IFRS Accounting

SMEs

September 2022

Exposure Draft

IFRS for SMEs® Accounting Standard

Third edition of the *IFRS for SMEs* Accounting Standard

Comments to be received by 7 March 2023

International Accounting Standards Board

IASB/ED/2022/1

Exposure Draft

Third edition of the IFRS for SMEs

Accounting Standard

Comments to be received by 7 March 2023

Exposure Draft IASB/ED/2022/1 *Third edition of the* IFRS for SMEs *Accounting Standard* is published by the International Accounting Standards Board (IASB) for comment only. Comments need to be received by 7 March 2023 and should be submitted by email to commentletters@ifrs.org or online at https://www.ifrs.org/projects/open-for-comment/.

All comments will be on the public record and posted on our website at www.ifrs.org unless the respondent requests confidentiality. Such requests will not normally be granted unless supported by a good reason, for example, commercial confidence. Please see our website for details on this policy and on how we use your personal data. If you would like to request confidentiality, please contact us at commentletters@ifrs.org before submitting your letter.

ISBN for this part: 978-1-914113-67-3

ISBN for complete publication (two parts): 978-1-914113-66-6

CONTENTS

continued...

...continued

The *International Financial Reporting Standard for Small and Medium-sized Entities* (*IFRS for SMEs* Accounting Standard) is set out in Sections 1–35 and Appendices A–B. Terms defined in the Glossary are in **bold type** the first time they appear in each section, as appropriate. The *IFRS for SMEs* Accounting Standard is accompanied by a Preface, a Derivation Table, a Basis for Conclusions and Implementation Guidance consisting of illustrative financial statements.

[Draft] Third edition of the *IFRS for SMEs* Accounting Standard

Introduction

Why is the IASB publishing this Exposure Draft?

In 2009, the International Accounting Standards Board (IASB) issued the first edition of the International Financial Reporting Standard for Small and Medium-sized Entities (*IFRS for SMEs* Accounting Standard).

The IASB maintains the Standard through periodic review and proposes amendments to the Standard by publishing an omnibus exposure draft. In developing these exposure drafts, it considers new and amended IFRS Accounting Standards as well as issues brought to its attention regarding the application of the Standard.

In 2015, the IASB completed its first comprehensive review of the Standard. It issued 2015 *Amendments to the IFRS for SMEs* and a second edition of the Standard, incorporating the 2015 amendments, which became effective in 2017.

In 2019, the IASB commenced its second comprehensive review of the Standard, in line with the objective of commencing a comprehensive review approximately two years after the effective date of the amendments to the Standard resulting from a previous comprehensive review.

As part of this second comprehensive review, the IASB:

(a) published Request for Information *Comprehensive Review of the* IFRS for SMEs *Standard* as a first step in its second comprehensive review. The objective of the Request for Information was to seek views on whether and, if so, how aligning the Standard with new and amended full IFRS Accounting Standards in the scope of the review could better serve users of financial statements prepared applying the Standard without causing undue cost or effort for SMEs; and

(b) consulted with the SME Implementation Group (SMEIG), an advisory body to the IASB.

The Request for Information sought views about:

(a) the framework the IASB developed for the second comprehensive review;

(b) sections of the Standard that could be aligned with new and amended full IFRS Accounting Standards in the scope of the review; and

(c) topics that were:

    (i) omitted from the Standard and whether, in relation to these topics, the Standard could be aligned with full IFRS Accounting Standards; and

    (ii) related to the application of the Standard.

After considering the feedback on the Request for Information and the recommendations of the SMEIG, the IASB is proposing amendments to the *IFRS for SMEs* Accounting Standard set out in this Exposure Draft.

The Basis for Conclusions on this Exposure Draft explains how the IASB applied its framework for this review to decide whether and, if so, how to propose amending the Standard to align it with full IFRS Accounting Standards.

IFRS Accounting Standards in the scope of the second comprehensive review

Set out in the Appendix to this Introduction, Table 1 summarises the IASB's proposals in this Exposure Draft.

Tables A1–A2 accompanying the Basis for Conclusions on this Exposure Draft list the IFRS Accounting Standards, amendments to IFRS Accounting Standards and IFRIC Interpretations in the scope of the second comprehensive review.

How to read this Exposure Draft

To help readers evaluate the proposals in this Exposure Draft:

(a) Section 2 *Concepts and Pervasive Principles* and Section 23 *Revenue* are revised. The IASB is proposing to align these sections with the *Conceptual Framework for Financial Reporting*, issued in 2018, and IFRS 15 *Revenue from Contracts with Customers* respectively. The previous requirements of Section 2 and Section 23 have been removed and replaced with new requirements. The Preface and Appendix A *Effective date and transition* are also revised.

(b) Section 12 *Fair Value Measurement* is a new section. The previous requirements of Section 12 have been combined with Section 11 *Financial Instruments*.

(c) the text of other sections of the Standard that the IASB is proposing to amend is shown in mark-up. That is:

  (i) requirements it is proposing to remove or replace are struck through;

  (ii) requirements it is newly proposing are underlined; and

  (iii) requirements unaffected by the proposals are shaded in grey.

(d) the text of the contents page is shown in mark-up to show the proposed changes to the structure of the Standard.

When would the proposals be effective?

This Exposure Draft proposes that the effective date of the amended Standard is at least two years from the date that the third edition of the *IFRS for SMEs* Accounting Standard is issued. Early adoption of the third edition of the *IFRS for SMEs* Accounting Standard in its entirety would be permitted.

Next steps

The IASB will consider comments it receives on this Exposure Draft before 7 March 2023 and will decide whether to proceed with the proposed amendments to the *IFRS for SMEs* Accounting Standard.

Appendix to the Introduction

Table 1—Overview of the IASB's proposals in this Exposure Draft

Table 1 lists the proposed amendments by section of the *IFRS for SMEs* Accounting Standard. Proposed editorial and minor consequential amendments are only listed for sections with no substantive amendments.

Section	Subject of proposed amendment
Preface to the *IFRS for SMEs* Accounting Standard	1. Section revised to reflect updates from the Preface to IFRS Accounting Standards revised in 2018.
Section 1 *Small and Medium-sized Entities*	2. Clarifications to the definition of public accountability.
Section 2 *Concepts and Pervasive Principles*	3. Section revised to align with the 2018 *Conceptual Framework for Financial Reporting*.
Section 3 *Financial Statement Presentation*	4. Clarification of the requirements relating to materiality, order of the notes, subtotals, accounting policies and disaggregation (see paragraph 3.15A). 5. Clarification of the definition of material and how it would be applied (see paragraph 3.16). 6. Amendment to require entities to disclose 'material accounting policy information' instead of 'significant accounting policies' (see paragraph 3.17(e)).
Section 4 *Statement of Financial Position*	7. Amendment to require the disaggregation of line items in the statement of financial position when such presentation is relevant to an understanding of the entity's financial position (see paragraph 4.3).
Section 5 *Statement of Compre-hensive Income and Income Statement*	8. Clarification that an analysis of expenses may be either presented in the statement of comprehensive income or disclosed in the notes (see paragraph 5.11).
Section 6 *Statement of Changes in Equity and Statement of Income and Retained Earnings*	9. Addition of a requirement to disclose dividends separately for ordinary shares and other shares (see paragraph 6.3A).

continued...

...continued

Section	Subject of proposed amendment
Section 7 *Statement of Cash Flows*	10. Addition of a requirement to disclose a reconciliation of changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash flows (see paragraph 7.19A).
Section 8 *Notes to the Financial Statements*	11. Amendments to require entities to disclose 'material accounting policy information' instead of 'significant accounting policies' (see paragraphs 8.4–8.6).
Section 9 *Consolidated and Separate Financial Statements*	12. Amendment to the definition of control (see paragraphs 9.4–9.6A). 13. Amendments to set out requirements when a parent loses control of a subsidiary and to require entities to measure any retained interest in a former subsidiary at its fair value at the date control is lost (see paragraphs 9.18–9.19). 14. Relocation of requirements on changes in a parent's controlling interest in a subsidiary from Section 22 to this section (see paragraph 9.20A). 15. Addition of a requirement to disclose information on losing control of a subsidiary, when the entity retains an investment in the former subsidiary (see paragraph 9.23B). 16. Amendment to require additional information in the separate financial statements of a parent, an investor in an associate or an investor with an interest in a jointly controlled entity (see paragraph 9.27).
Section 10 *Accounting Policies, Estimates and Errors*	17. Consequential amendments arising from the removal of the option in Section 11 and Section 12 to apply the recognition and measurement requirements of IAS 39 *Financial Instruments: Recognition and Measurement* (see paragraph 10.11). 18. Amendment to introduce the definition of an accounting estimate to help entities distinguish changes in accounting estimates from changes in accounting policies (see paragraphs 10.14A–10.15).

continued...

...continued

Section	Subject of proposed amendment
Section 11 *Financial Instruments*	19. Removal of the option to apply the recognition and measurement requirements of IAS 39 *Financial Instruments: Recognition and Measurement* (see paragraph 11.2). 20. Addition of requirements for issued financial guarantee contracts (see paragraphs 11.8(e), 11.13, 11.14(d), 11.26G, 11.41(g), 11.48(a)(v) and 11.50). 21. Clarification that debt instruments that have prepayment features with negative compensation payments could still meet the criteria to be measured at amortised cost (see paragraph 11.9(b)). 22. Addition of a supplementary principle for classifying debt instruments based on their contractual cash flow characteristics (see paragraph 11.9ZA). 23. Clarification of reclassification requirements for financial instruments (see paragraph 11.11A). 24. Relocation to this section of the requirements in Section 23 on the recognition of revenue from dividends (see paragraphs 11.14A and 11.57). 25. Addition of an expected credit loss impairment model for all financial assets measured at amortised cost, excluding trade receivables and contract assets in the scope of Section 23 (see paragraphs 11.26A–11.26L). 26. Relocation of the requirements for estimating fair value and disclosing information about fair value measurements to the new Section 12 *Fair Value Measurement* (see paragraphs 11.27–11.32). 27. Addition of disclosure requirements for entities that apply the expected credit loss impairment model (see paragraphs 11.49–11.50). 28. Relocation of the requirements in Section 12 to a separate part of this section (Part II *Other Financial Instrument Issues*). 29. Removal of contracts for contingent consideration in a business combination from the scope of this section as a consequence of the amendments to Section 19 (see paragraph 11.51(g)).

continued...

...continued

Section	Subject of proposed amendment
Section 12 *Fair Value Measurement*	30. A new section that sets out the requirements for measuring fair value and disclosing information about fair value measurements.
Section 13 *Inventories*	31. Consequential amendments to the scope of this section arising from the amendments to Section 23 (see paragraphs 13.2(a) and 13.2A).
Section 14 *Investments in Associates*	32. Clarification of the treatment for long-term interests in an associate or jointly controlled entity that form part of the entity's net investment in an associate or jointly controlled entity (see paragraphs 14.8(d) and 14.8(h)).
Section 15 *Joint Arrangements*	33. Replacement of the term 'joint venture' with 'joint arrangement'. 34. Amendment of the definition of 'joint control' to align it with the definition of control in Section 9 (see paragraphs 15.2 and 15.2A). 35. Amendment to require an entity that does not have joint control of a joint arrangement to account for its interest based on the type of arrangement (see paragraphs 15.18–15.18B). 36. Amendment to require entities to disclose information about their commitments relating to jointly controlled entities, rather than joint ventures (see paragraph 15.19(d)). 37. Removal of the requirement for entities to disclose their share of the capital commitments of joint ventures (see paragraph 15.19(d)).
Section 16 *Investment Property*	38. Clarification that determining whether a transaction meets both the definition of a business combination and an investment property requires separate application of this section and Section 19 (see paragraph 16.3A). 39. Clarification that a property shall be transferred to or from investment property when there is evidence of a change in use (see paragraph 16.9). 40. Relocation to the new Section 12 of the requirement to disclose information about fair value measurements (see paragraph 16.10(a)).

continued...

...continued

Section	Subject of proposed amendment
Section 17 *Property, Plant and Equipment*	41. Amendment to include bearer plants that are separately measurable without undue cost or effort within the scope of this section (see paragraph 17.3(a)). 42. Clarification of the factors considered in determining the useful life of an asset stating that expected future reductions in the selling price of an item produced using the asset could indicate the expectation of technical or commercial obsolescence of that asset (see paragraph 17.21(c)). 43. Clarification that a depreciation method based on revenue is not appropriate (see paragraph 17.22). 44. Consequential amendments to the scope of this section arising from the amendments to Section 23 (see paragraph 17.29). 45. Relocation to the new Section 12 of the requirement to disclose information about fair value measurements (see paragraph 17.33(c)).
Section 18 *Intangible Assets other than Goodwill*	46. Clarification of the definition of asset used in this section (see footnote to paragraph 18.4). 47. Addition of a rebuttable presumption that amortisation methods based on revenue are not appropriate with detail of the limited circumstances in which it may be rebutted (see paragraph 18.22A).

continued...

...continued

Section	Subject of proposed amendment
Section 19 *Business Combinations and Goodwill*	48. Clarification that the scope of this section excludes the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself (see paragraph 19.2(b)). 49. Amendments to the definitions of a business and a business combination (see paragraphs 19.2A–19.4). 50. Introduction of application guidance and illustrative examples on the definition of a business (see Appendix A and Appendix B to Section 19). 51. Amendments to require an entity to apply the acquisition method of accounting to business combinations, rather than the purchase method (see paragraphs 19.6–19.19A). 52. Introduction of application guidance on identifying the acquirer including when a new entity is formed to effect a business combination (see paragraphs 19.8–19.10 and Appendix A to Section 19). 53. Amendments to the recognition and measurement principles, including exceptions to the principles and clarifying that an acquirer cannot recognise a contingency that is not a liability (see paragraphs 19.10B–19.10L). 54. Amendments to require recognition of contingent consideration at fair value (with an 'undue cost or effort' exemption) and its subsequent measurement at fair value at each reporting date, with changes in fair value (or in the current estimate) recognised in profit or loss (see paragraphs 19.12–19.13A and 19.23B). 55. Addition of requirements on accounting for a business combination achieved in stages (see paragraphs 19.13B–19.13C). 56. Amendments to recognise acquisition-related costs as an expense (see paragraph 19.19A). 57. Addition of disclosure requirements about contingent consideration arrangements (see paragraphs 19.25(da) and 19.26A). 58. Relocation of the disclosure requirements for contingent liabilities assumed whose fair value cannot be measured reliably (see paragraph 19.25(h)).

continued...

...continued

Section	Subject of proposed amendment
Section 20 *Leases*	59. Editorial amendments only.
Section 21 *Provisions and Contingencies*	60. Removal of guidance relating to contingent consideration in a business combination from the scope of this section as a consequence of the amendments to Section 19 (see paragraph 21.1(e)). 61. Clarification of the definition of 'liability' used in this section (see footnote to paragraph 21.4). 62. Relocation of guidance on restructuring costs from the Appendix to this section (see paragraphs 21.6A and 21A.3). 63. Removal of the example on customer refunds from the Appendix to this section as a consequence of the revised Section 23 (see paragraph 21A.5).
Section 22 *Liabilities and Equity*	64. Removal of contracts for contingent consideration in a business combination from the scope exclusions of this section as a consequence of the amendments to Section 19 (see paragraph 22.2(c)). 65. Relocation of guidance on transactions in shares of a consolidated subsidiary to Section 9 (see paragraph 22.19).
Section 23 *Revenue from Contracts with Customers*	66. Section revised to align with IFRS 15 *Revenue from Contracts with Customers* and include a new revenue recognition model.
Section 24 *Government Grants*	67. Editorial amendments only.
Section 25 *Borrowing Costs*	68. Editorial amendments only.

continued...

...continued

Section	Subject of proposed amendment
Section 26 *Share-based Payment*	69. Removal of these transactions from the scope of this section: business combinations; combinations of entities or businesses under common control; and the contribution of a business on the formation of a joint venture (see paragraph 26.1C). 70. Clarification of the definition of ‘fair value’ used in this section (see paragraphs 26.1D–26.1E). 71. Clarification of the definition of ‘vesting conditions’ by separately defining a ‘performance condition’ and a ‘service condition’ (see paragraph 26.9). 72. Addition of requirements on the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments (see paragraph 26.14A). 73. Addition of requirements on the classification of share-based payment transactions with a net settlement feature for withholding tax obligations (see paragraphs 26.15A–26.15C).
Section 27 *Impairment of Assets*	74. Removal of the requirement to disclose impairment losses recognised or reversed for inventories, as the requirement also appears in paragraph 13.22(d) (see paragraph 27.33(a)).

continued...

...continued

Section	Subject of proposed amendment
Section 28 *Employee Benefits*	75. Removal of the measurement simplification for defined benefit obligations (see paragraphs 28.18–28.19). 76. Amendment to align the requirements on timing of the recognition of termination benefits with the requirements on recognition of restructuring costs in the scope of Section 21 (see paragraphs 28.34–28.35). 77. Amendments to require a more detailed reconciliation of the opening and closing balances of a defined benefit obligation (see paragraph 28.41(e)). 78. Amendments to require a more detailed reconciliation of the opening and closing balances of plan assets and any recognised reimbursement rights (see paragraph 28.41(f)). 79. Removal of the requirement to disclose the total cost related to defined benefit plans for the period (see paragraph 28.41(g)). 80. Addition of a requirement for an entity that recognises and measures employee benefit expense on the basis of a reasonable allocation of the expense recognised for the group to disclose its contribution towards the group plan (see paragraph 28.41C). 81. Addition of an option for an entity that recognises and measures employee benefit expense on the basis of a reasonable allocation of the expense recognised for the group to disclose information about the group plan by cross-reference to the financial statements of another group entity if specific criteria are met (see paragraph 28.41D). 82. Addition of a requirement to disclose information about contingent liabilities arising from post-employment benefit obligations if required by Section 21 (see paragraph 28.41E).

continued...

