusted for the after-tax amounts of preference dividends, differences arising on the settlement of preference shares, and other similar effects of preference shares classified as equity.**

13. All items of income and expense attributable to ordinary equity holders of the parent entity that are recognised in a period, including tax expense and dividends on preference shares classified as liabilities are included in the determination of profit or loss for the period attributable to ordinary equity holders of the parent entity (see IAS 1 *Presentation of Financial Statements*).
14. The after-tax amount of preference dividends that is deducted from profit or loss is:
- (a) the after-tax amount of any preference dividends on non-cumulative preference shares declared in respect of the period;
- and**
- (b) the after-tax amount of the preference dividends for cumulative preference shares required for the period, whether or not the dividends have been declared. The amount of preference dividends for the period does not include the amount of any preference dividends for cumulative preference shares paid or declared during the current period in respect of previous periods.
15. Preference shares that provide for a low initial dividend to compensate an entity for selling the preference shares at a discount, or an above-market dividend in later periods to compensate investors for purchasing preference shares at a premium, are sometimes referred to as increasing rate preference shares. Any original issue discount or premium on increasing rate preference shares is amortised to retained earnings using the effective interest method and treated as a preference dividend for the purposes of calculating earnings per share.

16. Preference shares may be repurchased under an entity's tender offer to the holders. The excess of the fair value of the consideration paid to the preference shareholders over the carrying amount of the preference shares represents a return to the holders of the preference shares and a charge to retained earnings for the entity. This amount is deducted in calculating profit or loss attributable to ordinary equity holders of the parent entity.
17. Early conversion of convertible preference shares may be induced by an entity through favourable changes to the original conversion terms or the payment of additional consideration. The excess of the fair value of the ordinary shares or other consideration paid over the fair value of the ordinary shares issuable under the original conversion terms is a return to the preference shareholders, and is deducted in calculating profit or loss attributable to ordinary equity holders of the parent entity.
18. Any excess of the carrying amount of preference shares over the fair value of the consideration paid to settle them is added in calculating profit or loss attributable to ordinary equity holders of the parent entity.

#### Shares

19. ***For the purpose of calculating basic earnings per share, the number of ordinary shares shall be the weighted average number of ordinary shares outstanding during the period.***
20. Using the weighted average number of ordinary shares outstanding during the period reflects the possibility that the amount of shareholders' capital varied during the period as a result of a larger or smaller number of shares being outstanding at any time. The weighted average number of ordinary shares outstanding during the period is the number of ordinary shares 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. The time-weighting factor is the number of days that the shares are outstanding as a proportion of the total number of days in the period; a reasonable approximation of the weighted average is adequate in many circumstances.
21. Shares are usually included in the weighted average number of shares from the date consideration is receivable (which is generally the date of their issue), for example:
  - (a) ordinary shares issued in exchange for cash are included when cash is receivable;
  - (b) ordinary shares issued on the voluntary reinvestment of dividends on ordinary or preference shares are included when dividends are reinvested;
  - (c) ordinary shares issued as a result of the conversion of a debt instrument to ordinary shares are included from the date that interest ceases to accrue;
  - (d) ordinary shares issued in place of interest or principal on other financial instruments are included from the date that interest ceases to accrue;
  - (e) ordinary shares issued in exchange for the settlement of a liability of the entity are included from the settlement date;
  - (f) ordinary shares issued as consideration for the acquisition of an asset other than cash are included as of the date on which the acquisition is recognised;and
  - (g) ordinary shares issued for the rendering of services to the entity are included as the services are rendered.

The timing of the inclusion of ordinary shares is determined by the terms and conditions attaching to their issue. Due consideration is given to the substance of any contract associated with the issue.

## IAS 33

22. Ordinary shares issued as part of the purchase consideration of a business combination that is an acquisition are included in the weighted average number of shares from the date of the acquisition. This is because the acquirer incorporates the results of the operations of the acquiree into its income statement from that date. Ordinary shares issued as part of a business combination that is a uniting of interests are included in the calculation of the weighted average number of shares for all periods presented. This is because the financial statements of the combined entity are prepared as if the combined entity had always existed. Therefore, the number of ordinary shares used for the calculation of basic earnings per share in a business combination that is a uniting of interests is the aggregate of the weighted average number of shares of the combined entities, adjusted to equivalent shares of the entity whose shares are outstanding after the combination.
23. Ordinary shares that will be issued upon the conversion of a mandatorily convertible instrument are included in the calculation of basic earnings per share from the date the contract is entered into.
24. Contingently issuable shares are treated as outstanding and are included in the calculation of basic earnings per share only from the date when all necessary conditions are satisfied (ie the events have occurred). Shares that are issuable solely after the passage of time are not contingently issuable shares, because the passage of time is a certainty.
25. Outstanding ordinary shares that are contingently returnable (ie subject to recall) are not treated as outstanding and are excluded from the calculation of basic earnings per share until the date the shares are no longer subject to recall.
26. ***The weighted average number of ordinary shares outstanding during the period and for all periods presented shall 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.***
27. Ordinary shares may be issued, or the number of ordinary shares outstanding may be reduced, without a corresponding change in resources. Examples include:
  - (a) a capitalisation or bonus issue (sometimes referred to as a stock dividend);
  - (b) a bonus element in any other issue, for example a bonus element in a rights issue to existing shareholders;
  - (c) a share split;and
  - (d) a reverse share split (consolidation of shares).
28. In a capitalisation or bonus issue or a share split, ordinary shares are issued to existing shareholders for no additional consideration. Therefore, the number of ordinary shares outstanding is increased without an increase in resources. 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 earliest period presented. For example, on a two-for-one bonus issue, the number of ordinary shares outstanding before the issue is multiplied by three to obtain the new total number of ordinary shares, or by two to obtain the number of additional ordinary shares.
29. A consolidation of ordinary shares generally reduces the number of ordinary shares outstanding without a corresponding reduction in resources. However, when the overall effect is a share repurchase at fair value, the reduction in the number of ordinary shares outstanding is the result of a corresponding reduction in resources. An example is a share consolidation combined with a special dividend. The weighted average number of ordinary shares outstanding for the period in which the combined transaction takes place is adjusted for the reduction in the number of ordinary shares from the date the special dividend is recognised.

*Diluted Earnings per Share*

30. ***An entity shall calculate diluted earnings per share amounts for profit or loss attributable to ordinary equity holders of the parent entity and, if presented, profit or loss from continuing operations attributable to those equity holders.***

31. **For the purpose of calculating diluted earnings per share, an entity shall adjust profit or loss attributable to ordinary equity holders of the parent entity, and the weighted average number of shares outstanding, for the effects of all dilutive potential ordinary shares.**
32. The objective of diluted earnings per share is consistent with that of basic earnings per share — to provide a measure of the interest of each ordinary share in the performance of an entity — while giving effect to all dilutive potential ordinary shares outstanding during the period. As a result:
- (a) profit or loss attributable to ordinary equity holders of the parent entity is increased by the after-tax amount of dividends and interest recognised in the period in respect of the dilutive potential ordinary shares and is adjusted for any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares;
- and
- (b) the weighted average number of ordinary shares outstanding is increased by the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

#### Earnings

33. **For the purpose of calculating diluted earnings per share, an entity shall adjust profit or loss attributable to ordinary equity holders of the parent entity, as calculated in accordance with paragraph 12, by the after-tax effect of:**
- (a) **any dividends or other items related to dilutive potential ordinary shares deducted in arriving at profit or loss attributable to ordinary equity holders of the parent entity as calculated in accordance with paragraph 12;**
- (b) **any interest recognised in the period related to dilutive potential ordinary shares;**
- and
- (c) **any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares.**
34. After the potential ordinary shares are converted into ordinary shares, the items identified in paragraph 33(a)-(c) no longer arise. Instead, the new ordinary shares are entitled to participate in profit or loss attributable to ordinary equity holders of the parent entity. Therefore, profit or loss attributable to ordinary equity holders of the parent entity calculated in accordance with paragraph 12 is adjusted for the items identified in paragraph 33(a)-(c) and any related taxes. The expenses associated with potential ordinary shares include transaction costs and discounts accounted for in accordance with the effective interest method (see paragraph 9 of IAS 39 *Financial Instruments: Recognition and Measurement*, as revised in 2003).
35. The conversion of potential ordinary shares may lead to consequential changes in income or expenses. For example, the reduction of interest expense related to potential ordinary shares and the resulting increase in profit or reduction in loss may lead to an increase in the expense related to a non-discretionary employee profit-sharing plan. For the purpose of calculating diluted earnings per share, profit or loss attributable to ordinary equity holders of the parent entity is adjusted for any such consequential changes in income or expense.

#### Shares

36. **For the purpose of calculating diluted earnings per share, the number of ordinary shares shall be the weighted average number of ordinary shares calculated in accordance with paragraphs 19 and 26, plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. Dilutive potential ordinary shares shall 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.**
37. Dilutive potential ordinary shares shall be determined independently for each period presented. The number of dilutive potential ordinary shares included in the year-to-date period is not a weighted average of the dilutive potential ordinary shares included in each interim computation.

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38. Potential ordinary shares are weighted for the period they are outstanding. Potential ordinary shares that are cancelled or allowed to lapse during the period are included in the calculation of diluted earnings per share only for the portion of the period during which they are outstanding. Potential ordinary shares that are converted into ordinary shares during the period are included in the calculation of diluted earnings per share from the beginning of the period to the date of conversion; from the date of conversion, the resulting ordinary shares are included in both basic and diluted earnings per share.
39. The number of ordinary shares that would be issued on conversion of dilutive potential ordinary shares is determined from the terms of the potential ordinary shares. When more than one basis of conversion exists, the calculation assumes the most advantageous conversion rate or exercise price from the standpoint of the holder of the potential ordinary shares.
40. A subsidiary, joint venture or associate may issue to parties other than the parent, venturer or investor potential ordinary shares that are convertible into either ordinary shares of the subsidiary, joint venture or associate, or ordinary shares of the parent, venturer or investor (the reporting entity). If these potential ordinary shares of the subsidiary, joint venture or associate have a dilutive effect on the basic earnings per share of the reporting entity, they are included in the calculation of diluted earnings per share.

## Dilutive Potential Ordinary Shares

41. **Potential ordinary shares shall be treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations.**
42. An entity uses profit or loss from continuing operations attributable to the parent entity as the control number to establish whether potential ordinary shares are dilutive or antidilutive. Profit or loss from continuing operations attributable to the parent entity is adjusted in accordance with paragraph 12 and excludes items relating to discontinuing operations.
43. Potential ordinary shares are antidilutive when their conversion to ordinary shares would increase earnings per share or decrease loss per share from continuing operations. The calculation of diluted earnings per share does not assume conversion, exercise, or other issue of potential ordinary shares that would have an antidilutive effect on earnings per share.
44. In determining whether potential ordinary shares are dilutive or antidilutive, each issue or series of potential ordinary shares is considered separately rather than in aggregate. The sequence in which potential ordinary shares are considered may affect whether they are dilutive. Therefore, to maximise the dilution of basic earnings per share, each issue or series of potential ordinary shares is considered in sequence from the most dilutive to the least dilutive, ie dilutive potential ordinary shares with the lowest 'earnings per incremental share' are included in the diluted earnings per share calculation before those with a higher earnings per incremental share. Options and warrants are generally included first because they do not affect the numerator of the calculation.

## Options, warrants and their equivalents

45. **For the purpose of calculating diluted earnings per share, an entity shall assume the exercise of dilutive options and warrants of the entity. The assumed proceeds from these instruments shall be regarded as having been received from the issue of ordinary shares at the average market price of ordinary shares during the period. The difference between the number of ordinary shares issued and the number of ordinary shares that would have been issued at the average market price of ordinary shares during the period shall be treated as an issue of ordinary shares for no consideration.**
46. Options and warrants are dilutive when they would result in the issue of ordinary shares for less than the average market price of ordinary shares during the period. The amount of the dilution is the average market price of ordinary shares during the period minus the issue price. Therefore, to calculate diluted earnings per share, potential ordinary shares are treated as consisting of both the following:
  - (a) a contract to issue a certain number of the ordinary shares at their average market price during the period. Such ordinary shares are assumed to be fairly priced and to be neither dilutive nor antidilutive. They are ignored in the calculation of diluted earnings per share.

(b) a contract to issue the remaining ordinary shares for no consideration. Such ordinary shares generate no proceeds and have no effect on profit or loss attributable to ordinary shares outstanding. Therefore, such shares are dilutive and are added to the number of ordinary shares outstanding in the calculation of diluted earnings per share.

47. Options and warrants have a dilutive effect only when the average market price of ordinary shares during the period exceeds the exercise price of the options or warrants (ie they are 'in the money'). Previously reported earnings per share are not retroactively adjusted to reflect changes in prices of ordinary shares.
48. Employee share options with fixed or determinable terms and non-vested ordinary shares are treated as options in the calculation of diluted earnings per share, even though they may be contingent on vesting. They are treated as outstanding on the grant date. Performance-based employee share options are treated as contingently issuable shares because their issue is contingent upon satisfying specified conditions in addition to the passage of time.

#### Convertible instruments

49. The dilutive effect of convertible instruments shall be reflected in diluted earnings per share in accordance with paragraphs 33 and 36.
50. Convertible preference shares are antidilutive whenever the amount of the dividend on such shares declared in or accumulated for the current period per ordinary share obtainable on conversion exceeds basic earnings per share. Similarly, convertible debt is antidilutive whenever its interest (net of tax and other changes in income or expense) per ordinary share obtainable on conversion exceeds basic earnings per share.
51. The redemption or induced conversion of convertible preference shares may affect only a portion of the previously outstanding convertible preference shares. In such cases, any excess consideration referred to in paragraph 17 is attributed to those shares that are redeemed or converted for the purpose of determining whether the remaining outstanding preference shares are dilutive. The shares redeemed or converted are considered separately from those shares that are not redeemed or converted.

#### Contingently issuable shares

52. As in the calculation of basic earnings per share, contingently issuable ordinary shares are treated as outstanding and included in the calculation of diluted earnings per share if the conditions are satisfied (ie the events have occurred). Contingently issuable shares are included from the beginning of the period (or from the date of the contingent share agreement, if later). If the conditions are not satisfied, the number of contingently issuable shares included in the diluted earnings per share calculation is based on the number of shares that would be issuable if the end of the period were the end of the contingency period. Restatement is not permitted if the conditions are not met when the contingency period expires.
53. If attainment or maintenance of a specified amount of earnings for a period is the condition for contingent issue and if that amount has been attained at the end of the reporting period but must be maintained beyond the end of the reporting period for an additional period, then the additional ordinary shares are treated as outstanding, if the effect is dilutive, when calculating diluted earnings per share. In that case, the calculation of diluted earnings per share is based on the number of ordinary shares that would be issued if the amount of earnings at the end of the reporting period were the amount of earnings at the end of the contingency period. Because earnings may change in a future period, the calculation of basic earnings per share does not include such contingently issuable ordinary shares until the end of the contingency period because not all necessary conditions have been satisfied.
54. The number of ordinary shares contingently issuable may depend on the future market price of the ordinary shares. In that case, if the effect is dilutive, the calculation of diluted earnings per share is based on the number of ordinary shares that would be issued if the market price at the end of the reporting period were the market price at the end of the contingency period. If the condition is based on an average of market prices over a period of time that extends beyond the end of the reporting period, the average for the period of time that has lapsed is used. Because the market price may change in a future period, the calculation of basic earnings per share does not include such contingently issuable ordinary shares until the end of the contingency period because not all necessary conditions have been satisfied.
55. The number of ordinary shares contingently issuable may depend on future earnings and future prices of the ordinary shares. In such cases, the number of ordinary shares included in the diluted earnings per share calculation is based on both conditions (ie earnings to date and the current market price at the end of the reporting period). Contingently issuable ordinary shares are not included in the diluted earnings per share calculation unless both conditions are met.