...continued

Section	Subject of proposed amendment
Section 29 *Income Tax*	83. Clarification of the requirements for when a deferred tax asset is recognised for unrealised losses (see paragraphs 29.16A, 29.19(a)(i) and 29.19A). 84. Addition of requirements on how to reflect the effects of uncertainty in the accounting for income taxes (see paragraphs 29.34A–29.34D). 85. Clarification of the requirements for offsetting income tax assets and liabilities (see paragraphs 29.37–29.37A).
Section 30 *Foreign Currency Translation*	86. Addition of a requirement for determining the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency (see paragraph 30.8A).
Section 31 *Hyperinflation*	87. Editorial amendments only.
Section 32 *Events after the End of the Reporting Period*	88. No amendments proposed.
Section 33 *Related Party Disclosures*	89. Amendment of the heading related to the disclosure of controlling party relationships (see heading above paragraph 33.5). 90. Addition of a requirement to disclose amounts incurred by an entity for the provision of key management services that are provided by a separate management entity (see paragraph 33.7A). 91. Clarification of the requirement to disclose information about commitments between an entity and its related parties (see paragraph 33.9(b)). 92. Replacement of the term ‘state’ with ‘government’ (see paragraph 33.11). 93. Addition of commitments as an example of a related party transaction (see paragraph 33.12(ha)). 94. Addition of a disclosure requirement for an entity that applies the exemption from disclosing information about the entity’s relationship, and transactions, with government-related entities (see paragraph 33.15).

continued...

...continued

Section	Subject of proposed amendment
Section 34 *Specialised Activities*	95. Addition of a requirement to account for bearer plants that at initial recognition can be measured separately without undue cost or effort, in accordance with Section 17 (see paragraphs 34.2–34.2B). 96. Removal of guidance on fair value measurement as a consequence of the new Section 12 (see paragraph 34.6). 97. Relocation to the new Section 12 of the requirement to disclose information about the fair value measurement of biological assets (see paragraph 34.7(b)). 98. Addition of a requirement to treat exploration and evaluation assets as a separate class of assets and make the disclosures required by either Section 17 or Section 18 (see paragraph 34.11G).
Section 35 *Transition to the* IFRS for SMEs *Accounting Standard*	99. Addition of an exception to retrospective application of the Standard on first-time adoption for contracts with customers completed before the date of transition (see paragraph 35.9(g)). 100. Addition of an option permitting first-time adopters to apply Section 23 *Revenue from Contracts with Customers* retrospectively or prospectively, in line with the transitional requirements introduced for the revised Section 23 (see paragraph 35.10(o)).
Appendix A *Effective date and transition*	101. Section revised to provide requirements on transition to the third edition of this Standard.
Appendix B *Glossary of terms*	102. Consequential amendments arising from the proposed amendments to other sections of the Standard.
Derivation Table	103. Consequential amendments arising from the proposed amendments to other sections of the Standard.

Invitation to comment

The IASB invites comments on Exposure Draft *Third edition of the* IFRS for SMEs *Accounting Standard*, particularly on questions 1–15. Comments are most helpful if they:

(a) respond to the questions as stated;

(b) specify the paragraph(s) to which they relate;

(c) contain a clear rationale;

(d) identify any wording in the proposals that is difficult to translate; and

(e) include any alternative approach the IASB should consider, if applicable.

In the Request for Information, the IASB consulted on the use of three alignment principles—of relevance to SMEs, simplicity and faithful representation—to help it decide whether, and if so how, to update the *IFRS for SMEs* Accounting Standard for full IFRS Accounting Standards in the scope of the second comprehensive review. Respondents to the Request for Information support this approach. Consequently, the IASB has applied this approach and used the feedback on the Request for Information to develop its proposals in this Exposure Draft.

Paragraphs BC27–BC37 of the Basis for Conclusions on the Exposure Draft explain the alignment principles and how the IASB applied the principles to develop the proposals in this Exposure Draft. Comments and suggestions in response to the questions in this Invitation to Comment will be most helpful if they refer to the alignment principles and explain how any suggested changes would give better application of these principles.

Respondents need not comment on all questions in this Invitation to Comment.

Questions for respondents—Scope of the Standard

Question 1—Definition of public accountability

Respondents to the Exposure Draft *Subsidiaries without Public Accountability: Disclosures*, published in July 2021, expressed some concerns about applying the definition of public accountability. The description of 'public accountability' in the Exposure Draft *Subsidiaries without Public Accountability: Disclosures* comprises the definition and supporting guidance in paragraphs 1.3–1.4 of the *IFRS for SMEs* Accounting Standard (Standard).

In response to this feedback, the IASB is proposing to amend paragraph 1.3(b) to list banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks as examples of entities that often meet the second criterion of public accountability in paragraph 1.3(b). To assist an understanding of the basis for the definition of public accountability, the IASB is also proposing to clarify that an entity with these characteristics would usually have public accountability:

(a) there is both a high degree of outside interest in the entity and a broad group of users of the entity's financial statements (existing and potential investors, lenders and other creditors) who have a direct financial interest in or substantial claim against the entity.

(b) the users in (a) depend primarily on external financial reporting as their means of obtaining financial information about the entity. These users need financial information about the entity but lack the power to demand the information for themselves.

Paragraphs BC11–BC19 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for clarifying the definition of public accountability in Section 1. The IASB expects that the amendments to paragraphs 1.3 and 1.3A of Section 1 will add clarity, without changing the intended scope of the Standard.

1(i) Do you agree that the amendments will add clarity without changing the intended scope of the Standard? If you do not agree, which types of entities do you believe would be newly scoped in or scoped out?

1(ii) Do you agree with the proposal to clarify the definition of public accountability? If you do not agree with the proposal, please explain what you suggest instead and why.

Questions for respondents—Proposals to amend the Standard

Question 2—Revised Section 2 *Concepts and Pervasive Principles*

The IASB in its Request for Information asked for views on aligning Section 2 *Concepts and Pervasive Principles* with the *Conceptual Framework for Financial Reporting*, issued in 2018. In the Request for Information, the IASB noted that the 1989 *Framework for the Preparation and Presentation of Financial Statements* (1989 *Framework*) had provided the foundations of the Standard.

Based on feedback on the Request for Information, the IASB is proposing to revise Section 2 to align it with the 2018 *Conceptual Framework for Financial Reporting*.

The IASB is proposing that Section 18 *Intangible Assets other than Goodwill* and Section 21 *Provisions and Contingencies* continue to use the definitions of an asset and of a liability from the previous version of Section 2, which was based on the 1989 *Framework*, to avoid unintended consequences arising from revising the definitions of an asset and of a liability.

Paragraphs BC38–BC51 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for the revisions proposed for Section 2.

2(i) Do you have comments or suggestions on the revised Section 2? Please explain the reasons for your suggestions.

2(ii) Do you agree that Section 18 and Section 21 should continue to use the definition of an asset and of a liability from the previous version of Section 2 (based on the 1989 *Framework*)?

Question 3—Proposed amendments to the definition of control in Section 9 *Consolidated and Separate Financial Statements*

The IASB in its Request for Information asked for views on aligning the definition of control in Section 9 *Consolidated and Separate Financial Statements* with the definition in IFRS 10 *Consolidated Financial Statements* and using that definition as the single basis for consolidation (control model) to facilitate greater consistency between financial statements prepared applying the Standard.

Respondents to the Request for Information were in favour of the alignment, and the IASB is proposing amendments to align Section 9 with IFRS 10, introducing control as the single basis for consolidation that applies to all entities.

The IASB is proposing to retain the rebuttable presumption that control exists when an investor owns more than a majority of the voting rights of an investee. The rebuttable presumption is a simplification of the control model.

Paragraphs BC52–BC62 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for aligning the definition of 'control' in Section 9 with IFRS 10 and introducing a control model as the single basis for consolidation.

Do you agree with the IASB's proposal to retain the rebuttable presumption as a simplification of the definition of control? If not, please explain why you do not agree with this simplification.

Question 4—Proposed amendments to impairment of financial assets in Section 11 *Basic Financial Instruments* (renamed *Financial Instruments*)

The IASB in its Request for Information asked for views on replacing the incurred loss model for the impairment of financial assets in Section 11 *Basic Financial Instruments* with an expected credit loss model aligned with the simplified approach in IFRS 9 *Financial Instruments*. Feedback suggested that the simplified approach in IFRS 9 would be complex for SMEs to apply and would not result in substantial changes in the amount of impairment for the types of financial assets held by typical SMEs, namely short-term trade receivables.

The IASB anticipates that an expected credit loss model would provide relevant information for users of financial statements when SMEs hold longer-term financial assets. Consequently, the IASB is proposing to:

(a) retain the incurred loss model for trade receivables and contract assets in the scope of the revised Section 23 *Revenue from Contracts with Customers*;

(b) require an expected credit loss model for all other financial assets measured at amortised cost, aligned with the simplified approach in IFRS 9; and

(c) retain the requirements in Section 11 for impairment of equity instruments measured at cost.

Paragraphs BC72–BC80 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for introducing an expected credit loss model for only some financial assets.

4(i) Do you agree with the proposal to introduce an expected credit loss model for *only some* financial assets? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.

4(ii) Do you agree that the proposal strikes the right balance in deciding which financial assets should be in the scope of the expected credit loss model, considering the costs for SMEs and benefits for users of SMEs' financial statements?

Question 5—Proposal for a new Section 12 *Fair Value Measurement*
The IASB in its Request for Information asked for views on aligning the Standard with IFRS 13 *Fair Value Measurement* and introducing illustrative examples into the Standard. This alignment would not amend the requirements for when to use fair value measurement. Respondents to the Request for Information favoured aligning the Standard with the definition of fair value in IFRS 13 to provide clarity and enhance comparability between financial statements prepared applying the Standard. The IASB is proposing that the requirements on measuring fair value and related disclosure requirements be consolidated in a new Section 12 *Fair Value Measurement*. Paragraphs BC108–BC118 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for this proposal. Do you have comments or suggestions on the new Section 12? Please explain the reasons for your suggestions.

Question 6—Proposed amendments to Section 15 *Investments in Joint Ventures* (renamed *Joint Arrangements*)

The IASB in its Request for Information asked for views on aligning the definition of joint control with IFRS 11 *Joint Arrangements*, while retaining the three classifications of joint arrangements in Section 15 *Investments in Joint Ventures* (jointly controlled operations, jointly controlled assets and jointly controlled entities).

Respondents to the Request for Information favoured aligning the definition of joint control. However, respondents expressed mixed views on whether to align the classification and measurement requirements with IFRS 11 or to retain the Section 15 classification and measurement requirements.

The IASB is proposing to align the definition of joint control and retain the Section 15 classification and measurement requirements as set out in the Request for Information.

Paragraphs BC119–BC127 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for these proposals.

6(i) Do you agree with the IASB's proposal to align the definition of joint control and retain the classification of a joint arrangement as jointly controlled assets, a jointly controlled operation, or a jointly controlled entity, and the measurement requirements for these classifications? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.

The IASB is also proposing amendments to align Section 15 with the requirements of paragraph 23 of IFRS 11, so that a party to a jointly controlled operation or a jointly controlled asset that does not have joint control of those arrangements would account for its interest according to the classification of that jointly controlled operation or the jointly controlled asset.

Paragraphs BC128–BC129 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for this proposal.

6(ii) Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.

Question 7—Proposed amendments to Section 19 *Business Combinations and Goodwill*
Based on the feedback to the Request for Information, the IASB is proposing to align Section 19 *Business Combinations and Goodwill* with the acquisition method of accounting in IFRS 3 *Business Combinations*[*] by: (a) adding requirements and guidance for a new entity formed in a business combination; (b) updating the references when recognising the identifiable assets acquired and liabilities assumed in a business combination to refer to the definitions of an asset and a liability in the revised Section 2 *Concepts and Pervasive Principles*; (c) clarifying that an acquirer cannot recognise a contingency that is not a liability; (d) requiring recognition of acquisition-related costs as an expense; (e) requiring measurement of contingent consideration at fair value if the fair value can be measured reliably without undue cost or effort; and (f) adding requirements for an acquisition achieved in stages (step acquisitions). For other aspects of the acquisition method of accounting, the IASB is proposing to retain the requirements in Section 19. The IASB is of the view that: (a) the guidance in IFRS 3 on reacquired rights is unlikely to be relevant to entities applying the Standard; (b) restricting the measurement of non-controlling interest in the acquiree to the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets (and not introducing the fair value option) is an appropriate simplification; and (c) retaining recognition criteria for intangible assets acquired in a business combination balances the costs and benefits of separate recognition of these items because goodwill recognised in a business combination is amortised. Paragraphs BC130–BC183 of the Basis for Conclusions on this Exposure Draft further explain the IASB's rationale for these proposals.

[*] IFRS 3 refers to the IFRS 3 (2008) version, including subsequent amendments to IFRS 3.

Question 7—Proposed amendments to Section 19 *Business Combinations and Goodwill*	
Paragraph BC177 of the Basis for Conclusions on this Exposure Draft explains that there were mixed views on whether step acquisitions are relevant to SMEs. The IASB is asking for views on adding requirements for step acquisitions and on the proposed requirements themselves. Asking for views on whether to add requirements allows stakeholders to evaluate the proposals when responding to this Invitation to Comment.	
7(i)	Do you agree with the proposal to introduce requirements for the accounting for step acquisitions? If your answer is yes, do you agree with the proposed requirements in the Exposure Draft? If you disagree with the proposal, please explain why and give your alternative suggestion.
7(ii)	Do you agree that the IASB's proposals appropriately simplify the measurement of non-controlling interests by excluding the option to measure them at fair value? If your answer is no, please explain your reasons.
7(iii)	Do you have any further comments or suggestions on the proposed amendments to Section 19? Please explain the reasons for your suggestions.

Question 8—Revised Section 23 *Revenue* (renamed *Revenue from Contracts with Customers*)

The IASB in its Request for Information asked for views on possible approaches to aligning Section 23 *Revenue* with IFRS 15 *Revenue from Contracts with Customers*. Respondents favoured this alignment without identifying a preferred approach.

Consequently, the IASB is proposing to revise Section 23 to align it with the principles and language used in IFRS 15. The revised requirements are based on the five-step model in IFRS 15, with simplifications that retain the basic principles in IFRS 15 for recognising revenue.

Paragraphs BC184–BC193 of the Basis for Conclusions on this Exposure Draft further explain the IASB's rationale for this proposal and the proposed simplifications of the IFRS 15 requirements.

8(i) Do you agree that the revised Section 23 would be appropriate for SMEs and users of their financial statements? If not, what modifications—for example, further simplifications or additional guidance—do you suggest and why?

Determining whether a good or service promised to a customer is distinct can involve judgement. To assist entities in making this assessment, the IASB is proposing to simplify the requirements in paragraphs 27–29 of IFRS 15 by:

(a) specifying that a good or service that an SME regularly sells separately is capable of being distinct (see paragraph 23.21 of the Exposure Draft);

(b) expressing the criterion in paragraph 27(b) of IFRS 15 in simpler language and reflecting the objective of the criterion by focusing on whether a good or service is an input used to produce a combined item or items transferred to the customer (see paragraphs 23.20(b) and 23.23 of the Exposure Draft); and

(c) including examples that illustrate the factors supporting that criterion (see paragraph 23.23(a)–(c) of the Exposure Draft).

8(ii) Do you believe the guidance is appropriate and adequate for entities to make the assessment of whether a good or service is distinct? If not, is there any guidance that could be removed or additional guidance that is needed?

Question 9—Proposed amendments to Section 28 *Employee Benefits*
The IASB in its Request for Information asked for views on applying paragraph 28.19 of the Standard, that is the measurement simplifications for defined benefit obligations. The feedback identified challenges when applying paragraph 28.19, resulting in diversity of application. However, the feedback also provided evidence that only a few entities apply paragraph 28.19. Therefore, the IASB is proposing to delete paragraph 28.19. Paragraphs BC197–BC203 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for this proposal. 9(i) Do you agree that only a few entities apply the measurement simplifications for defined benefits? Therefore, do you agree with the IASB's proposal to delete paragraph 28.19? Alternatively, if you do not agree with deleting paragraph 28.19, should the IASB clarify the paragraph by: (a) stating that an entity may apply any, or all, of the simplifications permitted by paragraph 28.19 when measuring a defined benefit obligation; and (b) explaining that when an entity applies paragraph 28.19(b), examples of future service of current employees (assumes closure of the plan for existing and any new employees) that can be ignored include: (i) the probability of employees' not meeting the vesting conditions when the vesting conditions relate to future service (future turnover rate); and (ii) the effects of a benefit formula that gives employees greater benefits for later years of service. 9(ii) If you disagree with the proposal in 9(i), do you agree that this alternative approach clarifies paragraph 28.19?

Question 10—Transition
The IASB, in paragraphs A2–A39 of this Exposure Draft, sets out limited relief from retrospective application for those proposed amendments for which the IASB thought the costs of retrospective application would exceed the benefits. Do you agree with the proposed transition requirements for the amendments to the *IFRS for SMEs* Accounting Standard? Why or why not? If not, please explain what you suggest instead and why.

Question 11—Other proposed amendments
Table A1, included in the Introduction, summarises the proposals for amending sections of the Standard not included in questions 2–10. Do you have any comments on these other proposed amendments in the Exposure Draft?