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56. In other cases, the number of ordinary shares contingently issuable depends on a condition other than earnings or market price (for example, the opening of a specific number of retail stores). In such cases, assuming that the present status of the condition remains unchanged until the end of the contingency period, the contingently issuable ordinary shares are included in the calculation of diluted earnings per share according to the status at the end of the reporting period.
57. Contingently issuable potential ordinary shares (other than those covered by a contingent share agreement, such as contingently issuable convertible instruments) are included in the diluted earnings per share calculation as follows:
- (a) an entity determines whether the potential ordinary shares may be assumed to be issuable on the basis of the conditions specified for their issue in accordance with the contingent ordinary share provisions in paragraphs 52-56;
- and
- (b) if those potential ordinary shares should be reflected in diluted earnings per share, an entity determines their impact on the calculation of diluted earnings per share by following the provisions for options and warrants in paragraphs 45-48, the provisions for convertible instruments in paragraphs 49-51, the provisions for contracts that may be settled in ordinary shares or cash in paragraphs 58-61, or other provisions, as appropriate.

However, exercise or conversion is not assumed for the purpose of calculating diluted earnings per share unless exercise or conversion of similar outstanding potential ordinary shares that are not contingently issuable is assumed.

## Contracts that may be settled in ordinary shares or cash

58. ***When an entity has issued a contract that may be settled in ordinary shares or cash at the entity's option, the entity shall presume that the contract will be settled in ordinary shares, and the resulting potential ordinary shares shall be included in diluted earnings per share if the effect is dilutive.***
59. When such a contract is presented for accounting purposes as an asset or a liability, or has an equity component and a liability component, the entity shall adjust the numerator for any changes in profit or loss that would have resulted during the period if the contract had been classified wholly as an equity instrument. That adjustment is similar to the adjustments required in paragraph 33.
60. ***For contracts that may be settled in ordinary shares or cash at the holder's option, the more dilutive of cash settlement and share settlement shall be used in calculating diluted earnings per share.***
61. An example of a contract that may be settled in ordinary shares or cash is a debt instrument that, on maturity, gives the entity the unrestricted right to settle the principal amount in cash or in its own ordinary shares. Another example is a written put option that gives the holder a choice of settling in ordinary shares or cash.

## Purchased options

62. Contracts such as purchased put options and purchased call options (ie options held by the entity on its own ordinary shares) are not included in the calculation of diluted earnings per share because including them would be antidilutive. The put option would be exercised only if the exercise price were higher than the market price and the call option would be exercised only if the exercise price were lower than the market price.

## Written put options

63. ***Contracts that require the entity to repurchase its own shares, such as written put options and forward purchase contracts, are reflected in the calculation of diluted earnings per share if the effect is dilutive. If these contracts are 'in the money' during the period (ie the exercise or settlement price is above the average market price for that period), the potential dilutive effect on earnings per share shall be calculated as follows:***
- (a) ***it shall be assumed that at the beginning of the period sufficient ordinary shares will be issued (at the average market price during the period) to raise proceeds to satisfy the contract;***

- (b) *it shall be assumed that the proceeds from the issue are used to satisfy the contract (ie to buy back ordinary shares);*

*and*

- (c) *the incremental ordinary shares (the difference between the number of ordinary shares assumed issued and the number of ordinary shares received from satisfying the contract) shall be included in the calculation of diluted earnings per share.*

#### RETROSPECTIVE ADJUSTMENTS

64. *If the number of ordinary or potential ordinary shares outstanding increases as a result of a capitalisation, 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 shall be adjusted retrospectively. If these changes occur after the balance sheet date but before the financial statements are authorised for issue, the per share calculations for those and any prior period financial statements presented shall be based on the new number of shares. The fact that per share calculations reflect such changes in the number of shares shall be disclosed. In addition, basic and diluted earnings per share of all periods presented shall be adjusted for:*

- (a) *the effects of errors and adjustments resulting from changes in accounting policies, accounted for retrospectively;*

*and*

- (b) *the effects of a business combination that is a uniting of interests.*

65. *An entity does not restate diluted earnings per share of any prior period presented for changes in the assumptions used in earnings per share calculations or for the conversion of potential ordinary shares into ordinary shares.*

#### PRESENTATION

66. *An entity shall present on the face of the income statement basic and diluted earnings per share for profit or loss from continuing operations attributable to the ordinary equity holders of the parent entity and for profit or loss attributable to the ordinary equity holders of the parent entity for the period for each class of ordinary shares that has a different right to share in profit for the period. An entity shall present basic and diluted earnings per share with equal prominence for all periods presented.*

67. *Earnings per share is presented for every period for which an income statement is presented. If diluted earnings per share is reported for at least one period, it shall be reported for all periods presented, even if it equals basic earnings per share. If basic and diluted earnings per share are equal, dual presentation can be accomplished in one line on the income statement.*

68. *An entity that reports a discontinuing operation shall disclose the basic and diluted amounts per share for the discontinuing operation either on the face of the income statement or in the notes to the financial statements.*

69. *An entity shall present basic and diluted earnings per share, even if the amounts are negative (ie a loss per share).*

#### DISCLOSURE

70. *An entity shall disclose the following:*

- (a) *the amounts used as the numerators in calculating basic and diluted earnings per share, and a reconciliation of those amounts to profit or loss attributable to the parent entity for the period. The reconciliation shall include the individual effect of each class of instruments that affects earnings per share.*

- (b) *the weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share, and a reconciliation of these denominators to each other. The reconciliation shall include the individual effect of each class of instruments that affects earnings per share.*

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- (c) *instruments (including contingently issuable shares) that could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they are antidilutive for the period(s) presented.*
- (d) *a description of ordinary share transactions or potential ordinary share transactions, other than those accounted for in accordance with paragraph 64, that occur after the balance sheet date and that would have changed significantly the number of ordinary shares or potential ordinary shares outstanding at the end of the period if those transactions had occurred before the end of the reporting period.*

71. Examples of transactions in paragraph 70(d) include:

- (a) an issue of shares for cash;
  - (b) an issue of shares when the proceeds are used to repay debt or preference shares outstanding at the balance sheet date;
  - (c) the redemption of ordinary shares outstanding;
  - (d) the conversion or exercise of potential ordinary shares outstanding at the balance sheet date into ordinary shares;
  - (e) an issue of options, warrants, or convertible instruments;
- and
- (f) the achievement of conditions that would result in the issue of contingently issuable shares.

Earnings per share amounts are not adjusted for such transactions occurring after the balance sheet date because such transactions do not affect the amount of capital used to produce profit or loss for the period.