Questions for respondents—Whether further action is required

Question 12—Section 20 *Leases* and IFRS 16 *Leases*
The IASB in its Request for Information asked for views on aligning Section 20 *Leases* with IFRS 16 *Leases* by simplifying some of the recognition and measurement requirements, the disclosure requirements and the language of IFRS 16. Feedback on the Request for Information was mixed. Stakeholders suggested the IASB assess the costs and benefits of aligning the Standard with IFRS 16, even with the simplifications, and obtain more information about the experience of entities that apply IFRS 16. The IASB decided not to propose amendments to Section 20 at this time and to consider amending the Standard to align it with IFRS 16 during a future review of the Standard. Therefore, the Exposure Draft does not propose amendments to Section 20. In making this decision the IASB placed greater emphasis on cost–benefit considerations and prioritised timing—that is, to obtain more information on entities' experience of applying IFRS 16. The IASB is asking for further information on cost–benefit considerations, particularly on whether: (a) aligning Section 20 with IFRS 16 at this time imposes a workload on SMEs disproportionate to the benefit to users of their financial statements—specifically, considering: (i) the implementation costs that preparers of financial statements could incur; (ii) the costs that users of financial statements could incur when information is unavailable; and (iii) the improvement to financial reporting that would be realised from recognising the lessee's right to use an underlying asset (and the lessee's obligation to make lease payments) in the statement of financial position. (b) introducing possible simplifications—for example, for determining the discount rate and the subsequent measurement of the lease liability (reassessment)—could help to simplify the requirements and reduce the cost of implementing an amended Section 20 (aligned with IFRS 16) without reducing the usefulness of the reported information. Paragraphs BC230–BC246 of the Basis for Conclusions on this Exposure Draft further explain the IASB's rationale for not proposing amendments to Section 20 at this time and instead for considering amending the Standard to align it with IFRS 16 during a future review of the Standard. Do you agree with the IASB's decision to consider amending the Standard to align it with IFRS 16 in a future review of the Standard? In responding to this question, please comment on the cost–benefit considerations in paragraphs (a) and (b).

Question 13—Recognition and measurement requirements for development costs
The Standard requires all development costs to be recognised as expenses, whereas IAS 38 *Intangible Assets* requires the recognition of intangible assets arising from development costs that meet specified criteria. This simplification in the Standard was made for cost–benefit reasons. However, feedback on this comprehensive review questioned this cost–benefit decision. Therefore, the IASB is seeking views on whether it should amend the Standard to align it with IAS 38, including views on the costs and benefits of doing so. Paragraphs BC253–BC257 of the Basis for Conclusions on this Exposure Draft further explain the IASB's rationale. What are your views on the costs and benefits, and the effects on users, of introducing an accounting policy option that permits an SME to recognise intangible assets arising from development costs that meet the criteria in paragraphs 57(a)–(f) of IAS 38? The entity would be required to demonstrate all of these criteria: (a) the technical feasibility of completing the intangible asset so that it will be ready for use or sale; (b) its intention to complete the intangible asset and use or sell it; (c) its ability to use or sell the intangible asset; (d) how the intangible asset will generate probable future economic benefits; (e) the availability of adequate technical, financial and other financial resources to complete the development and to use or sell the intangible asset; and (f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Question for respondents—Full IFRS Accounting Standards in the scope of this review for which the IASB is not proposing to align the Standard

Question 14—Requirement to offset equity instruments
Paragraph 22.7(a) of the Standard states that if equity instruments are issued before an entity receives cash or other resources, the amount receivable is presented as an offset to equity in the statement of financial position, instead of being presented as an asset. Feedback from the first comprehensive review suggested that this requirement may conflict with local legislation. Stakeholders provided similar feedback during this second comprehensive review, suggesting that the IASB remove the requirement in paragraph 22.7(a) because it diverges from full IFRS Accounting Standards, which include no similar requirement for equity instruments. What are your views on removing paragraph 22.7(a)?

Question for respondents—Updating the paragraph numbers of the *IFRS for SMEs* Accounting Standard

Question 15—Updating the paragraph numbers of the *IFRS for SMEs* Accounting Standard
The proposed amendments to the requirements in the *IFRS for SMEs* Accounting Standard include the addition of new paragraphs and the deletion of existing paragraphs. A new paragraph is numbered in continuation from a previous paragraph. A deleted paragraph retains the paragraph number. Sometimes, the addition or deletion of paragraphs within a section may complicate the readability of the Standard (for example, Section 19 *Business Combinations and Goodwill*). As an alternative, a section may be revised, with paragraphs renumbered to show only requirements that would still be applicable, without a placeholder for deleted paragraphs (for example, Section 2 *Concepts and Pervasive Principles*). What are your views on the approach taken to retain or amend paragraph numbers in each section of this Exposure Draft?

Deadline

The IASB will consider all written comments received by 7 March 2023.

How to comment

Please submit your comments electronically:

Online	https://www.ifrs.org/projects/open-for-comment/
By email	commentletters@ifrs.org

Your comments will be on the public record and posted on our website unless you request confidentiality and we grant your request. We normally grant such requests only if they are supported by a good reason, for example, commercial confidence. Please see our website for details on this policy and on how we use your personal data. If you would like to request confidentiality, please contact us at commentletters@ifrs.org before submitting your letter.

[Draft] Third edition of the *IFRS for SMEs* Accounting Standard

The Preface is revised. For ease of reading, revised text is not underlined.

Preface to the *IFRS for SMEs* Accounting Standard

P1 The International Accounting Standards Board (IASB) issued this Preface to set out the scope and authority of the *IFRS for SMEs* Accounting Standard, and to describe how the Standard is maintained.

P2 The IASB was established in 2001. The Board of the International Accounting Standards Committee (IASC) preceded the IASB.

P3 Full IFRS Accounting Standards and the *IFRS for SMEs* Accounting Standard are developed by the IASB through the due process set out in the IFRS Foundation *Due Process Handbook*.

Scope and authority of IFRS Accounting Standards

P4 Full IFRS Accounting Standards and the *IFRS for SMEs* Accounting Standard are designed to apply to the general purpose financial statements and other financial reporting of profit-oriented entities.

P5 Other financial reporting comprises information provided outside financial statements that assists in the interpretation of a complete set of financial statements or improves users' ability to make efficient economic decisions.

P6 Profit-oriented entities include those engaged in commercial, industrial, financial and similar activities, whether organised in corporate or in other forms.

P7 Full IFRS Accounting Standards set out recognition, measurement, presentation and disclosure requirements dealing with transactions and events that are important in general purpose financial statements. They may also set out such requirements for transactions and events that arise mainly in specific industries.

The *IFRS for SMEs* Accounting Standard

P8 The IASB developed and maintains a separate accounting Standard that is intended to apply to the general purpose financial statements and other financial reporting of those entities that jurisdictions often refer to as small and medium-sized entities, private entities or non-publicly accountable entities. That Standard is the *International Financial Reporting Standard for Small and Medium-sized Entities* (*IFRS for SMEs* Accounting Standard). The *IFRS for SMEs* Accounting Standard is based on full IFRS Accounting Standards with modifications to reflect the needs of users of SMEs' financial statements and to reflect cost–benefit considerations relevant for SMEs and the users of their financial statements.

P9 The term small and medium-sized entities (or SMEs) as used by the IASB is defined and explained in Section 1 *Small and Medium-sized Entities*. Many jurisdictions have developed their own definitions of SMEs for a broad range of purposes, including prescribing financial reporting requirements. Definitions that are specific to a particular jurisdiction often include quantified criteria based on revenue, assets, employees or other factors. Furthermore, the term SMEs is often used to mean or to include very small entities without regard to whether they publish general purpose financial statements for external users.

General purpose financial statements of SMEs

P10 The objective of a small or medium-sized entity's general purpose financial statements is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity.

P11 SMEs often produce financial statements only for the use of owner-managers or only for the use of tax authorities or other governmental authorities. Financial statements produced solely for those purposes are not necessarily general purpose financial statements.

P12 Tax laws are specific to each jurisdiction, and the objectives of general purpose financial reports differ from the objectives of reporting taxable profit. Thus, financial statements prepared in conformity with the *IFRS for SMEs* Accounting Standard are unlikely to comply fully with all of the measurements required by a particular jurisdiction's tax laws and regulations. A jurisdiction may be able to lessen the dual reporting burden on SMEs by requiring or permitting an entity's tax reports to be structured as reconciliations from the profit or loss determined in accordance with the *IFRS for SMEs* Accounting Standard or by other means.

Authority of the *IFRS for SMEs* Accounting Standard

P13 Decisions on which entities are required or permitted to use full IFRS Accounting Standards or the *IFRS for SMEs* Accounting Standard rest with the legislative and regulatory authorities and standard-setters in individual jurisdictions. However, a clear definition of the class of entity for which the *IFRS for SMEs* Accounting Standard is intended—as set out in Section 1 of the Standard—is essential so that:

(a) the IASB can decide on the recognition, measurement, presentation and disclosure requirements that are appropriate for that class of entity; and

(b) the legislative and regulatory authorities, standard-setters and reporting entities and their auditors will be informed of the intended scope of applicability of the *IFRS for SMEs* Accounting Standard.

A clear definition is also essential so that entities that are not small or medium-sized entities—as set out in Section 1 of the Standard—and therefore are not eligible to use the *IFRS for SMEs* Accounting Standard, do not assert that they are in compliance with the Standard (see paragraph 1.5).

Organisation of the *IFRS for SMEs* Accounting Standard

P14 The *IFRS for SMEs* Accounting Standard is organised by topic, with each topic presented in a separate numbered section. Cross-references to paragraphs are identified by section number followed by paragraph number. Paragraph numbers are in the form xx.yy, in which xx is the section number and yy is the sequential paragraph number within that section. In examples that include monetary amounts, the measuring unit is Currency Units (abbreviated as CU).

P15 All of the paragraphs in the *IFRS for SMEs* Accounting Standard have equal authority (except as specified in paragraph 2.2). Some sections include appendices of implementation guidance.

Maintenance of the *IFRS for SMEs* Accounting Standard

P16 The IASB expects to propose amendments to the *IFRS for SMEs* Accounting Standard by publishing an omnibus exposure draft periodically, but not more frequently than approximately once every three years. In developing those exposure drafts, the IASB expects to consider new and amended IFRS Accounting Standards as well as specific issues that have been brought to its attention regarding the application of the *IFRS for SMEs* Accounting Standard. On occasion, the IASB may identify an urgent matter for which amendment of the *IFRS for SMEs* Accounting Standard may need to be considered outside the periodic review process. However, such occasions are expected to be rare.

P17 Until the *IFRS for SMEs* Accounting Standard is amended, any changes that the IASB may make or propose with respect to full IFRS Accounting Standards do not apply to the *IFRS for SMEs* Accounting Standard. The *IFRS for SMEs* Accounting Standard is a stand-alone document. SMEs shall not anticipate or apply changes made to full IFRS Accounting Standards before those changes are incorporated into the *IFRS for SMEs* Accounting Standard unless, in the absence of specific guidance in the *IFRS for SMEs* Accounting Standard, an SME chooses to apply guidance in full IFRS Accounting Standards and those principles do not conflict with requirements in the hierarchy set out in paragraphs 10.4–10.5.

The title of the Standard is amended. New text is underlined and deleted text is struck through.

IFRS for SMEs Accounting Standard ~~*International Financial Reporting Standard (IFRS) for Small and Medium-sized Entities*~~

Section 1
Small and Medium-sized Entities

Paragraphs 1.1, 1.3 and 1.5–1.7 are amended. Paragraph 1.3A is added. New text is underlined and deleted text is struck through.

Intended scope of this Standard

1.1 The *IFRS for SMEs* Accounting Standard is intended for use by entities without public accountability, which are referred to as **small and medium-sized entities** (SMEs) in this Standard. This section describes the characteristics of SMEs.

Description of small and medium-sized entities

1.2 Small and medium-sized entities are entities that:

(a) do not have **public accountability**; and

(b) publish **general purpose financial statements** for external users.

Examples of external users include **owners** who are not involved in managing the business, existing and potential creditors, and credit rating agencies.

1.3 An entity has public accountability if:

(a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or

(b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (for example, ~~most~~ banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks often ~~would~~ meet this second criterion).

1.3A An entity with the following characteristics would usually have public accountability:

(a) there is both a high degree of outside interest in the entity and a broad group of users of the entity's financial statements (existing and potential investors, lenders and other creditors) outside the entity (other than owner-managers) who have a direct financial interest in or substantial claim against the entity.

(b) the users in (a) depend primarily on external financial reporting as their means of obtaining financial information about the entity. These users need financial information about the entity but lack the power to demand the information for themselves.

1.4 Some entities may also hold assets in a fiduciary capacity for a broad group of outsiders because they hold and manage financial resources entrusted to them by clients, customers or members not involved in the management of the entity. However, if they do so for reasons incidental to a primary business (as, for example, may be the case for travel or real estate agents, schools, charitable organisations, co-operative enterprises requiring a nominal membership deposit and sellers that receive payment in advance of delivery of the goods or services such as utility companies), that does not make them publicly accountable.

1.5 If a publicly accountable entity applies ~~uses~~ this Standard, its financial statements shall not be described as conforming to the *IFRS for SMEs* Accounting Standard—even if any law or regulation in that entity's ~~its~~ jurisdiction permits or requires this Standard to be used by publicly accountable entities.

1.6 A **subsidiary** whose **parent** uses **full IFRS Accounting Standards**, or that is part of a consolidated **group** that uses full IFRS Accounting Standards, is not prohibited from using this Standard in its own financial statements if that subsidiary by itself does not have public accountability. If its financial statements are described as conforming to the *IFRS for SMEs* Accounting Standard, it must comply with all of the requirements ~~provisions~~ of this Standard.

1.7 A parent entity (including the ultimate parent or any intermediate parent) assesses its eligibility to use this Standard in its **separate financial statements** on the basis of its own status without considering whether other group entities have, or the group as a whole has, public accountability. If a parent entity by itself does not have public accountability, it may present its separate financial statements in accordance with this Standard (see Section 9 *Consolidated and Separate Financial Statements*), even if it presents its **consolidated financial statements** in accordance with full IFRS Accounting Standards or another set of generally accepted accounting principles (GAAP), such as its national accounting standards. Any financial statements prepared in accordance with this Standard shall be clearly distinguished from financial statements prepared in accordance with other requirements.

Section 2
Concepts and Pervasive Principles

Section 2 is revised. For ease of reading, revised text is not underlined.

Scope of this section

2.1 This section describes the **objective of financial statements** of **small and medium-sized entities** (SMEs). It also sets out the concepts and basic principles underlying the **financial statements** of SMEs.

2.2 In some circumstances there may be inconsistencies between the concepts and principles in this section and the requirements in another section of the Standard. In these circumstances, the requirements in the other section take precedence over this section.

The objective of financial statements of small and medium-sized entities

Objective, usefulness and limitation on general purpose financial statements

2.3 The objective of **general purpose financial statements** of a small or medium-sized entity is to provide financial information about the entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity.

2.4 Such information includes information about:

(a) the **economic resources** of the entity, claims against the entity and changes in those resources and claims; and

(b) how efficiently and effectively the entity's management has discharged its responsibilities to use the entity's economic resources.

2.5 However, general purpose financial statements do not and cannot provide all of the information that existing and potential investors, lenders and other creditors need. Those users need to consider pertinent information from other sources, for example, general economic conditions and expectations, political events and political climate, and industry and company outlooks.[1]

Information about a reporting entity's economic resources, claims against the entity and changes in resources and claims

2.6 General purpose financial statements provide information about the financial position of a **reporting entity**, which is information about the entity's economic resources and the claims against the entity. Financial statements also provide information about the effects of transactions and other events

1 Throughout this section, 'users' refers to those existing and potential investors, lenders and other creditors who must rely on general purpose financial reports for much of the financial information they need (primary users of general purpose financial statements).

that change a reporting entity's economic resources and claims. They allow users to make decisions and develop expectations based on their assessment of the amount, timing and uncertainty of future net cash inflows to the entity.

2.7 Financial statements also show how efficiently and effectively a reporting entity's management has discharged its responsibilities to use the entity's economic resources which helps users to assess management stewardship of those resources.

Qualitative characteristics of information in financial statements

2.8 The qualitative characteristics of useful financial information described in paragraphs 2.9–2.24 identify the types of information that are likely to be the most useful to the existing and potential investors, lenders and other creditors for making decisions about the entity on the basis of information in its financial statements.

Qualitative characteristics of useful financial information

2.9 If financial information is to be useful, it must be relevant and faithfully represent what it purports to represent. The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable.

Fundamental qualitative characteristics

2.10 The **fundamental qualitative characteristics** are relevance and faithful representation.

Relevance

2.11 Relevant financial information is capable of making a difference in the decisions made by users. Information may be capable of making a difference in a decision even if some users choose not to take advantage of it or are already aware of it from other sources.

2.12 Financial information is capable of making a difference in decisions if it has predictive value, confirmatory value or both.

Materiality

2.13 Information is **material** if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the users of general purpose financial statements (see paragraph 2.3) make on the basis of those financial statements, which provide financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an entity's financial statements. Consequently, the IASB cannot specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation.

Faithful representation

2.14 Financial statements represent economic phenomena in words and numbers. To be useful, financial information must not only represent relevant phenomena, but it must also faithfully represent the substance of the phenomena that it purports to represent. In many circumstances, the substance of an economic phenomenon and its legal form are the same. If they are not the same, providing information only about the legal form would not faithfully represent the economic phenomenon.