72. Financial instruments and other contracts generating potential ordinary shares may incorporate terms and conditions that affect the measurement of basic and diluted earnings per share. These terms and conditions may determine whether any potential ordinary shares are dilutive and, if so, the effect on the weighted average number of shares outstanding and any consequent adjustments to profit or loss attributable to ordinary equity holders. The disclosure of the terms and conditions of such financial instruments and other contracts is encouraged, if not otherwise required (see IAS 32).
73. *If an entity discloses, in addition to basic and diluted earnings per share, amounts per share using a reported component of the income statement other than one required by this Standard, such amounts shall be calculated using the weighted average number of ordinary shares determined in accordance with this Standard. Basic and diluted amounts per share relating to such a component shall be disclosed with equal prominence and presented in the notes to the financial statements. An entity shall indicate the basis on which the numerator(s) is (are) determined, including whether amounts per share are before tax or after tax. If a component of the income statement is used that is not reported as a line item in the income statement, a reconciliation shall be provided between the component used and a line item that is reported in the income statement.*

#### EFFECTIVE DATE

74. *An entity shall apply this Standard for annual periods beginning on or after 1 January 2005. Earlier application is encouraged. If an entity applies the Standard for a period beginning before 1 January 2005 it shall disclose that fact.*

#### WITHDRAWAL OF OTHER PRONOUNCEMENTS

75. This Standard supersedes IAS 33 *Earnings Per Share* (issued in 1997).
76. This Standard supersedes SIC-24 *Earnings Per Share — Financial Instruments and Other Contracts that May Be Settled in Shares*.
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## APPENDIX A

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**Application Guidance**

*This appendix is an integral part of the Standard.*

**Profit or Loss Attributable to the Parent Entity**

- A1. For the purpose of calculating earnings per share based on the consolidated financial statements, profit or loss attributable to the parent entity refers to profit or loss of the consolidated entity after adjusting for minority interests.

**Rights Issues**

- A2. The issue of ordinary shares at the time of exercise or conversion of potential ordinary shares does not usually give rise to a bonus element. This is because the potential ordinary shares are usually issued for full value, resulting in a proportionate change in the resources available to the entity. In a rights issue, however, the exercise price is often less than the fair value of the shares. Therefore, as noted in paragraph 27(b), such a rights issue includes a bonus element. If a rights issue is offered to all existing shareholders, the number of ordinary shares to be used in calculating basic and diluted earnings per share for all periods before the rights issue is the number of ordinary shares outstanding before the issue, multiplied by the following factor:

$$\text{(Fair value per share immediately before the exercise of right)} / \text{(Theoretical ex-rights fair value per share)}$$

The theoretical ex-rights fair value per share is calculated by adding the aggregate market value of the shares immediately before the exercise of the rights to the proceeds from the exercise of the rights, and dividing by the number of shares outstanding after the exercise of the rights. Where the rights are to be publicly traded separately from the shares before the exercise date, fair value for the purposes of this calculation is established at the close of the last day on which the shares are traded together with the rights.

**Control Number**

- A3. To illustrate the application of the control number notion described in paragraphs 42 and 43, assume that an entity has profit from continuing operations attributable to the parent entity of CU4 800 (\*) a loss from discontinuing operations attributable to the parent entity of (CU7 200), a loss attributable to the parent entity of (CU2 400), and 2 000 ordinary shares and 400 potential ordinary shares outstanding. The entity's basic earnings per share is CU2.40 for continuing operations, (CU3.60) for discontinuing operations and (CU1.20) for the loss. The 400 potential ordinary shares are included in the diluted earnings per share calculation because the resulting CU2.00 earnings per share for continuing operations is dilutive, assuming no profit or loss impact of those 400 potential ordinary shares. Because profit from continuing operations attributable to the parent entity is the control number, the entity also includes those 400 potential ordinary shares in the calculation of the other earnings per share amounts, even though the resulting earnings per share amounts are antidilutive to their comparable basic earnings per share amounts, ie the loss per share is less [(CU3.00) per share for the loss from discontinuing operations and (CU1.00) per share for the loss].

(\*) In this guidance, monetary amounts are denominated in 'currency units' (CU).

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**Average Market Price of Ordinary Shares**

- A4. For the purpose of calculating diluted earnings per share, the average market price of ordinary shares assumed to be issued is calculated on the basis of the average market price of the ordinary shares during the period. Theoretically, every market transaction for an entity's ordinary shares could be included in the determination of the average market price. As a practical matter, however, a simple average of weekly or monthly prices is usually adequate.
- A5. Generally, closing market prices are adequate for calculating the average market price. When prices fluctuate widely, however, an average of the high and low prices usually produces a more representative price. The method used to calculate the average market price is used consistently unless it is no longer representative because of changed conditions. For example, an entity that uses closing market prices to calculate the average market price for several years of relatively stable prices might change to an average of high and low prices if prices start fluctuating greatly and the closing market prices no longer produce a representative average price.

**Options, Warrants and Their Equivalents**

- A6. Options or warrants to purchase convertible instruments are assumed to be exercised to purchase the convertible instrument whenever the average prices of both the convertible instrument and the ordinary shares obtainable upon conversion are above the exercise price of the options or warrants. However, exercise is not assumed unless conversion of similar outstanding convertible instruments, if any, is also assumed.
- A7. Options or warrants may permit or require the tendering of debt or other instruments of the entity (or its parent or a subsidiary) in payment of all or a portion of the exercise price. In the calculation of diluted earnings per share, those options or warrants have a dilutive effect if (a) the average market price of the related ordinary shares for the period exceeds the exercise price or (b) the selling price of the instrument to be tendered is below that at which the instrument may be tendered under the option or warrant agreement and the resulting discount establishes an effective exercise price below the market price of the ordinary shares obtainable upon exercise. In the calculation of diluted earnings per share, those options or warrants are assumed to be exercised and the debt or other instruments are assumed to be tendered. If tendering cash is more advantageous to the option or warrant holder and the contract permits tendering cash, tendering of cash is assumed. Interest (net of tax) on any debt assumed to be tendered is added back as an adjustment to the numerator.
- A8. Similar treatment is given to preference shares that have similar provisions or to other instruments that have conversion options that permit the investor to pay cash for a more favourable conversion rate.
- A9. The underlying terms of certain options or warrants may require the proceeds received from the exercise of those instruments to be applied to redeem debt or other instruments of the entity (or its parent or a subsidiary). In the calculation of diluted earnings per share, those options or warrants are assumed to be exercised and the proceeds applied to purchase the debt at its average market price rather than to purchase ordinary shares. However, the excess proceeds received from the assumed exercise over the amount used for the assumed purchase of debt are considered (ie assumed to be used to buy back ordinary shares) in the diluted earnings per share calculation. Interest (net of tax) on any debt assumed to be purchased is added back as an adjustment to the numerator.

**Written Put Options**

- A10. To illustrate the application of paragraph 63, assume that an entity has outstanding 120 written put options on its ordinary shares with an exercise price of CU35. The average market price of its ordinary shares for the period is CU28. In calculating diluted earnings per share, the entity assumes that it issued 150 shares at CU28 per share at the beginning of the period to satisfy its put obligation of CU4 200. The difference between the 150 ordinary shares issued and the 120 ordinary shares received from satisfying the put option (30 incremental ordinary shares) is added to the denominator in calculating diluted earnings per share.

**Instruments of Subsidiaries, Joint Ventures or Associates**

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- A11. Potential ordinary shares of a subsidiary, joint venture or associate convertible into either ordinary shares of the subsidiary, joint venture or associate, or ordinary shares of the parent, venturer or investor (the reporting entity) are included in the calculation of diluted earnings per share as follows:
- (a) instruments issued by a subsidiary, joint venture or associate that enable their holders to obtain ordinary shares of the subsidiary, joint venture or associate are included in calculating the diluted earnings per share data of the subsidiary, joint venture or associate. Those earnings per share are then included in the reporting entity's earnings per share calculations based on the reporting entity's holding of the instruments of the subsidiary, joint venture or associate.
  - (b) instruments of a subsidiary, joint venture or associate that are convertible into the reporting entity's ordinary shares are considered among the potential ordinary shares of the reporting entity for the purpose of calculating diluted earnings per share. Likewise, options or warrants issued by a subsidiary, joint venture or associate to purchase ordinary shares of the reporting entity are considered among the potential ordinary shares of the reporting entity in the calculation of consolidated diluted earnings per share.
- A12. For the purpose of determining the earnings per share effect of instruments issued by a reporting entity that are convertible into ordinary shares of a subsidiary, joint venture or associate, the instruments are assumed to be converted and the numerator (profit or loss attributable to ordinary equity holders of the parent entity) adjusted as necessary in accordance with paragraph 33. In addition to those adjustments, the numerator is adjusted for any change in the profit or loss recorded by the reporting entity (such as dividend income or equity method income) that is attributable to the increase in the number of ordinary shares of the subsidiary, joint venture or associate outstanding as a result of the assumed conversion. The denominator of the diluted earnings per share calculation is not affected because the number of ordinary shares of the reporting entity outstanding would not change upon assumed conversion.

**Participating Equity Instruments and Two-Class Ordinary Shares**

- A13. The equity of some entities includes:
- (a) instruments that participate in dividends with ordinary shares according to a predetermined formula (for example, two for one) with, at times, an upper limit on the extent of participation (for example, up to, but not beyond, a specified amount per share).
  - (b) a class of ordinary shares with a different dividend rate from that of another class of ordinary shares but without prior or senior rights.
- A14. For the purpose of calculating diluted earnings per share, conversion is assumed for those instruments described in paragraph A13 that are convertible into ordinary shares if the effect is dilutive. For those instruments that are not convertible into a class of ordinary shares, profit or loss for the period is allocated to the different classes of shares and participating equity instruments in accordance with their dividend rights or other rights to participate in undistributed earnings. To calculate basic and diluted earnings per share:
- (a) profit or loss attributable to ordinary equity holders of the parent entity is adjusted (a profit reduced and a loss increased) by the amount of dividends declared in the period for each class of shares and by the contractual amount of dividends (or interest on participating bonds) that must be paid for the period (for example, unpaid cumulative dividends).
  - (b) the remaining profit or loss is allocated to ordinary shares and participating equity instruments to the extent that each instrument shares in earnings as if all of the profit or loss for the period had been distributed. The total profit or loss allocated to each class of equity instrument is determined by adding together the amount allocated for dividends and the amount allocated for a participation feature.

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- (c) the total amount of profit or loss allocated to each class of equity instrument is divided by the number of outstanding instruments to which the earnings are allocated to determine the earnings per share for the instrument.

For the calculation of diluted earnings per share, all potential ordinary shares assumed to have been issued are included in outstanding ordinary shares.

**Partly Paid Shares**

- A15. Where ordinary shares are issued but not fully paid, they are treated in the calculation of basic earnings per share as a fraction of an ordinary share to the extent that they were entitled to participate in dividends during the period relative to a fully paid ordinary share.
- A16. To the extent that partly paid shares are not entitled to participate in dividends during the period they are treated as the equivalent of warrants or options in the calculation of diluted earnings per share. The unpaid balance is assumed to represent proceeds used to purchase ordinary shares. The number of shares included in diluted earnings per share is the difference between the number of shares subscribed and the number of shares assumed to be purchased.
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## APPENDIX B

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**Amendments to Other Pronouncements**

*The amendments in this appendix shall be applied for annual periods beginning on or after 1 January 2005. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.*

- B1. In International Financial Reporting Standards, including International Accounting Standards and Interpretations, applicable at December 2003, references to the current version of IAS 33 *Earnings Per Share* are amended to IAS 33 *Earnings per Share*.
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## IAS 40

## INTERNATIONAL ACCOUNTING STANDARD 40

**Investment Property**

## SUMMARY

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This revised Standard supersedes IAS 40 (2000) *Investment Property* and should be applied for annual periods beginning on or after 1 January 2005. Earlier application is encouraged.

**OBJECTIVE**

1. The objective of this Standard is to prescribe the accounting treatment for investment property and related disclosure requirements.

## SCOPE

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2. ***This Standard shall be applied in the recognition, measurement and disclosure of investment property.***
3. Among other things, this Standard applies to the measurement in a lessee's financial statements of investment property interests held under a lease accounted for as a finance lease and to the measurement in a lessor's financial statements of investment property provided to a lessee under an operating lease. This Standard does not deal with matters covered in IAS 17 *Leases*, including:
  - (a) classification of leases as finance leases or operating leases;
  - (b) recognition of lease income from investment property (see also IAS 18 *Revenue*);
  - (c) measurement in a lessee's financial statements of property interests held under a lease accounted for as an operating lease;
  - (d) measurement in a lessor's financial statements of its net investment in a finance lease;
  - (e) accounting for sale and leaseback transactions;and
  - (f) disclosure about finance leases and operating leases.
4. This Standard does not apply to:
  - (a) biological assets related to agricultural activity (see IAS 41 *Agriculture*); and
  - (b) mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources.

## DEFINITIONS

5. ***The following terms are used in this Standard with the meanings specified:***

***Carrying amount is the amount at which an asset is recognised in the balance sheet.***

***Cost is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction.***

***Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.***

***Investment property is property (land or a building — or part of a building — or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:***

- (a) ***use in the production or supply of goods or services or for administrative purposes;***

***or***

- (b) ***sale in the ordinary course of business.***

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**Owner-occupied property is property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes.**

6. **A property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property if, and only if, the property would otherwise meet the definition of an investment property and the lessee uses the fair value model set out in paragraphs 33-55 for the asset recognised. This classification alternative is available on a property-by-property basis. However, once this classification alternative is selected for one such property interest held under an operating lease, all property classified as investment property shall be accounted for using the fair value model. When this classification alternative is selected, any interest so classified is included in the disclosures required by paragraphs 74-78.**
7. Investment property is held to earn rentals or for capital appreciation or both. Therefore, an investment property generates cash flows largely independently of the other assets held by an entity. This distinguishes investment property from owner-occupied property. The production or supply of goods or services (or the use of property for administrative purposes) generates cash flows that are attributable not only to property, but also to other assets used in the production or supply process. IAS 16 *Property, Plant and Equipment* applies to owner-occupied property.
8. The following are examples of investment property:
  - (a) land held for long-term capital appreciation rather than for short-term sale in the ordinary course of business.
  - (b) land held for a currently undetermined future use. (If an entity has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation).
  - (c) a building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases.
  - (d) a building that is vacant but is held to be leased out under one or more operating leases.
9. The following are examples of items that are not investment property and are therefore outside the scope of this Standard:
  - (a) property held for sale in the ordinary course of business or in the process of construction or development for such sale (see IAS 2 *Inventories*), for example, property acquired exclusively with a view to subsequent disposal in the near future or for development and resale.
  - (b) property being constructed or developed on behalf of third parties (see IAS 11 *Construction Contracts*).
  - (c) owner-occupied property (see IAS 16), including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal.
  - (d) property that is being constructed or developed for future use as investment property. IAS 16 applies to such property until construction or development is complete, at which time the property becomes investment property and this Standard applies. However, this Standard applies to existing investment property that is being redeveloped for continued future use as investment property (see paragraph 58).
  - (e) property that is leased to another entity under a finance lease.

10. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), an entity accounts for the portions separately. If the portions could not be sold separately, the property is investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.
11. In some cases, an entity provides ancillary services to the occupants of a property it holds. An entity treats such a property as investment property if the services are insignificant to the arrangement as a whole. An example is when the owner of an office building provides security and maintenance services to the lessees who occupy the building.
12. In other cases, the services provided are significant. For example, if an entity owns and manages a hotel, services provided to guests are significant to the arrangement as a whole. Therefore, an owner-managed hotel is owner-occupied property, rather than investment property.
13. It may be difficult to determine whether ancillary services are so significant that a property does not qualify as investment property. For example, the owner of a hotel sometimes transfers some responsibilities to third parties under a management contract. The terms of such contracts vary widely. At one end of the spectrum, the owner's position may, in substance, be that of a passive investor. At the other end of the spectrum, the owner may simply have outsourced day-to-day functions while retaining significant exposure to variation in the cash flows generated by the operations of the hotel.
14. Judgement is needed to determine whether a property qualifies as investment property. An entity develops criteria so that it can exercise that judgement consistently in accordance with the definition of investment property and with the related guidance in paragraphs 7-13. Paragraph 75(c) requires an entity to disclose these criteria when classification is difficult.
15. In some cases, an entity owns property that is leased to, and occupied by, its parent or another subsidiary. The property does not qualify as investment property in the consolidated financial statements, because the property is owner-occupied from the perspective of the group. However, from the perspective of the entity that owns it, the property is investment property if it meets the definition in paragraph 5. Therefore, the lessor treats the property as investment property in its individual financial statements.