2.15 To be a perfectly faithful representation, a depiction would have three characteristics. It would be complete, neutral and free from **error**. Of course, perfection is seldom, if ever, achievable. The IASB's objective is to maximise those qualities to the extent possible.

2.16 A complete depiction includes all information necessary for a user to understand the phenomenon being depicted, including all necessary descriptions and explanations.

2.17 A neutral depiction is without bias in the selection or presentation of financial information. Neutrality is supported by the exercise of **prudence**. Prudence is the exercise of caution when making judgements under conditions of uncertainty. The exercise of prudence means that **assets** and **income** are not overstated and **liabilities** and **expenses** are not understated. Equally, the exercise of prudence does not allow for the understatement of assets or income or the overstatement of liabilities or expenses. Such misstatements can lead to the overstatement or understatement of income or expenses in future periods. The exercise of prudence does not imply a need for asymmetry, although particular sections may contain asymmetric requirements if these are a consequence of decisions intended to select the most relevant information that faithfully represents what it purports to represent.

2.18 Faithful representation does not mean accurate in all respects. Free from error means there are no errors or omissions in the description of the phenomenon, and the process used to produce the reported information has been selected and applied with no errors in the process. In this context, free from error does not mean perfectly accurate in all respects.

Applying the fundamental qualitative characteristics

2.19 The most efficient and effective process for applying the fundamental qualitative characteristics would usually be as follows (subject to the effects of enhancing characteristics and the cost constraint, which are not considered in this example). First, identify an economic phenomenon, information about which is capable of being useful to users of the reporting entity's financial information. Second, identify the type of information about that phenomenon that would be most relevant. Third, determine whether that information is available and whether it can provide a faithful representation of the economic phenomenon. If so, the process of satisfying the fundamental qualitative characteristics ends at that point. If not, the process is repeated with the next most relevant type of information. In some cases, a trade-off between the fundamental qualitative characteristics may need to be made in order to meet the objective of financial statements (see paragraph 2.32).

Enhancing qualitative characteristics

2.20 Comparability, verifiability, **timeliness** and **understandability** are qualitative characteristics that enhance the usefulness of information that both is relevant and provides a faithful representation of what it purports to represent. The **enhancing qualitative characteristics** may also help determine which of two ways should be used to depict a phenomenon if both are considered to provide equally relevant information and an equally faithful representation of that phenomenon.

Comparability

2.21 Information about a reporting entity is more useful if it can be compared with similar information about other entities and with similar information about the same entity for another period or another date. Comparability is the qualitative characteristic that enables users to identify and understand similarities in, and differences among, items. It is diminished when alternative accounting methods are permitted for the same economic phenomenon.

Verifiability

2.22 Verifiability helps assure users that information faithfully represents the economic phenomena it purports to represent. Verifiability means that different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation. Quantified information need not be a single point estimate to be verifiable. A range of possible amounts and the related probabilities can also be verified.

Timeliness

2.23 Timeliness means having information available to decision-makers in time to be capable of influencing their decisions. Generally, the older the information is the less useful it is. However, some information may continue to be timely long after the end of a **reporting period** because, for example, some users need to identify and assess trends.

Understandability

2.24 Classifying, characterising and presenting information clearly and concisely makes it understandable. However, excluding information from financial statements about phenomena that are inherently complex and cannot be made easy to understand would make these reports incomplete and therefore possibly misleading.

The cost constraint on useful financial reporting

2.25 Cost is a pervasive constraint on the information that can be provided by financial reporting. Reporting financial information imposes costs, and it is important that those costs are justified by the benefits of reporting that information.

2.26 Providers of financial information expend most of the effort involved in collecting, processing, verifying and disseminating financial information, but users ultimately bear those costs in the form of reduced returns. Users of financial information also incur costs of analysing and interpreting the information provided. If needed information is not provided, users incur additional costs to obtain that information elsewhere or to estimate it.

2.27 Reporting financial information that is relevant and faithfully represents what it purports to represent helps users to make decisions with more confidence. This results in more efficient functioning of capital markets and a lower cost of capital for the economy as a whole. An individual investor, lender or other creditor also receives benefits by making more informed decisions. However, it is not possible for **general purpose financial reports** to provide all the information that every user finds relevant.

Undue cost or effort

2.28 An undue cost or effort exemption is specified for some requirements in this Standard. This exemption shall not be used for other requirements in this Standard.

2.29 Considering whether obtaining or determining the information necessary to comply with a requirement would involve undue cost or effort depends on an entity's specific circumstances and on management's judgement of the costs and benefits from applying that requirement. This judgement requires consideration of how the economic decisions of those that are expected to use the financial statements could be affected by not having that information. Applying a requirement would involve undue cost or effort by an SME if the incremental cost (for example, valuers' fees) or additional effort (for example, endeavours by employees) substantially exceed the benefits that those that are expected to use the SME's financial statements would receive from having the information. An assessment of undue cost or effort by an SME in accordance with this Standard would usually constitute a lower hurdle than an assessment of undue cost or effort by a publicly accountable entity because SMEs are not accountable to public stakeholders.

2.30 Assessing whether a requirement would involve undue cost or effort on initial **recognition** in the financial statements, for example, at the date of the transaction, should be based on information about the costs and benefits of the requirement at the time of initial recognition. If the undue cost or effort exemption also applies subsequent to initial recognition, for example, to a subsequent measurement of an item, a new assessment of undue cost or effort should be made at that subsequent date, based on information available at that date.

2.31 Except for the undue cost or effort exemption in paragraph 19.10G, which is covered by the disclosure requirements in paragraph 19.25, whenever an undue cost or effort exemption is used by an entity, the entity shall disclose that fact and the reasons why applying the requirement would involve undue cost or effort.

Financial statements and the reporting entity

Objective and scope of financial statements

2.32 The objective of financial statements is to provide financial information about the reporting entity's assets, liabilities, **equity**, income and expenses that is useful to users of financial statements in assessing the prospects for future net cash inflows to the reporting entity and in assessing management's stewardship of the entity's economic resources (see paragraph 2.4).

Reporting period

2.33 Financial statements are prepared for a specified period of time (reporting period) and provide information about:

(a) assets and liabilities—including unrecognised assets and liabilities—and equity that existed at the end of the reporting period, or during the reporting period; and

(b) income and expenses for the reporting period.

2.34 To help users of financial statements to identify and assess changes and trends, financial statements also provide comparative information for at least one preceding reporting period, except when this Standard permits or requires otherwise.

2.35 Information about possible future transactions and other possible future events is included in financial statements if it:

(a) relates to the entity's assets or liabilities—including unrecognised assets or liabilities—or equity that existed at the end of the reporting period, or during the reporting period, or to income or expenses for the reporting period; and

(b) is useful to users of financial statements.

Financial statements do not typically provide other types of forward-looking information, for example, explanatory material about management's expectations and strategies for the reporting entity.

Perspective adopted in financial statements

2.36 Financial statements provide information about transactions and other events viewed from the perspective of the reporting entity as a whole, not from the perspective of any particular group of the entity's existing or potential investors, lenders or other creditors.

Going concern assumption

2.37 Financial statements are normally prepared on the assumption that the reporting entity is a **going concern** and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to enter liquidation or to cease trading. If such an intention or need exists, the financial statements may have to be prepared on a different basis. If so, the financial statements describe the basis used (see paragraphs 3.8–3.9).

The reporting entity

2.38 A reporting entity is an entity that is required, or chooses, to prepare financial statements. A reporting entity can be a single entity or a portion of an entity or can comprise more than one entity. A reporting entity is not necessarily a legal entity.

2.39 If a reporting entity comprises both the **parent** and its **subsidiaries**, the reporting entity's financial statements are referred to as **consolidated financial statements**. If the reporting entity comprises two or more entities that are not linked by a parent–subsidiary relationship, the reporting entity's financial statements are referred to as **combined financial statements**.

2.40 Determining the boundary of the reporting entity is driven by the information needs of the users of the reporting entity's financial statements. Those users need relevant information that faithfully represents what it purports to represent. Faithful representation requires that:

(a) the boundary of the reporting entity does not contain an arbitrary or incomplete set of economic activities;

(b) including that set of economic activities within the boundary of the reporting entity results in neutral information; and

(c) a description is provided of how the boundary of the reporting entity was determined and of what constitutes the reporting entity.

The elements of financial statements

Introduction

2.41 The elements of financial statements defined in this section are:

(a) assets, liabilities and equity, which relate to a reporting entity's **financial position**; and

(b) income and expenses, which relate to a reporting entity's financial **performance**.

2.42 Those elements are linked to the economic resources, claims and changes in economic resources and claims discussed in paragraphs 2.6–2.7.

Definition of an asset

2.43 An asset is a present economic resource controlled by the entity as a result of past events.

2.44 An economic resource is a right that has the **potential to produce economic benefits**.

2.45 Rights that have the potential to produce economic benefits take many forms, including;

(a) rights that correspond to an obligation of another party, for example:

(i) rights to receive **cash**.

(ii) rights to receive goods or services.

(iii) rights to exchange economic resources with another party on favourable terms. Such rights include, for example, a forward contract to buy an economic resource on terms that are currently favourable or an option to buy an economic resource.

(iv) rights to benefit from an obligation of another party to transfer an economic resource if a specified uncertain future event occurs.

(b) rights that do not correspond to an obligation of another party, for example:

(i) rights over physical objects, such as **property**, **plant and equipment** or **inventories**. Examples of such rights are a right to use a physical object or a right to benefit from the residual **value** of a leased object.

(ii) rights to use intellectual property.

2.46 Many rights are established by **contract**, legislation or similar means. For example, an entity might obtain rights from owning or leasing a physical object, from owning a debt instrument or an equity instrument, or from owning a registered patent. However, an entity might also obtain rights in other ways, for example:

(a) by acquiring or creating know-how that is not in the public domain; or

(b) through an obligation of another party that arises because that other party has no practical ability to act in a manner inconsistent with its customary practices, published policies or specific statements.

2.47 An economic resource is a right that has the potential to produce economic benefits. For that potential to exist, it does not need to be certain, or even likely, that the right will produce economic benefits. It is only necessary that the right already exists.

2.48 Control links an economic resource to an entity. Assessing whether control exists helps to identify the economic resource for which the entity accounts. An entity controls an economic resource if it has the present ability to direct the use of the economic resource and obtain the economic benefits that may flow from it. An entity has the present ability to direct the use of an economic resource if it has the right to deploy that economic resource in its activities, or to allow another party to deploy the economic resource in that other party's activities.

Definition of a liability

2.49 A liability is a present obligation of the entity to transfer an economic resource as a result of past events.

2.50 For a liability to exist, three criteria must all be satisfied:

(a) the entity has an obligation;

(b) the obligation is to transfer an economic resource; and

(c) the obligation is a present obligation that exists as a result of past events.

2.51 An obligation is a duty or responsibility that an entity has no practical ability to avoid. An obligation is always owed to another party (or parties). It is not necessary to know the identity of the party (or parties) to whom the obligation is owed. Many obligations are established by contract, legislation or similar means and are legally enforceable by the party (or parties) to whom they are owed. Obligations can also arise, however, from an entity's customary practices, published policies or specific statements if the entity has no practical ability to act in a manner inconsistent with those practices, policies or statements. The obligation that arises in such situations is sometimes referred to as a **constructive obligation**.

2.52 The second criterion for a liability is that the obligation is to transfer an economic resource.

2.53 To satisfy this criterion, the obligation must have the potential to require the entity to transfer an economic resource to another party (or parties). For that potential to exist, it does not need to be certain, or even likely, that the entity will be required to transfer an economic resource—the transfer may, for example, be required only if a specified uncertain future event occurs. It is only necessary that the obligation already exists and that, in at least one circumstance, it would require the entity to transfer an economic resource.

2.54 Obligations to transfer an economic resource include, for example:

(a) obligations to pay cash;

(b) obligations to deliver goods or provide services;

(c) obligations to exchange economic resources with another party on unfavourable terms;

(d) obligations to transfer an economic resource if a specified uncertain future event occurs; and

(e) obligations to issue a **financial instrument** if that financial instrument will oblige the entity to transfer an economic resource.

2.55 Instead of fulfilling an obligation to transfer an economic resource to the party that has a right to receive that resource, entities sometimes decide to, for example:

(a) settle the obligation by negotiating a release from the obligation;

(b) transfer the obligation to a third party; or

(c) replace that obligation to transfer an economic resource with another obligation by entering into a new transaction.

2.56 The third criterion for a liability is that the obligation is a present obligation that exists as a result of past events.

2.57 A present obligation exists as a result of past events only if:

(a) the entity has already obtained economic benefits or taken an action; and

(b) as a consequence, the entity will or may have to transfer an economic resource that it would not otherwise have had to transfer.

2.58 The economic benefits obtained could include, for example, goods or services. The action taken could include, for example, operating a particular business or operating in a particular market. If economic benefits are obtained, or an action is taken, over time, the resulting present obligation may accumulate over that time.

Assets and liabilities

Unit of account

2.59 The **unit of account** is the right or the group of rights, the obligation or the group of obligations, or the group of rights and obligations, to which recognition criteria and measurement concepts are applied.

2.60 A unit of account is selected for an asset or liability when considering how recognition criteria and measurement concepts will apply to that asset or liability and to the related income and expenses. In some circumstances, it may be appropriate to select one unit of account for recognition and a different unit of account for measurement. For example, contracts may sometimes be recognised individually but measured as part of a portfolio of contracts. For presentation and disclosure, assets, liabilities, income and expenses may need to be aggregated or separated into components.

Executory contracts

2.61 An **executory contract** is a contract, or a portion of a contract, that is equally unperformed—neither party has fulfilled any of its obligations, or both parties have partially fulfilled their obligations to an equal extent.

2.62 An executory contract establishes a combined right and obligation to exchange economic resources. The right and obligation constitute a single asset or liability. The entity has an asset if the terms of the exchange are currently favourable; it has a liability if the terms of the exchange are currently unfavourable. Whether such an asset or liability is included in the financial statements depends on both the recognition criteria and the **measurement basis** selected for the asset or liability, including, if applicable, any test for whether the contract is onerous.

Definition of equity

2.63 Equity is the residual interest in the assets of the entity after deducting all its liabilities.

Definitions of income and expenses

2.64 Income and expenses are defined as follows:

(a) income is increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to contributions from holders of **equity claims**; and

(b) expenses are decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims.

It follows from these definitions of income and expenses that contributions from holders of equity claims are not income, and distributions to holders of equity claims are not expenses.

2.65 Income and expenses are the elements of financial statements that relate to an entity's financial performance. Users of financial statements need information about both an entity's financial position and its financial performance. Hence, although income and expenses are defined in terms of changes in assets and liabilities, information about income and expenses is just as important as information about assets and liabilities.

2.66 Different transactions and other events generate income and expenses with different characteristics. Providing information separately about income and expenses with different characteristics can help users of financial statements to understand the entity's financial performance.

Recognition and derecognition

The recognition process

2.67 Recognition is the process of capturing for inclusion in the **statement of financial position** or the statement(s) of financial performance[2] an item that meets the definition of one of the elements of financial statements—an asset, a liability, equity, income or expenses. Recognition involves depicting the item in one of those statements—either alone or in **aggregation** with other items—in words and by a monetary amount, and including that amount in one or

2 The *IFRS for SMEs* Accounting Standard does not specify whether the statement(s) of financial performance comprise(s) a single statement or two statements. The term statement of profit or loss is used to refer both to a separate statement and to a separate section within a single statement of financial performance.

more totals in that statement. The amount at which an asset, a liability or equity is recognised in the statement of financial position is referred to as its **carrying amount**.

2.68 Recognition links the elements, the statement of financial position and the statement(s) of financial performance as follows (see Diagram 2.1):

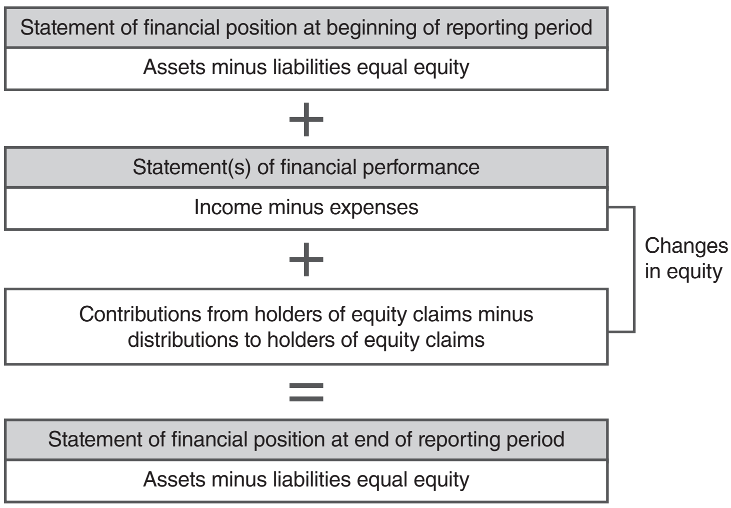
(a) in the statement of financial position at the beginning and end of the reporting period, total assets minus total liabilities equal total equity; and

(b) recognised changes in equity during the reporting period comprise:

(i) income minus expenses recognised in the statement(s) of financial performance; plus

(ii) contributions from holders of equity claims, minus distributions to holders of equity claims.

Diagram 2.1: How recognition links the elements of financial statements



Recognition criteria

2.69 Only items that meet the definition of an asset, a liability or equity are recognised in the statement of financial position. Similarly, only items that meet the definition of income or expenses are recognised in the statement(s) of financial performance. However, not all items that meet the definition of one of those elements are recognised.