#### RECOGNITION

16. ***Investment property shall be recognised as an asset when, and only when:***
  - (a) ***it is probable that the future economic benefits that are associated with the investment property will flow to the entity;***
  - and***
  - (b) ***the cost of the investment property can be measured reliably.***
17. An entity evaluates under this recognition principle all its investment property costs at the time they are incurred. These costs include costs incurred initially to acquire an investment property and costs incurred subsequently to add to, replace part of, or service a property.
18. Under the recognition principle in paragraph 16, an entity does not recognise in the carrying amount of an investment property the costs of the day-to-day servicing of such a property. Rather, these costs are recognised in profit or loss as incurred. Costs of day-to-day servicing are primarily the cost of labour and consumables, and may include the cost of minor parts. The purpose of these expenditures is often described as for the 'repairs and maintenance' of the property.

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19. Parts of investment properties may have been acquired through replacement. For example, the interior walls may be replacements of original walls. Under the recognition principle, an entity recognises in the carrying amount of an investment property the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognised in accordance with the derecognition provisions of this Standard.

## MEASUREMENT AT RECOGNITION

20. ***An investment property shall be measured initially at its cost. Transaction costs shall be included in the initial measurement.***
21. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. Directly attributable expenditure includes, for example, professional fees for legal services, property transfer taxes and other transaction costs.
22. The cost of a self-constructed investment property is its cost at the date when the construction or development is complete. Until that date, an entity applies IAS 16. At that date, the property becomes investment property and this Standard applies (see paragraphs 57(e) and 65).
23. The cost of an investment property is not increased by:
- (a) start-up costs (unless they are necessary to bring the property to the condition necessary for it to be capable of operating in the manner intended by management),
  - (b) operating losses incurred before the investment property achieves the planned level of occupancy,
- or
- (c) abnormal amounts of wasted material, labour or other resources incurred in constructing or developing the property.
24. If payment for an investment property is deferred, its cost is the cash price equivalent. The difference between this amount and the total payments is recognised as interest expense over the period of credit.
25. ***The initial cost of a property interest held under a lease and classified as an investment property shall be as prescribed for a finance lease by paragraph 20 of IAS 17, ie the asset shall be recognised at the lower of the fair value of the property and the present value of the minimum lease payments. An equivalent amount shall be recognised as a liability in accordance with that same paragraph.***
26. Any premium paid for a lease is treated as part of the minimum lease payments for this purpose, and is therefore included in the cost of the asset, but is excluded from the liability. If a property interest held under a lease is classified as investment property, the item accounted for at fair value is that interest and not the underlying property. Guidance on determining the fair value of a property interest is set out for the fair value model in paragraphs 33-52. That guidance is also relevant to the determination of fair value when that value is used as cost for initial recognition purposes.
27. One or more investment properties may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such an investment property is measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. The acquired asset is measured in this way even if an entity cannot immediately derecognise the asset given up. If the acquired asset is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

28. An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows are expected to change as a result of the transaction. An exchange transaction has commercial substance if:
- (a) the configuration (risk, timing and amount) of the cash flows of the asset received differs from the configuration of the cash flows of the asset transferred,
- or
- (b) the entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange,
- and
- (c) the difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

For the purpose of determining whether an exchange transaction has commercial substance, the entity-specific value of the portion of the entity's operations affected by the transaction shall reflect post-tax cash flows. The result of these analyses may be clear without an entity having to perform detailed calculations.

29. The fair value of an asset for which comparable market transactions do not exist is reliably measurable if (a) the variability in the range of reasonable fair value estimates is not significant for that asset or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value. If the entity is able to determine reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure cost unless the fair value of the asset received is more clearly evident.

#### MEASUREMENT AFTER RECOGNITION

##### *Accounting Policy*

30. ***With the exception noted in paragraph 34, an entity shall choose as its accounting policy either the fair value model in paragraphs 33-55 or the cost model in paragraph 56 and shall apply that policy to all of its investment property.***
31. IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* states that a voluntary change in accounting policy shall be made only if the change will result in a more appropriate presentation of transactions, other events or conditions in the entity's financial statements. It is highly unlikely that a change from the fair value model to the cost model will result in a more appropriate presentation.
32. This Standard requires all entities to determine the fair value of investment property, for the purpose of either measurement (if the entity uses the fair value model) or disclosure (if it uses the cost model). An entity is encouraged, but not required, to determine the fair value of investment property on the basis of a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

##### *Fair Value Model*

33. ***After initial recognition, an entity that chooses the fair value model shall measure all of its investment property at fair value, except in the cases described in paragraph 53.***
34. ***When a property interest held by a lessee under an operating lease is classified as an investment property under paragraph 6, paragraph 30 is not elective; the fair value model shall be applied.***

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35. ***A gain or loss arising from a change in the fair value of investment property shall be recognised in profit or loss for the period in which it arises.***
36. The fair value of investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction (see paragraph 5). Fair value specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale.
37. An entity determines fair value without any deduction for transaction costs it may incur on sale or other disposal.
38. ***The fair value of investment property shall reflect market conditions at the balance sheet date.***
39. Fair value is time-specific as of a given date. Because market conditions may change, the amount reported as fair value may be incorrect or inappropriate if estimated as of another time. The definition of fair value also assumes simultaneous exchange and completion of the contract for sale without any variation in price that might be made in an arm's length transaction between knowledgeable, willing parties if exchange and completion are not simultaneous.
40. The fair value of investment property reflects, among other things, rental income from current leases and reasonable and supportable assumptions that represent what knowledgeable, willing parties would assume about rental income from future leases in the light of current conditions. It also reflects, on a similar basis, any cash outflows (including rental payments and other outflows) that could be expected in respect of the property. Some of those outflows are reflected in the liability whereas others relate to outflows that are not recognised in the financial statements until a later date (eg periodic payments such as contingent rents).
41. Paragraph 25 specifies the basis for initial recognition of the cost of an interest in a leased property. Paragraph 33 requires the interest in the leased property to be remeasured, if necessary, to fair value. In a lease negotiated at market rates, the fair value of an interest in a leased property at acquisition, net of all expected lease payments (including those relating to recognised liabilities), should be zero. This fair value does not change regardless of whether, for accounting purposes, a leased asset and liability are recognised at fair value or at the present value of minimum lease payments, in accordance with paragraph 20 of IAS 17. Thus, remeasuring a leased asset from cost in accordance with paragraph 25 to fair value in accordance with paragraph 33 should not give rise to any initial gain or loss, unless fair value is measured at different times. This could occur when an election to apply the fair value model is made after initial recognition.
42. The definition of fair value refers to 'knowledgeable, willing parties'. In this context, 'knowledgeable' means that both the willing buyer and the willing seller are reasonably informed about the nature and characteristics of the investment property, its actual and potential uses, and market conditions at the balance sheet date. A willing buyer is motivated, but not compelled, to buy. This buyer is neither over-eager nor determined to buy at any price. The assumed buyer would not pay a higher price than a market comprising knowledgeable, willing buyers and sellers would require.
43. A willing seller is neither an over-eager nor a forced seller, prepared to sell at any price, nor one prepared to hold out for a price not considered reasonable in current market conditions. The willing seller is motivated to sell the investment property at market terms for the best price obtainable. The factual circumstances of the actual investment property owner are not a part of this consideration because the willing seller is a hypothetical owner (eg a willing seller would not take into account the particular tax circumstances of the actual investment property owner).
44. The definition of fair value refers to an arm's length transaction. An arm's length transaction is one between parties that do not have a particular or special relationship that makes prices of transactions uncharacteristic of market conditions. The transaction is presumed to be between unrelated parties, each acting independently.