2.70 The failure to recognise an item that satisfies those criteria is not rectified by disclosure of the **accounting policies** used or by **notes** or explanatory material.

Relevance

2.71 Information about assets, liabilities, equity, income and expenses is relevant to users of financial statements. However, recognition of a particular asset or liability and any resulting income, expenses or changes in equity may not always provide relevant information. That may be the case if, for example, it is uncertain whether an asset or liability exists; or an asset or liability exists, but the probability of an inflow or outflow of economic benefits is low. The presence of one or both of the factors does not lead automatically to a conclusion that the information provided by recognition lacks relevance, as other factors may need to be taken into account.

Existence uncertainty

2.72 In some cases, it may be unclear whether an asset or liability exists. That uncertainty, possibly combined with a low probability of inflows or outflows of economic benefits and an exceptionally wide range of possible outcomes, may mean that the recognition of an asset or liability, necessarily measured at a single amount, would not provide relevant information. Whether or not the asset or liability has been recognised, explanatory information about the associated uncertainties may need to be provided in the financial statements.

Faithful representation

2.73 Recognition of a particular asset or liability is appropriate if it provides not only relevant information, but also a faithful representation of that asset or liability and of any resulting income, expenses or changes in equity. Whether a faithful representation can be provided may be affected by the level of **measurement uncertainty** associated with the asset or liability or by other factors.

Measurement uncertainty

2.74 For an asset or liability to be recognised, it must be measured. In many cases, such **measures** must be estimated and are therefore subject to measurement uncertainty. The use of reasonable estimates is an essential part of the preparation of financial information and does not undermine the usefulness of the information if the estimates are clearly and accurately described and explained.

2.75 An item that fails to meet the recognition criteria may qualify for recognition at a later date as a result of subsequent circumstances or events.

2.76 Whether or not an asset or liability is recognised, a faithful representation of the asset or liability may need to include explanatory information about the uncertainties associated with the asset or liability's existence or measurement, or with its outcome—the amount or timing of any inflow or outflow of economic benefits that will ultimately result from it.

Derecognition

2.77 **Derecognition** is the removal of all or part of a recognised asset or liability from an entity's statement of financial position. Derecognition normally occurs when that item no longer meets the definition of an asset or of a liability:

(a) for an asset, derecognition normally occurs when the entity loses control of all or part of the recognised asset; and

(b) for a liability, derecognition normally occurs when the entity no longer has a present obligation for all or part of the recognised liability.

2.78 Accounting requirements for derecognition aim to faithfully represent both any assets and liabilities retained after the transaction or other event that led to derecognition and the change in assets or liabilities as a result of that transaction or other event.

2.79 The aim of paragraph 2.78 is normally achieved by:

(a) derecognising any assets or liabilities that have expired or have been consumed, collected, fulfilled or transferred, and recognising any resulting income and expenses; and

(b) continuing to recognise any retained assets or liabilities.

2.80 One or more of the following procedures may be applied in order to achieve the aims of paragraph 2.78:

(a) present the retained component separately in the statement of financial position;

(b) present separately in the statement of financial performance any income and expenses recognised as a result of the derecognition of the transferred component; or

(c) provide explanatory information.

Measurement

2.81 Elements recognised in financial statements are quantified in monetary terms. This requires the selection of a measurement basis.

2.82 A measurement basis is an identified feature—for example, historical cost, **fair value** or fulfilment value—of an item being measured. Applying a measurement basis to an asset or liability creates a **measure** for that asset or liability and for related income and expenses.

2.83 Different measurement bases may be appropriate for different assets, liabilities, income and expenses.

Measurement bases

Historical cost

2.84 Historical cost measures provide monetary information about the assets, liabilities and related income and expenses, using information derived, at least in part, from the price of the transaction or other event that gave rise to them.

2.85 The historical cost of an asset when it is acquired or created is the value of the costs incurred in acquiring or creating the asset, comprising the consideration paid to acquire or create the asset plus **transaction costs**. The historical cost of a liability when it is incurred or taken on is the value of the consideration received to incur or take on the liability minus transaction costs.

2.86 The historical cost of an asset is updated over time to depict, if applicable:

(a) the consumption of part or all of the economic resource that constitutes the asset (**depreciation** or **amortisation**);

(b) payments received that extinguish part or all of the asset;

(c) the effect of events that cause part or all of the historical cost of the asset to be no longer recoverable (**impairment**); and

(d) accrual of interest to reflect any financing component of the asset.

2.87 The historical cost of a liability is updated over time to depict, if applicable:

(a) fulfilment of part or all of the liability, for example, by making payments that extinguish part or all of the liability or by satisfying an obligation to deliver goods.

(b) the effect of events that increase the value of the obligation to transfer the economic resources needed to fulfil the liability to such an extent that the liability becomes onerous. A liability is onerous if the historical cost is no longer sufficient to depict the obligation to fulfil the liability.

(c) accrual of interest to reflect any financing component of the liability.

2.88 One way to apply a historical cost measurement basis to **financial assets** and **financial liabilities** is to measure them at **amortised cost**. The **amortised cost of a financial asset or financial liability** reflects estimates of future **cash flows**, discounted at a rate determined at initial recognition. For variable rate instruments, the discount rate is updated to reflect changes in the variable rate. The amortised cost of a financial asset or financial liability is updated over time to depict subsequent changes, such as the accrual of interest, the impairment of a financial asset and receipts or payments.

Current value

2.89 Current value measures provide monetary information about assets, liabilities and related income and expenses, using information updated to reflect conditions at the measurement date. Current value measurement bases include:

(a) fair value;

(b) **value in use** for assets and fulfilment value for liabilities; and

(c) current cost.

2.90 Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an **orderly transaction** between **market participants** at the measurement date. Because fair value is not derived, even in part, from the price of the transaction or other event that gave rise to the asset or the liability, fair value is not increased by transaction costs incurred when acquiring the asset and is not decreased by the transaction costs incurred when the liability is incurred or taken on.

2.91 **Value in use** is the **present value** of the cash flows, or other economic benefits, that an entity expects to derive from the use of an asset and from its ultimate disposal. **Fulfilment value** is the present value of the cash, or other economic resources, that an entity expects to be obliged to transfer as it fulfils a liability. Because value in use and fulfilment value are based on future cash flows, they do not include transaction costs incurred on acquiring an asset or taking on a liability.

2.92 The current cost of an asset is the cost of an equivalent asset at the measurement date, comprising the consideration that would be paid at the measurement date plus the transaction costs that would be incurred at that date. The current cost of a liability is the consideration that would be received for an equivalent liability at the measurement date minus the transaction costs that would be incurred at that date.

Information provided by particular measurement bases

2.93 When selecting a measurement basis, it is important to consider the nature of the information that the measurement basis will produce in both the statement of financial position and the statement(s) of financial performance.

Historical cost

2.94 Information provided by measuring an asset or liability at historical cost may be relevant to users of financial statements, because historical cost uses information derived, at least in part, from the price of the transaction or other event that gave rise to the asset or liability. Because historical cost is reduced to reflect consumption of an asset and its impairment, the amount expected to be recovered from an asset measured at historical cost is at least as great as its carrying amount. Similarly, because the historical cost of a liability is increased when it becomes onerous, the value of the obligation to transfer the economic resources needed to fulfil the liability is no more than the carrying amount of the liability.

Current value

2.95 Information provided by measuring an asset or liability at fair value may have predictive value because fair value reflects market participants' current expectations about the amount, timing and uncertainty of future cash flows.

2.96 Value in use provides information about the present value of the estimated cash flows from the use of an asset and from its ultimate disposal. This information may have predictive value because it can be used in assessing the prospects for future net cash inflows.

2.97 Fulfilment value provides information about the present value of the estimated cash flows needed to fulfil a liability. Hence fulfilment value may have predictive value, particularly if the liability will be fulfilled, rather than transferred or settled by negotiation.

2.98 Updated estimates of value in use or fulfilment value, combined with information about estimates of the amount, timing and uncertainty of future cash flows, may also have confirmatory value because they provide feedback about previous estimates of value in use or fulfillment value.

2.99 Information about assets and liabilities measured at current cost may be relevant because current cost reflects the cost at which an equivalent asset could be acquired or created at the measurement date or the consideration that would be received from incurring or taking on an equivalent liability.

Factors to consider when selecting a measurement basis

2.100 In selecting a measurement basis for an asset or liability and for the related income and expenses, it is necessary to consider the nature of the information that the measurement basis will produce in both the statement of financial position and the statement(s) of financial performance.

2.101 In most cases, no single factor will determine which measurement basis should be selected. The relative importance of each factor will depend on facts and circumstances.

2.102 The information provided by a measurement basis must be useful to users of financial statements. To achieve this, the information must be relevant and it must faithfully represent what it purports to represent. In addition, the information provided should be, as far as possible, comparable, verifiable, timely and understandable.

Relevance

2.103 The relevance of information provided by a measurement basis for an asset or liability and for the related income and expenses is affected by:

(a) the characteristics of the asset or liability, in particular the variability of cash flows and whether the value of the asset or liability is sensitive to market factors or other risks; and

(b) how that asset or liability contributes to future cash flows.

2.104 If the value of an asset or liability is sensitive to market factors or other risks, its historical cost might differ significantly from its current value. Consequently, historical cost may not provide relevant information if information about changes in value is important to users of financial statements. For example, amortised cost cannot provide relevant information about a financial asset or financial liability that is a derivative.

2.105 For assets and liabilities that produce cash flows directly, such as assets that can be sold independently and without a significant economic penalty (for example, without significant business disruption), the measurement basis that provides the most relevant information is likely to be a current value that incorporates current estimates of the amount, timing and uncertainty of the future cash flows. For assets and liabilities that do not produce cash flows directly, the principles of relevance and faithful representation should be considered to the extent that they apply to the facts and circumstances.

2.106 When a business activity of an entity involves managing financial assets and financial liabilities with the objective of collecting contractual cash flows, amortised cost may provide relevant information that can be used to derive the margin between the interest earned on the assets and the interest incurred on the liabilities.

Faithful representation

2.107 In some circumstances, avoiding an accounting mismatch by using the same measurement basis for related assets and liabilities may provide users of financial statements with information that is more useful than the information that would result from using different measurement bases. This may be particularly likely when the cash flows from one asset or liability are directly linked to the cash flows from another asset or liability.

2.108 As noted in paragraph 2.18, although a perfectly faithful representation is free from error, this does not mean that measures must be perfectly accurate in all respects.

2.109 When a measure cannot be determined directly by observing prices in an **active market** and must instead be estimated, measurement uncertainty arises. The level of measurement uncertainty associated with a particular measurement basis may affect whether information provided by that measurement basis provides a faithful representation of an entity's financial position and financial performance. A high level of measurement uncertainty does not necessarily prevent the use of a measurement basis that provides relevant information. However, in some cases the level of measurement uncertainty is so high that information provided by a measurement basis might not provide a sufficiently faithful representation. In such cases, it is appropriate to consider selecting a different measurement basis that would also result in relevant information.

2.110 Measurement uncertainty is different from both **outcome uncertainty** and **existence uncertainty**:

(a) outcome uncertainty arises when there is uncertainty about the amount or timing of any inflow or outflow of economic benefits that will result from an asset or liability.

(b) existence uncertainty arises when it is uncertain whether an asset or a liability exists. Paragraphs 2.71–2.72 discuss how existence uncertainty may affect decisions about whether an entity recognises an asset or liability when it is uncertain whether that asset or liability exists.

Enhancing qualitative characteristics and the cost constraint

2.111 The enhancing qualitative characteristics of comparability, understandability and verifiability, and the cost constraint, have implications for the selection of a measurement basis. The enhancing qualitative characteristic of timeliness has no specific implications for measurement.

2.112 Consistently using the same measurement bases for the same items, either from period to period within a reporting entity or in a single period across entities, can help make financial statements more comparable.

2.113 A change in measurement basis can make financial statements less understandable. However, a change may be justified if other factors outweigh the reduction in understandability, for example, if the change results in more relevant information. If a change is made, users of financial statements may need explanatory information to enable them to understand the effect of that change.

2.114 Understandability depends partly on how many different measurement bases are used and on whether they change over time. In general, if more measurement bases are used in a set of financial statements, the resulting information becomes more complex and, hence, less understandable and the totals or subtotals in the statement of financial position and the statement(s) of financial performance become less informative. However, it could be appropriate to use more measurement bases if that is necessary to provide useful information.

2.115 Verifiability is enhanced by using measurement bases that result in measures that can be independently corroborated either directly—for example, by observing prices—or indirectly—for example, by checking inputs to a model. If a measure cannot be verified, users of financial statements may need explanatory information to enable them to understand how the measure was determined. In some such cases, it may be necessary to specify the use of a different measurement basis.

Measurement of equity

2.116 The total carrying amount of equity (total equity) is not measured directly. It equals the total of the carrying amounts of all recognised assets less the total of the carrying amounts of all recognised liabilities.

2.117 Although total equity is not measured directly, it may be appropriate to measure directly the carrying amount of some individual classes of equity and some components of equity.

Presentation and disclosure

Presentation and disclosure as communication tools

2.118 A reporting entity communicates information about its assets, liabilities, equity, income and expenses by presenting and disclosing information in its financial statements.

2.119 Effective communication of information in financial statements makes that information more relevant and contributes to a faithful representation of an entity's assets, liabilities, equity, income and expenses. It also enhances the understandability and comparability of information in financial statements.

2.120 Just as cost constrains other financial reporting decisions, it also constrains decisions about presentation and disclosure. Hence, in making decisions about presentation and disclosure, it is important to consider whether the benefits provided to users of financial statements by presenting or disclosing particular information are likely to justify the costs of providing and using that information.

Classification

2.121 **Classification** is the sorting of assets, liabilities, equity, income or expenses on the basis of shared characteristics for presentation and disclosure purposes. Such characteristics include—but are not limited to—the nature of the item, its role (or function) within the business activities conducted by the entity, and how it is measured.

2.122 Classifying dissimilar assets, liabilities, equity, income or expenses together can obscure relevant information, reduce understandability and comparability and may not provide a faithful representation of what it purports to represent.

2.123 Classification is applied to the unit of account selected for an asset or liability. However, it may sometimes be appropriate to separate an asset or liability into components that have different characteristics and to classify those components separately, when this would enhance the usefulness of the resulting financial information.

2.124 Income and expenses are classified and included either:

(a) in the statement of **profit or loss**; or

(b) outside the statement of profit or loss, in **other comprehensive income**.

2.125 The statement of profit or loss is the primary source of information about an entity's financial performance for the reporting period. Therefore, all income and expenses are, in principle, included in that statement. Items of income or expense are presented in other comprehensive income only when explicitly permitted or required by this Standard.

2.126 In principle, income and expenses included in other comprehensive income in one period are reclassified from other comprehensive income into the statement of profit or loss in a future period when doing so results in the statement of profit or loss providing more relevant information, or providing a more faithful representation of the entity's financial performance for that future period. Individual sections of this Standard may describe situations when this applies, that is when income and expenses included in other comprehensive income can or must be subsequently reclassified.

Offsetting

2.127 **Offsetting** occurs when an entity recognises and measures both an asset and liability as separate units of account, but groups them into a single net amount in the statement of financial position. Offsetting classifies dissimilar items together and therefore is generally not appropriate unless required or permitted by a specific section of this Standard.

Classification of equity

2.128 To provide useful information, it may be necessary to classify equity claims separately if those equity claims have different characteristics.

2.129 Similarly, to provide useful information, it may be necessary to classify components of equity separately if some of those components are subject to particular legal, regulatory or other requirements. For example, in some jurisdictions, an entity is permitted to make distributions to holders of equity claims only if the entity has sufficient reserves specified as distributable. Separate presentation or disclosure of those reserves may provide useful information.

Aggregation

2.130 Aggregation is the adding together of assets, liabilities, equity, income or expenses that have shared characteristics and are included in the same classification.

2.131 Aggregation makes information more useful by summarising a large volume of detail. However, aggregation conceals some of that detail. Hence, a balance needs to be found so that relevant information is not obscured either by a large amount of insignificant detail or by excessive aggregation.

Section 3
Financial Statement Presentation

Paragraphs 3.1–3.3, 3.5, 3.10–3.11, 3.16–3.17 and the heading above paragraph 3.3 are amended. Paragraph 3.15A is added. New text is underlined and deleted text is struck through.

Scope of this section

3.1 This section explains **fair presentation** of **financial statements**, what compliance with the *IFRS for SMEs* <u>Accounting Standard</u> requires and what a complete set of financial statements is.

Fair presentation

3.2 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 Section 2 *Concepts and Pervasive Principles*:

(a) the application of the *IFRS for SMEs* <u>Accounting Standard</u>, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation of the financial position, financial performance and cash flows of SMEs.

(b) ~~as explained in paragraph 1.5,~~ the application of this Standard by an entity with **public accountability** does not result in a fair presentation in accordance with this Standard <u>(see paragraph 1.5)</u>.

The additional disclosures referred to in (a) are necessary when compliance with the specific requirements in this Standard is insufficient to enable users to understand the effect of particular transactions, other events and conditions on the entity's financial position and financial performance.

Compliance with the *IFRS for SMEs* <u>Accounting Standard</u>

3.3 An entity whose financial statements comply with the *IFRS for SMEs* <u>Accounting Standard</u> shall make an explicit and unreserved statement of such compliance in the **notes**. Financial statements shall not be described as complying with the *IFRS for SMEs* <u>Accounting Standard</u> unless they comply with all the requirements of this Standard.

3.4 In the extremely rare circumstances when management concludes that compliance with this Standard would be so misleading that it would conflict with the **objective of financial statements** of SMEs set out in Section 2, the entity shall depart from that requirement in the manner set out in paragraph 3.5 unless the relevant regulatory framework prohibits such a departure.

3.5 When an entity departs from a requirement of this Standard in accordance with paragraph 3.4, it shall disclose the following:

(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 the *IFRS for SMEs* Accounting Standard, except that it has departed from a particular requirement to achieve a fair presentation; and

(c) the nature of the departure, including the treatment that the *IFRS for SMEs* Accounting Standard 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 Section 2 and the treatment adopted.

3.6 When an entity has departed from a requirement of this Standard 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 3.5(c).

3.7 In the extremely rare circumstances when management concludes that compliance with a requirement in this Standard would be so misleading that it would conflict with the objective of financial statements of SMEs set out in Section 2, 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 the following:

(a) the nature of the requirement in this Standard 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 Section 2; 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.

Going concern

3.8 When preparing financial statements, the management of an entity using this Standard shall make an assessment of the entity's ability to continue as a **going concern**. An entity is a going concern unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. 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 **reporting date**.

3.9 When management is aware, in making its assessment, of **material** uncertainties related to events or conditions that cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.

Frequency of reporting

3.10 An entity shall present a complete set of financial statements (including comparative information–see paragraph 3.14) at least annually. When the end of an entity's **reporting period** changes and the ~~annual~~ financial statements are presented for a period longer or shorter than one year, the entity shall disclose the following:

(a) that fact;

(b) the reason for using a longer or shorter period; and

(c) the fact that comparative amounts presented in the financial statements (including the related notes) are not entirely comparable.

Consistency of presentation

3.11 An entity shall retain the presentation and **classification** ~~classification~~ of items in the financial statements from one period to the next unless:

(a) it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of **accounting policies** in Section 10 *Accounting Policies, Estimates and Errors*; or

(b) this Standard requires a change in presentation.

3.12 When the presentation or classification of items in the financial statements is changed, an entity shall reclassify comparative amounts unless the reclassification is **impracticable**. When comparative amounts are reclassified, an entity shall disclose the following:

(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.

3.13 If it is impracticable to reclassify comparative amounts, an entity shall disclose why reclassification was not practicable.

Comparative information

3.14 Except when this Standard permits or requires otherwise, an entity shall disclose comparative information in respect of the previous comparable period for all amounts presented in the current period's financial statements. An entity shall include comparative information for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.

Materiality and aggregation

3.15 An entity shall present separately each material class of similar items. An entity shall present separately items of a dissimilar nature or function unless they are immaterial.

3.15A When applying this Standard an entity shall decide, after taking into consideration all the relevant facts and circumstances, how it aggregates information in the financial statements, which include the notes. The entity shall not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.

3.16 Information is ~~Omissions or misstatements of items are~~ material if omitting, misstating or obscuring it ~~they~~ could~~, individually or collectively,~~ reasonably be expected to influence ~~the economic~~ decisions that the primary ~~of~~ users of general purpose financial statements make ~~made~~ on the basis of those ~~the~~ financial statements, which provide financial information about a specific **reporting entity**. Materiality depends on the ~~size and~~ nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.~~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.~~

Complete set of financial statements

3.17 A complete set of financial statements of an entity shall include all of the following:

(a) a **statement of financial position** as at the reporting date;

(b) either:

(i) a single **statement of comprehensive income** for the reporting period displaying all items of income and expense recognised during the period including those items recognised in determining **profit or loss** (which is a subtotal in the statement of comprehensive income) and items of **other comprehensive income**.

(ii) a separate **income statement** and a separate statement of comprehensive income. If the ~~an~~ entity chooses to present both an income statement and a statement of comprehensive income, the statement of comprehensive income begins with profit or loss and then displays the items of other comprehensive income.

(c) a **statement of changes in equity** for the reporting period;

(d) a **statement of cash flows** for the reporting period; and

(e) notes, comprising material ~~a summary of significant~~ accounting policy information ~~policies~~ and other explanatory information.

3.18 If the only changes to equity during the periods for which financial statements are presented arise from profit or loss, payment of dividends, corrections of prior period **errors**, and changes in accounting policy, the entity may present a single **statement of income and retained earnings** in place of the statement of comprehensive income and statement of changes in equity (see paragraph 6.4).

3.19 If an entity has no items of other comprehensive income in any of the periods for which financial statements are presented, it may present only an income statement or it may present a statement of comprehensive income in which the 'bottom line' is labelled 'profit or loss'.

3.20 Because paragraph 3.14 requires comparative amounts in respect of the previous period for all amounts presented in the financial statements, a complete set of financial statements means that an entity shall present, as a minimum, two of each of the required financial statements and related notes.

3.21 In a complete set of financial statements, an entity shall present each financial statement with equal prominence.

3.22 An entity may use titles for the financial statements other than those used in this Standard as long as they are not misleading.

Identification of the financial statements

3.23 An entity shall clearly identify each of the financial statements and the notes and distinguish them from other information in the same document. In addition, an entity shall display the following information prominently and repeat it when necessary for an understanding of the information presented:

(a) the name of the reporting entity and any change in its name since the end of the preceding reporting period;

(b) whether the financial statements cover the individual entity or a **group** of entities;

(c) the date of the end of the reporting period and the period covered by the financial statements;

(d) the **presentation currency**, as defined in Section 30 *Foreign Currency Translation*; and

(e) the level of rounding, if any, used in presenting amounts in the financial statements.

3.24 An entity shall disclose the following in the notes:

(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); and

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

Presentation of information not required by this Standard

3.25 This Standard does not address presentation of segment information, earnings per share, or interim financial reports by a small or medium-sized entity. An entity making such disclosures shall describe the basis for preparing and presenting the information.

Section 4
Statement of Financial Position

Paragraphs 4.2–4.4, 4.9, 4.11 and 4.14 are amended. New text is underlined and deleted text is struck through.

Scope of this section

4.1 This section sets out the information that is to be presented in a **statement of financial position** and how to present it. The statement of financial position (sometimes called the balance sheet) presents an entity's **assets**, **liabilities** and **equity** as of a specific date—the end of the **reporting period**.

Information to be presented in the statement of financial position

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

(a) **cash** and **cash equivalents**;

(b) trade and other receivables;

(c) **financial assets** (excluding amounts shown under (a), (b), (j) and (k));

(d) **inventories**;

(e) **property**, **plant and equipment** (including **bearer plants** in the scope of Section 17 *Property, Plant and Equipment*);

(ea) **investment property** carried at cost less accumulated **depreciation** and **impairment**;

(f) investment property carried at **fair value** through **profit or loss**;

(g) **intangible assets**;

(h) **biological assets** in the scope of Section 34 *Specialised Activities* carried at cost less accumulated depreciation and impairment;

(i) biological assets in the scope of Section 34 carried at fair value through profit or loss;

(j) investments in **associates**;

(k) investments in **jointly controlled entities**;

(l) trade and other payables;

(m) **financial liabilities** (excluding amounts shown under (l) and (p));

(n) liabilities and assets for **current tax**;

(o) **deferred tax liabilities** and **deferred tax assets** (these shall always be classified as non-current);

(p) **provisions**;

(q) **non-controlling interest**, presented within equity separately from the equity attributable to the **owners** of the **parent**; and

(r) equity attributable to the owners of the parent.

4.3 An entity shall present additional line items (including by disaggregating the line items listed in paragraph 4.2), headings and subtotals in the statement of financial position when such presentation is relevant to an understanding of the entity's **financial position**.

Current/non-current distinction

4.4 An entity shall present current and non-current assets, and current and non-current liabilities, as separate **classifications** ~~classifications~~ in its statement of financial position in accordance with paragraphs 4.5–4.8, except when a presentation based on liquidity provides information that is reliable and more relevant. When that exception applies, all assets and liabilities shall be presented in order of approximate liquidity (ascending or descending).

Current assets

4.5 An entity shall classify an asset as current when:

(a) it expects to realise the asset, or intends to sell or consume it, in the entity's normal operating cycle;

(b) it holds the asset primarily for the purpose of trading;

(c) it expects to realise the asset within twelve months after the **reporting date**; or

(d) the asset is cash or a cash equivalent, unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

4.6 An entity shall classify all other assets as non-current. When the entity's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months.

Current liabilities

4.7 An entity shall classify a liability as current when:

(a) it expects to settle the liability in the entity's normal operating cycle;

(b) it holds the liability primarily for the purpose of trading;

(c) the liability is due to be settled within twelve months after the reporting date; or

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

4.8 An entity shall classify all other liabilities as non-current.

Sequencing of items and format of items in the statement of financial position

4.9 This Standard does not prescribe the sequence or format in which items are to be presented. Paragraph 4.2 simply provides a list of items that are sufficiently different in nature or function to warrant separate presentation in the statement of financial position. In addition:

(a) line items are included when the size, nature or function of an item or **aggregation** ~~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 sequencing 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.

4.10 The judgement on whether additional items are presented separately is based on an assessment of all of the following:

(a) the amounts, nature and liquidity of assets;

(b) the function of assets within the entity; and

(c) the amounts, nature and timing of liabilities.

Information to be presented either in the statement of financial position or in the notes

4.11 An entity shall disclose, either in the statement of financial position or in the **notes**, the following subclassifications of the line items presented:

(a) property, plant and equipment in classifications appropriate to the entity;

(b) trade and other receivables showing separately amounts due from related parties, amounts due from other parties and receivables arising from accrued **income** not yet billed;

(c) inventories, showing separately amounts of inventories:

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

(ii) in the process of production for such sale; and

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

(d) trade and other payables, showing separately amounts payable to trade suppliers, payable to related parties, deferred income and accruals;

(e) provisions for **employee benefits** and other provisions; and

(f) classes of equity, such as paid-in capital, share premium, retained earnings and items of income and **expense** that, as permitted or required by this Standard, are recognised in **other comprehensive income** and presented separately in equity.

4.12 An entity with share capital shall disclose the following, either in the statement of financial position 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. This reconciliation need not be presented for prior periods.

(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.

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

(b) a description of each reserve within equity.

4.13 An entity without share capital, such as a partnership or trust, shall disclose information equivalent to that required by paragraph 4.12(a), showing changes during the period in each category of equity, and the rights, preferences and restrictions attaching to each category of equity.

4.14 If, at the reporting date, an entity has a binding sale agreement for a major disposal of assets, or a group of assets and liabilities, the entity shall disclose the following information:

(a) a description of the asset(s) or the group of assets and liabilities;

(b) a description of the facts and circumstances of the sale~~ or plan~~; and

(c) the **carrying amount** of the assets or, if the disposal involves a group of assets and liabilities, the carrying amounts of those assets and liabilities.

Section 5
Statement of Comprehensive Income and Income Statement

Paragraphs 5.4–5.5 and 5.11 are amended. New text is underlined and deleted text is struck through.

Scope of this section

5.1 This section requires an entity to present its **total comprehensive income** for a period—ie its financial **performance** for the period—in one or two **financial statements**. It sets out the information that is to be presented in those statements and how to present it.

Presentation of total comprehensive income

5.2 An entity shall present its total comprehensive income for a period either:

(a) in a single **statement of comprehensive income**, in which case the statement of comprehensive income presents all items of **income** and **expense** recognised in the period; or

(b) in two statements—an **income statement** and a statement of comprehensive income—in which case the income statement presents all items of income and expense recognised in the period except those that are recognised in total comprehensive income outside of **profit or loss** as permitted or required by this Standard.

5.3 A change from the single-statement approach to the two-statement approach, or vice versa, is a change in accounting policy to which Section 10 *Accounting Policies, Estimates and Errors* applies.

Single-statement approach

5.4 Under the single-statement approach, the statement of comprehensive income shall include all items of income and expense recognised in a period unless this Standard requires otherwise. This Standard provides different treatment for the following circumstances:

(a) the effects of corrections of **errors** and changes in **accounting policies** are presented as retrospective adjustments of prior periods instead of as part of profit or loss in the period in which they arise (see Section 10); and

(b) four types of **other comprehensive income** are recognised as part of total comprehensive income, outside of profit or loss, when they arise:

(i) some gains ~~**gains**~~ and losses ~~**losses**~~ arising on translating the financial statements of a **foreign operation** (see Section 30 *Foreign Currency Translation*);

(ii) some actuarial gains and losses (see Section 28 *Employee Benefits*);

(iii) some changes in **fair values** of **hedging instruments** (see Part II of Section 11 ~~12~~ *Other Financial Instrument Issues*); and

(iv) changes in the revaluation surplus for **property**, **plant and equipment** measured in accordance with the revaluation model (see Section 17 *Property, Plant and Equipment*).

5.5 ~~As a minimum, an~~ An entity shall include, in the statement of comprehensive income, line items that present the following amounts for the period:

(a) **revenue**.

(b) finance costs.

(c) share of the profit or loss of investments in **associates** (see Section 14 *Investments in Associates*) and **jointly controlled entities** (see Section 15 ~~*Investments in*~~ *Joint Arrangements* ~~*Ventures*~~) accounted for using the equity method.

(d) **tax expense** excluding tax allocated to items (e), (g) and (h) (see paragraph 29.35).

(e) a single amount comprising the total of:

(i) the post-tax profit or loss of a **discontinued operation**; and

(ii) the post-tax gain or loss attributable to an **impairment**, or reversal of an impairment, of the **assets** in the discontinued operation (see Section 27 *Impairment of Assets*), both at the time and subsequent to being classified as a discontinued operation and to the disposal of the net assets constituting the discontinued operation.

(f) profit or loss (if an entity has no items of other comprehensive income, this line need not be presented).

(g) each item of other comprehensive income (see paragraph 5.4(b)) classified by nature (excluding amounts in (h)). Such items shall be grouped into those that, in accordance with this Standard:

(i) will not be reclassified subsequently to profit or loss—ie those in paragraph 5.4(b)(i)–(ii) and (iv); and

(ii) will be reclassified subsequently to profit or loss when specific conditions are met—ie those in paragraph 5.4(b)(iii).

(h) share of the other comprehensive income of associates and jointly controlled entities accounted for using ~~by~~ the equity method.

(i) total comprehensive income (if an entity has no items of other comprehensive income, it may use another term for this line such as profit or loss).

5.6 An entity shall disclose separately the following items in the statement of comprehensive income as allocations for the period:

(a) profit or loss for the period attributable to

(i) **non-controlling interest**; and

(ii) **owners** of the **parent**.

(b) total comprehensive income for the period attributable to

  (i) non-controlling interest; and

  (ii) owners of the parent.

Two-statement approach

5.7 Under the two-statement approach, the income statement shall display, as a minimum, line items that present the amounts in paragraph 5.5(a)–5.5(f) for the period, with profit or loss as the last line. The statement of comprehensive income shall begin with profit or loss as its first line and shall display, as a minimum, line items that present the amounts in paragraph 5.5(g)–5.5(i) and paragraph 5.6 for the period.

Requirements applicable to both approaches

5.8 Under this Standard, the effects of corrections of errors and changes in accounting policies are presented as retrospective adjustments of prior periods instead of as part of profit or loss in the period in which they arise (see Section 10).

5.9 An entity shall present additional line items, headings and subtotals in the statement of comprehensive income (and in the income statement, if presented), when such presentation is relevant to an understanding of the entity's financial performance.

5.10 An entity shall not present or describe any items of income and expense as 'extraordinary items' in the statement of comprehensive income (or in the income statement, if presented) or in the **notes**.

Analysis of expenses

5.11 An entity shall provide ~~present~~ an analysis of expenses using a **classification** ~~classification~~ based on either the nature of expenses or the function of expenses within the entity, whichever provides information that is reliable and more relevant. This analysis may be either presented in the statement of comprehensive income or disclosed in the notes.

Analysis by nature of expense

(a) Under this method of classification, expenses are aggregated in the statement of comprehensive income 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.

Analysis by function of expense

(b) Under this method of classification, expenses are aggregated 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.

Section 6
Statement of Changes in Equity and Statement of Income and Retained Earnings

The heading above paragraph 6.3 is amended and paragraph 6.3A is added. New text is underlined.

Scope of this section

6.1 This section sets out requirements for presenting the changes in an entity's **equity** for a period, either in a **statement of changes in equity** or, if specified conditions are met and an entity chooses, in a **statement of income and retained earnings**.

Statement of changes in equity

Purpose

6.2 The statement of changes in equity presents an entity's **profit or loss** for a **reporting period**, **other comprehensive income** for the period, the effects of changes in **accounting policies** and corrections of **errors** recognised in the period and the amounts of investments by, and dividends and other distributions to, **owners** in their capacity as owners during the period.

Information to be presented in the statement of changes in equity <u>or in the notes</u>

6.3 The statement of changes in equity includes the following information:

(a) **total comprehensive income** for the period, showing separately the total amounts attributable to owners of the **parent** and to **non-controlling interests**;

(b) for each component of equity, the effects of **retrospective application** or retrospective restatement recognised in accordance with Section 10 *Accounting Policies, Estimates and Errors*; and

(c) for each component of equity, a reconciliation between the **carrying amount** at the beginning and the end of the period, separately disclosing changes resulting from:

  (i) profit or loss;

  (ii) other comprehensive income; and

  (iii) the amounts of investments by, and dividends and other distributions to, owners in their capacity as owners, showing separately issues of shares, **treasury share** transactions, dividends and other distributions to owners and changes in ownership interests in **subsidiaries** that do not result in a loss of **control**.

6.3A When an entity has more than one class of shares, it shall disclose dividends paid (in aggregate or per share) separately for **ordinary shares** and other shares.