45. The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition and subject to similar lease and other contracts. An entity takes care to identify any differences in the nature, location or condition of the property, or in the contractual terms of the leases and other contracts relating to the property.
46. In the absence of current prices in an active market of the kind described in paragraph 45, an entity considers information from a variety of sources, including:
- (a) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;
  - (b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices;
- and
- (c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.
47. In some cases, the various sources listed in the previous paragraph may suggest different conclusions about the fair value of an investment property. An entity considers the reasons for those differences, in order to arrive at the most reliable estimate of fair value within a range of reasonable fair value estimates.
48. In exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property following the completion of construction or development, or after a change in use) that the variability in the range of reasonable fair value estimates will be so great, and the probabilities of the various outcomes so difficult to assess, that the usefulness of a single estimate of fair value is negated. This may indicate that the fair value of the property will not be reliably determinable on a continuing basis (see paragraph 53).
49. Fair value differs from value in use, as defined in IAS 36 *Impairment of Assets*. Fair value reflects the knowledge and estimates of knowledgeable, willing buyers and sellers. In contrast, value in use reflects the entity's estimates, including the effects of factors that may be specific to the entity and not applicable to entities in general. For example, fair value does not reflect any of the following factors to the extent that they would not be generally available to knowledgeable, willing buyers and sellers:
- (a) additional value derived from the creation of a portfolio of properties in different locations;
  - (b) synergies between investment property and other assets;
  - (c) legal rights or legal restrictions that are specific only to the current owner;
- and
- (d) tax benefits or tax burdens that are specific to the current owner.



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50. In determining the fair value of investment property, an entity does not double-count assets or liabilities that are recognised as separate assets or liabilities. For example:
- (a) equipment such as lifts or air-conditioning is often an integral part of a building and is generally included in the fair value of the investment property, rather than recognised separately as property, plant and equipment.
  - (b) if an office is leased on a furnished basis, the fair value of the office generally includes the fair value of the furniture, because the rental income relates to the furnished office. When furniture is included in the fair value of investment property, an entity does not recognise that furniture as a separate asset.
  - (c) the fair value of investment property excludes prepaid or accrued operating lease income, because the entity recognises it as a separate liability or asset.
  - (d) the fair value of investment property held under a lease reflects expected cash flows (including contingent rent that is expected to become payable). Accordingly, if a valuation obtained for a property is net of all payments expected to be made, it will be necessary to add back any recognised lease liability, to arrive at the fair value of the investment property for accounting purposes.
51. The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure.
52. In some cases, an entity expects that the present value of its payments relating to an investment property (other than payments relating to recognised liabilities) will exceed the present value of the related cash receipts. An entity applies IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to determine whether to recognise a liability and, if so, how to measure it.

## Inability to Determine Fair Value Reliably

53. ***There is a rebuttable presumption that an entity can reliably determine the fair value of an investment property on a continuing basis. However, in exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property following the completion of construction or development, or after a change in use) that the fair value of the investment property is not reliably determinable on a continuing basis. This arises when, and only when, comparable market transactions are infrequent and alternative reliable estimates of fair value (for example, based on discounted cash flow projections) are not available. In such cases, an entity shall measure that investment property using the cost model in IAS 16. The residual value of the investment property shall be assumed to be zero. The entity shall apply IAS 16 until disposal of the investment property.***
54. In the exceptional cases when an entity is compelled, for the reason given in the previous paragraph, to measure an investment property using the cost model in accordance with IAS 16, it measures all its other investment property at fair value. In these cases, although an entity may use the cost model for one investment property, the entity shall continue to account for each of the remaining properties using the fair value model.
55. ***If an entity has previously measured an investment property at fair value, it shall continue to measure the property at fair value until disposal (or until the property becomes owner-occupied property or the entity begins to develop the property for subsequent sale in the ordinary course of business) even if comparable market transactions become less frequent or market prices become less readily available.***

## Cost Model

56. ***After initial recognition, an entity that chooses the cost model shall measure all of its investment property in accordance with IAS 16's requirements for that model, ie at cost less any accumulated depreciation and any accumulated impairment losses.***

## TRANSFERS

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57. *Transfers to, or from, investment property shall be made when, and only when, there is a change in use, evidenced by:*

- (a) commencement of owner-occupation, for a transfer from investment property to owner-occupied property;*
- (b) commencement of development with a view to sale, for a transfer from investment property to inventories;*
- (c) end of owner-occupation, for a transfer from owner-occupied property to investment property;*
- (d) commencement of an operating lease to another party, for a transfer from inventories to investment property;*

*or*

- (e) end of construction or development, for a transfer from property in the course of construction or development (covered by IAS 16) to investment property.*

58. Paragraph 57(b) requires an entity to transfer a property from investment property to inventories when, and only when, there is a change in use, evidenced by commencement of development with a view to sale. When an entity decides to dispose of an investment property without development, it continues to treat the property as an investment property until it is derecognised (eliminated from the balance sheet) and does not treat it as inventory. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property and is not reclassified as owner-occupied property during the redevelopment.

59. Paragraphs 60-65 apply to recognition and measurement issues that arise when an entity uses the fair value model for investment property. When an entity uses the cost model, transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.

60. *For a transfer from investment property carried at fair value to owner-occupied property or inventories, the property's deemed cost for subsequent accounting in accordance with IAS 16 or IAS 2 shall be its fair value at the date of change in use.*

61. *If an owner-occupied property becomes an investment property that will be carried at fair value, an entity shall apply IAS 16 up to the date of change in use. The entity shall treat any difference at that date between the carrying amount of the property in accordance with IAS 16 and its fair value in the same way as a revaluation in accordance with IAS 16.*

62. Up to the date when an owner-occupied property becomes an investment property carried at fair value, an entity depreciates the property and recognises any impairment losses that have occurred. The entity treats any difference at that date between the carrying amount of the property in accordance with IAS 16 and its fair value in the same way as a revaluation in accordance with IAS 16. In other words:

- (a) any resulting decrease in the carrying amount of the property is recognised in profit or loss. However, to the extent that an amount is included in revaluation surplus for that property, the decrease is charged against that revaluation surplus.

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- (b) any resulting increase in the carrying amount is treated as follows:
- (i) to the extent that the increase reverses a previous impairment loss for that property, the increase is recognised in profit or loss. The amount recognised in profit or loss does not exceed the amount needed to restore the carrying amount to the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised.
  - (ii) any remaining part of the increase is credited directly to equity in revaluation surplus. On subsequent disposal of the investment property, the revaluation surplus included in equity may be transferred to retained earnings. The transfer from revaluation surplus to retained earnings is not made through profit or loss.
63. ***For a transfer from inventories to investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in profit or loss.***
64. The treatment of transfers from inventories to investment property that will be carried at fair value is consistent with the treatment of sales of inventories.
65. ***When an entity completes the construction or development of a self-constructed investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in profit or loss.***

## DISPOSALS

66. ***An investment property shall be derecognised (eliminated from the balance sheet) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.***
67. The disposal of an investment property may be achieved by sale or by entering into a finance lease. In determining the date of disposal for investment property, an entity applies the criteria in IAS 18 for recognising revenue from the sale of goods and considers the related guidance in the Appendix to IAS 18. IAS 17 applies to a disposal effected by entering into a finance lease and to a sale and leaseback.
68. If, in accordance with the recognition principle in paragraph 16, an entity recognises in the carrying amount of an asset the cost of a replacement for part of an investment property, it derecognises the carrying amount of the replaced part. For investment property accounted for using the cost model, a replaced part may not be a part that was depreciated separately. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed. Under the fair value model, the fair value of the investment property may already reflect that the part to be replaced has lost its value. In other cases it may be difficult to discern how much fair value should be reduced for the part being replaced. An alternative to reducing fair value for the replaced part, when it is not practical to do so, is to include the cost of the replacement in the carrying amount of the asset and then to reassess the fair value, as would be required for additions not involving replacement.
69. ***Gains or losses arising from the retirement or disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognised in profit or loss (unless IAS 17 requires otherwise on a sale and leaseback) in the period of the retirement or disposal.***
70. The consideration receivable on disposal of an investment property is recognised initially at fair value. In particular, if payment for an investment property is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue in accordance with IAS 18 using the effective interest method.