Statement of income and retained earnings

Purpose

6.4 The statement of income and retained earnings presents an entity's profit or loss and changes in retained earnings for a reporting period. Paragraph 3.18 permits an entity to present a statement of income and retained earnings in place of a **statement of comprehensive income** and a statement of changes in equity if the only changes to its equity during the periods for which **financial statements** are presented arise from profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policy.

Information to be presented in the statement of income and retained earnings

6.5 An entity shall present, in the statement of income and retained earnings, the following items in addition to the information required by Section 5 *Statement of Comprehensive Income and Income Statement*:

(a) retained earnings at the beginning of the reporting period;

(b) dividends declared and paid or payable during the period;

(c) restatements of retained earnings for corrections of prior period errors;

(d) restatements of retained earnings for changes in accounting policy; and

(e) retained earnings at the end of the reporting period.

Section 7
Statement of Cash Flows

Paragraphs 7.4–7.5, 7.8 and 7.20 are amended. Paragraph 7.19A and the heading above paragraph 7.19A are added. New text is underlined and deleted text is struck through.

Scope of this section

7.1 This section sets out the information that is to be presented in a **statement of cash flows** and how to present it. The statement of cash flows provides information about the changes in **cash** and **cash equivalents** of an entity for a **reporting period**, showing separately changes from **operating activities**, **investing activities** and **financing activities**.

Cash equivalents

7.2 Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value. They are held to meet short-term cash commitments instead of for investment or other purposes. Consequently, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Bank overdrafts are normally considered financing activities similar to borrowings. However, if they are repayable on demand and form an integral part of an entity's cash management, bank overdrafts are a component of cash and cash equivalents.

Information to be presented in the statement of cash flows

7.3 An entity shall present a statement of cash flows that presents **cash flows** for a reporting period classified by operating activities, investing activities and financing activities.

Operating activities

7.4 Operating activities are the principal revenue-producing activities of the entity. Consequently, cash flows from operating activities generally result from the transactions and other events and conditions that enter into the determination of **profit or loss**. Examples of cash flows from operating activities are:

(a) cash receipts from the sale of goods and the rendering of services;

(b) cash receipts from royalties, fees, commissions and other **revenue**;

(c) cash payments to suppliers for goods and services;

(d) cash payments to and on behalf of employees;

(e) cash payments or refunds of income tax, unless they can be specifically identified with financing and investing activities; and

(f) cash receipts and payments from investments, loans and other contracts held for dealing or trading purposes, which are similar to **inventory** acquired specifically for resale.

Some transactions, such as the sale of an item of plant by a manufacturing entity, may give rise to a gain ~~**gain**~~ or loss that is included in profit or loss. However, the cash flows relating to such transactions are cash flows from investing activities.

Investing activities

7.5 Investing activities are the acquisition and disposal of long-term **assets** and other investments not included in cash equivalents. Examples of cash flows arising from investing activities are:

(a) cash payments to acquire **property**, **plant and equipment** (including self-constructed property, plant and equipment), **intangible assets** and other long-term assets;

(b) cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;

(c) cash payments to acquire **equity** or debt instruments of other entities and interests in **jointly controlled entities** ~~**joint ventures**~~ (other than payments for those instruments classified as cash equivalents or held for dealing or trading);

(d) cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments classified as cash equivalents or held for dealing or trading);

(e) cash advances and loans made to other parties;

(f) cash receipts from the repayment of advances and loans made to other parties;

(g) cash payments for futures contracts, forward contracts, option contracts and swap contracts, except when the contracts are held for dealing or trading, or the payments are classified as financing activities; and

(h) cash receipts from futures contracts, forward contracts, option contracts and swap contracts, except when the contracts are held for dealing or trading, or the receipts are classified as financing activities.

When a contract is accounted for as a hedge (see Part II of Section 11 ~~12~~ *Other Financial Instrument Issues*), an entity shall classify the cash flows of the contract in the same manner as the cash flows of the item being hedged.

Financing activities

7.6 Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of an entity. Examples of cash flows arising from financing activities are:

(a) cash proceeds from issuing shares or other equity instruments;

(b) cash payments to **owners** to acquire or redeem the entity's shares;

(c) cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short-term or long-term borrowings;

(d) cash repayments of amounts borrowed; and

(e) cash payments by a lessee for the reduction of the outstanding **liability** relating to a **finance lease**.

Reporting cash flows from operating activities

7.7 An entity shall present cash flows from operating activities using either:

(a) the indirect method, whereby profit or loss is adjusted for the effects of non-cash transactions, any deferrals or accruals of past or future operating cash receipts or payments and items of **income** or **expense** associated with investing or financing cash flows; or

(b) the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed.

Indirect method

7.8 Under the indirect method, the net cash flow from operating activities is determined by adjusting profit or loss for the effects of:

(a) changes during the period in inventories and operating receivables and payables;

(b) non-cash items such as **depreciation**, **provisions**, **deferred tax**, accrued income (expenses) not yet received (paid) in cash, unrealised foreign currency gains and losses, and undistributed profits of **associates**~~ **and non-controlling interests**~~; and

(c) all other items for which the cash effects relate to investing or financing.

Direct method

7.9 Under the direct method, net cash flow from operating activities is presented by disclosing information about major classes of gross cash receipts and gross cash payments. Such information may be obtained either:

(a) from the accounting records of the entity; or

(b) by adjusting sales, cost of sales and other items in the **statement of comprehensive income** (or the **income statement**, if presented) for:

(i) changes during the period in inventories and operating receivables and payables;

(ii) other non-cash items; and

(iii) other items for which the cash effects are investing or financing cash flows.

Reporting cash flows from investing and financing activities

7.10 An entity shall present separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities. The aggregate cash flows arising from acquisitions and from disposals of **subsidiaries** or other business units shall be presented separately and classified as investing activities.

Foreign currency cash flows

7.11 An entity shall record cash flows arising from transactions in a foreign currency in the 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. Paragraph 30.19 explains when an exchange rate that approximates the actual rate can be used.

7.12 The entity shall translate cash flows of a foreign subsidiary at the exchange rates between the entity's functional currency and the foreign currency at the dates of the cash flows.

7.13 Unrealised gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, to reconcile cash and cash equivalents at the beginning and the end of the period, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency must be presented in the statement of cash flows. Consequently, the entity shall remeasure cash and cash equivalents held during the reporting period (such as amounts of foreign currency held and foreign currency bank accounts) at period-end exchange rates. The entity shall present the resulting unrealised gain or loss separately from cash flows from operating, investing and financing activities.

Interest and dividends

7.14 An entity shall present separately cash flows from interest and dividends received and paid. The entity shall classify cash flows consistently from period to period as operating, investing or financing activities.

7.15 An entity may classify interest paid and interest and dividends received as operating cash flows because they are included in profit or loss. Alternatively, the entity may classify interest paid and interest and dividends received as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.

7.16 An entity may classify dividends paid as a financing cash flow because they are a cost of obtaining financial resources. Alternatively, the entity may classify dividends paid as a component of cash flows from operating activities because they are paid out of operating cash flows.

Income tax

7.17 An entity shall present separately cash flows arising from income tax and shall classify them as cash flows from operating activities unless they can be specifically identified with financing and investing activities. When tax cash flows are allocated over more than one class of activity, the entity shall disclose the total amount of taxes paid.

Non-cash transactions

7.18 An entity shall exclude from the statement of cash flows investing and financing transactions that do not require the use of cash or cash equivalents. An entity shall disclose such transactions elsewhere in the **financial statements** in a way that provides all the relevant information about those investing and financing activities.

7.19 Many investing and financing activities do not have a direct impact on current cash flows even though they affect the capital and asset structure of an entity. The exclusion of non-cash transactions from the statement of cash flows is consistent with the objective of a statement of cash flows because these items do not involve cash flows in the current period. Examples of non-cash transactions are:

(a) the acquisition of assets either by assuming directly related liabilities or by means of a finance lease;

(b) the acquisition of an entity by means of an equity issue; and

(c) the conversion of debt to equity.

Changes in liabilities arising from financing activities

7.19A An entity shall disclose a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities. The reconciliation shall include:

(a) changes from financing cash flows;

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

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

(d) changes in fair values; and

(e) other changes.

Components of cash and cash equivalents

7.20 An entity shall disclose ~~present~~ the components of cash and cash equivalents and shall present a reconciliation of the amounts presented in the statement of cash flows to the equivalent items presented in the **statement of financial position**. However, the ~~an~~ entity is not required to present this reconciliation if the amount of cash and cash equivalents presented in the statement of cash flows is identical to the amount similarly described in the statement of financial position.

Other disclosures

7.21 An entity shall disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the entity. Cash and cash equivalents held by an entity may not be available for use by the entity because of, among other reasons, foreign exchange controls or legal restrictions.

Section 8
Notes to the Financial Statements

Paragraphs 8.4–8.6 are amended. New text is underlined and deleted text is struck through.

Scope of this section

8.1 This section sets out the principles underlying information that is to be presented in the **notes** to the **financial statements** and how to present it. Notes contain information in addition to that presented in the **statement of financial position**, the **statement of comprehensive income** (if presented), the **income statement** (if presented), the combined **statement of income and retained earnings** (if presented), the **statement of changes in equity** (if presented) and the **statement of cash flows**. Notes provide narrative descriptions or disaggregations of items presented in those statements and information about items that do not qualify for **recognition** in those statements. In addition to the requirements of this section, nearly every other section of this Standard requires disclosures that are normally presented in the notes.

Structure of the notes

8.2 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 8.5–8.7;

(b) disclose the information required by this Standard that is not presented elsewhere in the financial statements; and

(c) provide information that is not presented elsewhere in the financial statements but is relevant to an understanding of any of them.

8.3 An entity shall, as far as practicable, present the notes in a systematic manner. An entity shall cross-reference each item in the financial statements to any related information in the notes.

8.4 An entity normally presents the notes in the following order:

(a) a statement that the financial statements have been prepared in compliance with the *IFRS for SMEs* <u>Accounting Standard</u> (see paragraph 3.3);

(b) <u>material accounting policy information</u> ~~a summary of significant accounting policies applied~~ (see paragraph 8.5);

(c) supporting information for items presented in the financial statements, in the sequence in which each statement and each line item is presented; and

(d) any other disclosures.

Disclosure of accounting policies

8.5 An entity shall disclose material accounting policy information. Accounting policy information is material if, when considered together with other information included in the entity's financial statements, it can reasonably be expected to influence decisions that the **primary users** of general purpose financial statements make on the basis of those financial statements. ~~the following 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.~~

Information about judgements

8.6 An entity shall disclose, along with material ~~in the summary of significant~~ accounting policy information ~~policies~~ or other notes, the judgements, apart from those involving estimations (see paragraph 8.7), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Information about key sources of estimation uncertainty

8.7 An entity shall disclose in the notes information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the **reporting 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 end of the **reporting period**.

Section 9
Consolidated and Separate Financial Statements

Paragraphs 9.1–9.6, 9.9, 9.13–9.14, 9.17–9.19, 9.23, 9.25–9.29 are amended. Paragraphs 9.4A–9.4I, 9.5A, 9.6A, 9.18A–9.18B, 9.20A and 9.23B are added (the requirements in paragraph 9.20A were previously presented in paragraph 22.19). Paragraphs 9.10–9.12 and the heading above paragraph 9.10 are deleted. New text is underlined and deleted text is struck through.

Scope of this section

9.1 This section defines the circumstances in which an entity applying this Standard presents **consolidated financial statements** and the procedures for preparing those statements in accordance with this Standard. It also includes guidance on **separate financial statements** and **combined financial statements** if they are prepared in accordance with this Standard. If a **parent** entity by itself does not have **public accountability**, it may present its separate financial statements in accordance with this Standard, even if it presents its consolidated financial statements in accordance with **full IFRS Accounting Standards** or another set of generally accepted accounting principles (GAAP).

Requirement to present consolidated financial statements

9.2 Except as permitted or required by paragraphs 9.3 and 9.3C, a parent entity shall present consolidated financial statements in which it consolidates its ~~investments in~~ **subsidiaries**. Consolidated financial statements shall include all subsidiaries of the parent.

9.3 A parent need not present consolidated financial statements if both of the following conditions are met:

(a) the parent is itself a subsidiary; and

(b) its ultimate parent (or any intermediate parent) produces consolidated **general purpose financial statements** that comply with full IFRS Accounting Standards or with this Standard.

9.3A Subject to paragraph 9.3B, a subsidiary is not consolidated if it is acquired and is held with the intention of selling or disposing of it within one year from its acquisition date (see paragraph 19.10A~~ie the date on which the acquirer obtains **control** of the acquiree~~). Such a subsidiary is accounted for in accordance with the requirements in Section 11 ~~*Basic*~~ *Financial Instruments* as for investments in paragraph 11.8(d), instead of in accordance with this section. The parent shall also provide the disclosure in paragraph 9.23A.

9.3B If a subsidiary previously excluded from consolidation in accordance with paragraph 9.3A is not disposed of within one year from its acquisition date ~~(ie the parent entity still has control over that subsidiary)~~:

(a) the parent shall consolidate the subsidiary from the acquisition date unless it meets the condition in paragraph 9.3B(b). Consequently, if the acquisition date was in a prior period, the relevant prior periods shall be restated.

(b) if the delay is caused by events or circumstances beyond the parent's control and there is sufficient evidence at the **reporting date** that the parent remains committed to its plan to sell or dispose of the subsidiary, the parent shall continue to account for the subsidiary in accordance with paragraph 9.3A.

9.3C If a parent has no subsidiaries other than subsidiaries that are not ~~required to be~~ consolidated in accordance with paragraphs 9.3A–9.3B, it shall not present consolidated financial statements. However, the parent shall provide the disclosure in paragraph 9.23A.

9.4 A subsidiary is an entity (an investee) that is controlled by another entity (an investor)~~the parent~~. An investor, regardless of the nature of its involvement with the investee, shall determine whether it is a parent by assessing whether it controls the investee. ~~Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. If an entity has created a special purpose entity (SPE) to accomplish a narrow and well-defined objective, the entity shall consolidate the SPE when the substance of the relationship indicates that the SPE is controlled by that entity (see paragraphs 9.10–9.12).~~

9.4A An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

9.4B An investor controls an investee if, and only if, the investor has all the following:

(a) power over the investee;

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

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

9.4C An investor shall consider all the facts and circumstances when assessing whether it controls an investee. The investor shall reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed in paragraph 9.4B.

9.4D An investor has power over an investee when the investor has existing rights that give it the current ability to direct the **relevant activities**, that is the activities that significantly affect the investee's returns. Relevant activities include, but are not limited to:

(a) selling and purchasing of goods or services;

(b) selecting, acquiring or disposing of **assets**;

(c) researching and developing new products or processes; and

(d) determining a funding structure or obtaining funding.

9.4E An investor with the current ability to direct the relevant activities has power even if its rights to direct have yet to be exercised. Evidence that the investor has been directing relevant activities can help determine whether the investor has power, but is not, in itself, conclusive in determining whether the investor has power over an investee.

9.4F If two or more investors each have existing rights that give them the unilateral ability to direct different relevant activities, the investor that has the current ability to direct the activities that most significantly affect the returns of the investee has power over the investee.

9.4G An investor is exposed, or has rights, to variable returns from its involvement with the investee when the investor's returns from its involvement have the potential to vary as a result of the investee's performance. The investor's returns can be only positive, only negative or both positive and negative.

9.4H For an investor to control an investee, the investor must have not only power over the investee and exposure or rights to variable returns from its involvement with the investee, but also the ability to use its power to affect the investor's returns from its involvement with the investee.

9.4I When an investor with decision-making rights (a decision-maker) assesses whether it controls an investee, it shall determine whether it is a principal or an agent. An investor shall also determine whether another entity with decision-making rights is acting as an agent for the investor. An agent is a party primarily engaged to act on behalf and for the benefit of another party or parties (the principal(s)) and therefore does not control the investee when it exercises its decision-making authority. Thus, sometimes a principal's power may be held and exercisable by an agent, but on behalf of the principal. A decision-maker is not an agent simply because other parties can benefit from the decisions that it makes.

9.5 Control is presumed to exist when the investor ~~parent~~ owns, directly or indirectly through subsidiaries, a majority ~~more than half~~ of the voting rights ~~power~~ of an investee ~~entity~~. That presumption can ~~may~~ be overcome ~~in exceptional circumstances~~ if it can be clearly demonstrated that the investor does not have one or more of the elements of control listed in paragraph 9.4B.~~such ownership does not constitute control. Control also exists when the parent owns half or less of the voting power of an entity but it has:~~

~~(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.~~

9.5A An investor can have power even if it holds less than a majority of the voting rights of an investee, for example, through:

(a) a contractual arrangement between the investor and other vote holders;

(b) rights arising from other contractual arrangements;

(c) the investor's voting rights;

(d) potential voting rights (see paragraph 9.6); or

(e) a combination of (a)–(d).

9.6 When assessing control, an investor considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has power. Potential voting rights are usually currently exercisable rights to obtain voting rights of an investee, such as those arising from convertible instruments or options, including forward contracts. Those potential voting rights are considered only if the holder of the right has the practical ability to exercise that right.~~Control can also be achieved by having options or convertible instruments that are currently exercisable or by having an agent with the ability to direct the activities for the benefit of the controlling entity.~~

9.6A If an investor also has voting or other decision-making rights relating to the investee's relevant activities, the investor assesses whether those rights, in combination with potential voting rights, give the investor power.

9.7 A subsidiary is not excluded from consolidation simply because the investor is a venture capital organisation or similar entity.