71. An entity applies IAS 37 or other Standards, as appropriate, to any liabilities that it retains after disposal of an investment property.
72. ***Compensation from third parties for investment property that was impaired, lost or given up shall be recognised in profit or loss when the compensation becomes receivable.***
73. Impairments or losses of investment property, related claims for or payments of compensation from third parties and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for separately as follows:
- (a) impairments of investment property are recognised in accordance with IAS 36;
  - (b) retirements or disposals of investment property are recognised in accordance with paragraphs 66-71 of this Standard;
  - (c) compensation from third parties for investment property that was impaired, lost or given up is recognised in profit or loss when it becomes receivable;
- and
- (d) the cost of assets restored, purchased or constructed as replacements is determined in accordance with paragraphs 20-29 of this Standard.

#### DISCLOSURE

##### *Fair Value Model and Cost Model*

74. The disclosures below apply in addition to those in IAS 17. In accordance with IAS 17, the owner of an investment property provides lessors' disclosures about leases into which it has entered. An entity that holds an investment property under a finance or operating lease provides lessees' disclosures for finance leases and lessors' disclosures for any operating leases into which it has entered.
75. ***An entity shall disclose:***
- (a) ***whether it applies the fair value model or the cost model.***
  - (b) ***if it applies the fair value model, whether, and in what circumstances, property interests held under operating leases are classified and accounted for as investment property.***
  - (c) ***when classification is difficult (see paragraph 14), the criteria it uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business.***
  - (d) ***the methods and significant assumptions applied in determining the fair value of investment property, including a statement whether the determination of fair value was supported by market evidence or was more heavily based on other factors (which the entity shall disclose) because of the nature of the property and lack of comparable market data.***
  - (e) ***the extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact shall be disclosed.***

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- (f) *the amounts recognised in profit or loss for:*
- (i) *rental income from investment property;*
  - (ii) *direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period;*
- and*
- (iii) *direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental income during the period.*
- (g) *the existence and amounts of restrictions on the realisability of investment property or the remittance of income and proceeds of disposal.*
- (h) *contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.*

## Fair Value Model

76. *In addition to the disclosures required by paragraph 75, an entity that applies the fair value model in paragraphs 33-55 shall disclose a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing the following:*
- (a) *additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised in the carrying amount of an asset;*
  - (b) *additions resulting from acquisitions through business combinations;*
  - (c) *disposals;*
  - (d) *net gains or losses from fair value adjustments;*
  - (e) *the net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;*
  - (f) *transfers to and from inventories and owner-occupied property;*
- and*
- (g) *other changes.*
77. *When a valuation obtained for investment property is adjusted significantly for the purpose of the financial statements, for example to avoid double-counting of assets or liabilities that are recognised as separate assets and liabilities as described in paragraph 50, the entity shall disclose a reconciliation between the valuation obtained and the adjusted valuation included in the financial statements, showing separately the aggregate amount of any recognised lease obligations that have been added back, and any other significant adjustments.*
78. *In the exceptional cases referred to in paragraph 53, when an entity measures investment property using the cost model in IAS 16, the reconciliation required by paragraph 76 shall disclose amounts relating to that investment property separately from amounts relating to other investment property. In addition, an entity shall disclose:*
- (a) *a description of the investment property;*

- (b) *an explanation of why fair value cannot be determined reliably;*
- (c) *if possible, the range of estimates within which fair value is highly likely to lie;*  
*and*
- (d) *on disposal of investment property not carried at fair value:*
  - (i) *the fact that the entity has disposed of investment property not carried at fair value;*
  - (ii) *the carrying amount of that investment property at the time of sale;*  
*and*
  - (iii) *the amount of gain or loss recognised.*

#### Cost Model

79. *In addition to the disclosures required by paragraph 75, an entity that applies the cost model in paragraph 56 shall disclose:*
- (a) *the depreciation methods used;*
  - (b) *the useful lives or the depreciation rates used;*
  - (c) *the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period;*
  - (d) *a reconciliation of the carrying amount of investment property at the beginning and end of the period, showing the following:*
    - (i) *additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised as an asset;*
    - (ii) *additions resulting from acquisitions through business combinations;*
    - (iii) *disposals;*
    - (iv) *depreciation;*
    - (v) *the amount of impairment losses recognised, and the amount of impairment losses reversed, during the period in accordance with IAS 36;*
    - (vi) *the net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;*
    - (vii) *transfers to and from inventories and owner-occupied property;*  
*and*
    - (viii) *other changes;*  
*and*

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- (e) *the fair value of investment property. In the exceptional cases described in paragraph 53, when an entity cannot determine the fair value of the investment property reliably, it shall disclose:*
- (i) *a description of the investment property;*
  - (ii) *an explanation of why fair value cannot be determined reliably;*
- and*
- (iii) *if possible, the range of estimates within which fair value is highly likely to lie.*

## TRANSITIONAL PROVISIONS

*Fair Value Model*

80. *An entity that has previously applied IAS 40 (2000) and elects for the first time to classify and account for some or all eligible property interests held under operating leases as investment property shall recognise the effect of that election as an adjustment to the opening balance of retained earnings for the period in which the election is first made. In addition:*
- (a) *if the entity has previously disclosed publicly (in financial statements or otherwise) the fair value of those property interests in earlier periods (determined on a basis that satisfies the definition of fair value in paragraph 5 and the guidance in paragraphs 36-52), the entity is encouraged, but not required:*
    - (i) *to adjust the opening balance of retained earnings for the earliest period presented for which such fair value was disclosed publicly;*

*and*

    - (ii) *to restate comparative information for those periods;*

*and*

    - (b) *if the entity has not previously disclosed publicly the information described in (a), it shall not restate comparative information and shall disclose that fact.*

81. This Standard requires a treatment different from that required by IAS 8. IAS 8 requires comparative information to be restated unless such restatement is impracticable.
82. When an entity first applies this Standard, the adjustment to the opening balance of retained earnings includes the reclassification of any amount held in revaluation surplus for investment property.

*Cost Model*

83. IAS 8 applies to any change in accounting policies that is made when an entity first applies this Standard and chooses to use the cost model. The effect of the change in accounting policies includes the reclassification of any amount held in revaluation surplus for investment property.
84. *The requirements of paragraphs 27-29 regarding the initial measurement of an investment property acquired in an exchange of assets transaction shall be applied prospectively only to future transactions.*

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**EFFECTIVE DATE****IAS 40**

85. *An entity shall apply this Standard for annual periods beginning on or after 1 January 2005. Earlier application is encouraged. If an entity applies this Standard for a period beginning before 1 January 2005, it shall disclose that fact.*

**WITHDRAWAL OF IAS 40 (2000)**

86. This Standard supersedes IAS 40 *Investment Property* (issued in 2000).
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