9.8 A subsidiary is not excluded from consolidation because its business activities are dissimilar to those of the other entities within the consolidation. Relevant information is provided by consolidating such subsidiaries and disclosing additional information in the consolidated financial statements about the different business activities of subsidiaries.

9.9 A subsidiary is not excluded from consolidation because it operates in a jurisdiction that imposes restrictions on transferring **cash** or other assets ~~**assets**~~ out of the jurisdiction.

~~Special purpose entities~~

~~9.10 An entity may be created to accomplish a narrow objective (for example, to effect a **lease**, undertake **research** and **development** activities or securitise **financial assets**). Such an SPE may take the form of a corporation, trust, partnership or unincorporated entity. Often, SPEs are created with legal arrangements that impose strict requirements over the operations of the SPE.~~

~~9.11~~ ~~An entity shall prepare consolidated financial statements that include the entity and any SPEs that are controlled by that entity. In addition to the circumstances described in paragraph 9.5, the following circumstances may indicate that an entity controls an SPE (this is not an exhaustive list):~~

~~(a)~~ ~~the activities of the SPE are being conducted on behalf of the entity according to its specific business needs;~~

~~(b)~~ ~~the entity has the ultimate decision-making powers over the activities of the SPE even if the day-to-day decisions have been delegated;~~

~~(c)~~ ~~the entity has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incidental to the activities of the SPE; or~~

~~(d)~~ ~~the entity retains the majority of the residual or ownership risks related to the SPE or its assets.~~

~~9.12~~ ~~Paragraphs 9.10 and 9.11 do not apply to **post-employment benefit plans** or other long-term **employee benefit** plans to which Section 28 *Employee Benefits* applies.~~

Consolidation procedures

9.13 The consolidated financial statements present financial information about the **group** as a single reporting ~~economic~~ entity. In preparing consolidated financial statements, an entity shall:

(a) combine the **financial statements** of the parent and its subsidiaries line by line by adding together like items of assets, **liabilities**, **equity**, **income** and **expenses**.

(b) eliminate the **carrying amount** of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary.

(c) measure and present **non-controlling interest** in the **profit or loss** of consolidated subsidiaries for the **reporting period** separately from the interest of the **owners** of the parent.

(d) measure and present non-controlling interest in the net assets of consolidated subsidiaries separately from the parent shareholders' equity in them. Non-controlling interest in the net assets consists of:

(i) the amount of the non-controlling interest at the date of the original combination calculated in accordance with Section 19 *Business Combinations and Goodwill*; and

(ii) the non-controlling interest's share of changes in equity since the date of the combination.

9.14 The proportions of profit or loss and changes in equity allocated to the owners of the parent and to the non-controlling interest are determined on the basis of existing ownership interests and do not reflect the possible exercise or conversion of potential voting rights ~~options or convertible instruments~~.

Intragroup balances and transactions

9.15 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 **property**, **plant and equipment**, are eliminated in full. Intragroup losses may indicate an **impairment** that requires **recognition** in the consolidated financial statements (see Section 27 *Impairment of Assets*). Section 29 *Income Tax* applies to **temporary differences** that arise from the elimination of profits and losses resulting from intragroup transactions.

Uniform reporting date

9.16 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 unless it is **impracticable** to do so. If it is impracticable to prepare the financial statements of a subsidiary as of the same reporting date as the parent, the parent shall consolidate the financial information of the subsidiary using the most recent financial statements of the subsidiary, adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements.

Uniform accounting policies

9.17 Consolidated financial statements shall be prepared using uniform **accounting policies** for like transactions and other events and conditions in similar circumstances. If a subsidiary ~~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.

Acquisition and disposal of subsidiaries

9.18 The income and expenses of a subsidiary are included in the consolidated financial statements from the acquisition date until the date on which the parent loses ~~ceases to~~ control of a ~~the~~ subsidiary. ~~When a parent ceases to control a subsidiary, the difference between the proceeds from the disposal of the subsidiary and its carrying amount at the date that control is lost is recognised in profit or loss in the consolidated **statement of comprehensive income** (or the **income statement**, if presented) as the **gain** or loss on the disposal of the subsidiary. The cumulative amount of any exchange differences that relate to a foreign subsidiary recognised in **other comprehensive income** in accordance with Section 30 *Foreign Currency Translation* is not reclassified to profit or loss on disposal of the subsidiary.~~

9.18A If a parent loses control of a subsidiary, the parent:

(a) derecognises:

(i) the assets (including any goodwill) and liabilities at their carrying amounts at the date control is lost in the former subsidiary from the consolidated statement of financial position; and

(ii) the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them);

(b) recognises:

(i) the fair value of the consideration received, if any, from the transaction or event that resulted in the loss of control; and

(ii) any investment retained in the former subsidiary at its fair value on the date control is lost; and

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

9.18B If a parent loses control of a subsidiary, the parent shall account for all amounts previously recognised in **other comprehensive income** for that subsidiary, except for the cumulative amount of any exchange differences that relate to a foreign subsidiary, on the same basis as would be required if the parent had directly disposed of the related assets or liabilities. The cumulative amount of any exchange differences that relate to a foreign subsidiary recognised in other comprehensive income in accordance with Section 30 *Foreign Currency Translation* is not reclassified to profit or loss on disposal of the subsidiary.

9.19 If a parent loses control of ~~an entity ceases to be~~ a subsidiary but ~~the investor (former parent)~~ continues to hold an investment in the former subsidiary, that investment shall be accounted for in accordance with other sections of this Standard. If the retained interest is ~~as~~ a financial asset ~~in accordance with~~ Section 11 ~~or Section 12 *Other*~~ *Financial Instruments* ~~*Instrument Issues*~~applies;~~from the date the entity ceases to be a subsidiary, provided that it does not become~~ if it is an **associate** ~~(in which case~~ Section 14 *Investments in Associates* applies~~)~~; if it is ~~or a~~ **jointly controlled entity** ~~(in which case~~ Section 15 ~~*Investments in*~~ *Joint Arrangements* ~~*Ventures*~~ applies~~)~~. The fair value on the date control is lost ~~The carrying amount of the investment at the date that the entity ceases to be a subsidiary~~ shall be regarded as as the fair value on initial recognition of a financial asset or the cost on initial recognition of an investment in an associate or jointly controlled entity, if applicable ~~**measurement** of the financial asset~~.

Non-controlling interest in subsidiaries

9.20 An entity shall present non-controlling interest in the consolidated **statement of financial position** within equity, separately from the equity of the owners of the parent, as required by paragraph 4.2(q).

9.20A An entity shall treat changes in a parent's controlling interest in a subsidiary that do not result in a loss of control as transactions with owners in their capacity as owners. Accordingly, the carrying amount of the non-controlling interest shall be adjusted to reflect the change in the parent's interest in the subsidiary's net assets. Any difference between the amount by which the non-controlling interest is so adjusted and the fair value of the consideration paid or received, if any, shall be recognised directly in equity and attributed to owners of the parent. An entity shall not recognise any gain or loss on these changes. Also, an entity shall not recognise any change in the carrying amounts of assets (including goodwill) or liabilities as a result of such transactions.

9.21 An entity shall disclose non-controlling interest in the profit or loss of the group separately in the statement of comprehensive income, as required by paragraph 5.6 (or in the income statement, if presented, as required by paragraph 5.7).

9.22 Profit or loss and each component of other comprehensive income shall be attributed to the owners of the parent and to the non-controlling interest. **Total comprehensive income** shall be attributed to the owners of the parent and to the non-controlling interest even if this results in the non-controlling interest having a deficit balance.

Disclosures in consolidated financial statements

9.23 The following disclosures shall be made in consolidated financial statements:

(a) the fact that the financial statements are consolidated financial statements;

(b) the basis for concluding that control exists when the parent does not own, directly or indirectly through subsidiaries, a majority ~~more than half~~ of the voting rights of the other entity ~~power~~;

(c) any difference in the reporting date of the financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements; and

(d) the nature and extent of any significant restrictions (for example 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.

9.23A In addition to the disclosure requirements in Section 11, a parent entity shall disclose the carrying amount of investments in subsidiaries that are not consolidated (see paragraphs 9.3A–9.3C) at the reporting date, in total, either in the statement of financial position or in the **notes**.

9.23B An entity shall disclose the gain or loss, if any, calculated in accordance with paragraphs 9.18–9.19, and:

(a) the portion of that gain or loss attributable to measuring any investment retained in the former subsidiary at its fair value at the date when control is lost; and

(b) the line items in profit or loss in which the gain or loss is recognised (if not presented separately).

Separate financial statements

Presentation of separate financial statements

9.24 This Standard does not require presentation of separate financial statements for the parent entity or for the individual subsidiaries.

9.25 Separate financial statements are a second set of financial statements presented by an entity in addition to any of the following:

(a) consolidated financial statements prepared by a parent;

(b) financial statements prepared by a parent exempted from preparing consolidated financial statements by paragraph 9.3C; or

(c) financial statements prepared by an entity that is not a parent but is an investor in an associate or has joint control ~~**a venturer's interest**~~ in a **jointly controlled entity** ~~**joint venture**~~.

Accounting policy election

9.26 When a parent, an investor in an associate or an investor ~~a venturer~~ with an interest in a jointly controlled entity prepares separate financial statements and describes them as conforming to the *IFRS for SMEs* Accounting Standard, those statements shall comply with all of the requirements of this Standard except as follows. The entity shall adopt a policy of accounting for its investments in subsidiaries, associates and jointly controlled entities~~**jointly controlled entities**~~ in its separate financial statements either:

(a) at cost less impairment;

(b) at **fair value** with changes in fair value recognised in profit or loss; or

(c) using the equity method following the procedures in paragraph 14.8.

The entity shall apply the same accounting policy for all investments in a single class (subsidiaries, associates or jointly controlled entities), but it can elect different policies for different classes.

Disclosures in separate financial statements

9.27 When a parent, an investor in an associate or an investor ~~a venturer~~ with an interest in a jointly controlled entity prepares separate financial statements, those separate financial statements shall disclose:

(a) that the statements are separate financial statements;~~ and~~

(b) a description of the methods used to account for the investments in subsidiaries, jointly controlled entities and associates; and ~~,~~

(c) either:

 (i) the consolidated financial statements or other financial statements to which they relate; or

 (ii) if the entity has elected not to prepare consolidated financial statements, in accordance with paragraph 9.3, the name and principal place of business (and country of incorporation, if different) of the entity whose consolidated financial statements that comply with full IFRS Accounting Standards or with this Standard.

~~and shall identify the consolidated financial statements or other primary financial statements to which they relate.~~

Combined financial statements

9.28 Combined financial statements are the ~~a single set of~~ financial statements of a **reporting entity** that comprises two or more entities that are not all linked by a parent–subsidiary relationship~~under common control (as described in paragraph 19.2(a))~~. This Standard does not require combined financial statements to be prepared.

9.29 If the investor prepares combined financial statements and describes them as conforming to the *IFRS for SMEs* Accounting Standard, those statements shall comply with all of the requirements of this Standard. Intercompany transactions and balances shall be eliminated; profits or losses resulting from intercompany transactions that are recognised in assets such as inventory and property, plant and equipment shall be eliminated; the financial statements of the entities included in the combined financial statements shall be prepared as of the same reporting date unless it is impracticable to do so; and uniform accounting policies shall be followed for like transactions and other events in similar circumstances.

Disclosures in combined financial statements

9.30 The combined financial statements shall disclose the following:

(a) the fact that the financial statements are combined financial statements;

(b) the reason why combined financial statements are prepared;

(c) the basis for determining which entities are included in the combined financial statements;

(d) the basis of preparation of the combined financial statements; and

(e) the **related party** disclosures required by Section 33 *Related Party Disclosures*.

Section 10
Accounting Policies, Estimates and Errors

Paragraphs 10.1, 10.5–10.6, 10.10–10.11, 10.15–10.16 and the headings above paragraphs 10.14A and 10.18 are amended. Paragraphs 10.14A–10.14C and the heading above paragraph 10.14C are added. New text is underlined and deleted text is struck through.

Scope of this section

10.1 This section provides guidance for selecting and applying the **accounting policies** used in preparing **financial statements**. It also covers <u>changes in</u> ~~changes in~~ **accounting estimates** and corrections of **errors** in prior period financial statements.

Selection and application of accounting policies

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

10.3 If this Standard specifically addresses a transaction, other event or condition, an entity shall apply this Standard. However, the entity need not follow a requirement in this Standard if the effect of doing so would not be **material**.

10.4 If this Standard does not specifically address a transaction, other event or condition, an entity's 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.

10.5 In making the judgement described in paragraph 10.4, management shall refer to, and consider the applicability of, the following sources in descending order:

(a) the requirements and guidance in this Standard dealing with similar and related issues; and

(b) the definitions, **recognition** criteria and <u>measurement</u> ~~**measurement**~~ concepts for **assets**, **liabilities**, **income** and **expenses** and the pervasive principles in Section 2 *Concepts and Pervasive Principles*.

10.6 In making the judgement described in paragraph 10.4, management may also consider the requirements and guidance in **full IFRS Accounting Standards** dealing with similar and related issues.

Consistency of accounting policies

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

Changes in accounting policies

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

(a) is required by changes to this Standard; 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.

10.9 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;

(b) the application of a new accounting policy for transactions, other events or conditions that did not occur previously or were not material; or

(c) a change to the cost model when a reliable measure of **fair value** is no longer available (or vice versa) for an asset that this Standard would otherwise require or permit to be measured at fair value.

10.10 If this Standard allows a choice of accounting treatment (including the **measurement basis** ~~measurement basis~~) for a specified transaction or other event or condition and an entity changes its previous choice, that is a change in accounting policy.

10.10A The initial application of a policy to revalue assets in accordance with Section 17 *Property, Plant and Equipment* is a change in an accounting policy to be dealt with as a revaluation in accordance with Section 17. Consequently, a change from the cost model to the revaluation model for a class of **property, plant and equipment** shall be accounted for prospectively, instead of in accordance with paragraphs 10.11–10.12.

Applying changes in accounting policies

10.11 An entity shall account for ~~changes in accounting policy as follows~~:

(a) ~~an entity shall account for~~ a change in accounting policy resulting from a change in the requirements of this Standard in accordance with the transitional provisions, if any, specified in that amendment; and

~~(b)~~ ~~when an entity has elected to follow IAS 39 *Financial Instruments: Recognition and Measurement* instead of following Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instrument Issues* as permitted by paragraph 11.2, and the requirements of IAS 39 change, the entity shall account for that change in accounting policy in accordance with the transitional provisions, if any, specified in the revised IAS 39; and~~

(c) ~~an entity shall account for~~ all other changes in accounting policy **retrospectively** (see paragraph 10.12).

Retrospective application

10.12 When a change in accounting policy is applied retrospectively in accordance with paragraph 10.11, the entity shall apply the new accounting policy to comparative information for prior periods to the earliest date for which it is practicable, as if the new accounting policy had always been applied. When it is **impracticable** to determine the individual-period effects of a change in 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.

Disclosure of a change in accounting policy

10.13 When an amendment to this Standard has an effect on the current period or any prior period, or might have an effect on future periods, an entity shall disclose the following:

(a) the nature of the change in accounting policy;

(b) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;

(c) the amount of the adjustment relating to periods before those presented, to the extent practicable; and

(d) an explanation if it is impracticable to determine the amounts to be disclosed in (b) or (c).

Financial statements of subsequent periods need not repeat these disclosures.

10.14 When a voluntary change in accounting policy has an effect on the current period or any prior period, an entity shall disclose the following:

(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) to the extent practicable, the amount of the adjustment for each financial statement line item affected, shown separately:

  (i) for the current period;

  (ii) for each prior period presented; and

  (iii) in the aggregate for periods before those presented.

(d) an explanation if it is impracticable to determine the amounts to be disclosed in (c).

Financial statements of subsequent periods need not repeat these disclosures.

Accounting ~~Changes in accounting~~ estimates

10.14A An accounting policy may require items in financial statements to be measured in a way that involves **measurement uncertainty**—that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information.

10.14B An entity uses measurement techniques and inputs to develop an accounting estimate. Measurement techniques include estimation techniques (for example, techniques used to measure depreciation for an item of property, plant and equipment, applying Section 17) and valuation techniques (for example, techniques used to measure the fair value of an asset or liability applying Section 12 *Fair Value Measurement*).

Changes in accounting estimates

10.14C An entity may need to change an accounting estimate if changes occur in the circumstances on which the accounting estimate was based or as a result of new information, new developments or more experience.

10.15 The effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates unless they result from the correction of prior period errors. A change in the measurement basis applied is a change in an accounting policy, and is not a change in an accounting estimate.~~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.~~ 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.

10.16 An entity shall recognise the effect of a change in an accounting estimate, other than a change to which paragraph 10.17 applies, ~~**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.

10.17 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, the entity shall recognise it by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.

Disclosure of a change in <u>accounting estimates</u> ~~estimate~~

10.18 An entity shall disclose the nature of any change in an accounting estimate and the effect of the change on assets, liabilities, income and expense for the current period. If it is practicable for the entity to estimate the effect of the change in one or more future periods, the entity shall disclose those estimates.

Corrections of prior period errors

10.19 Prior period errors are omissions from, and misstatements in, an 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.

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

10.21 To the extent practicable, an entity shall correct a material prior period error retrospectively in the first financial statements authorised for issue after its 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.

10.22 When it is impracticable to determine the 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).

Disclosure of prior period errors

10.23 An entity shall disclose the following about prior period errors:

(a) the nature of the prior period error;

(b) for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;

(c) to the extent practicable, the amount of the correction at the beginning of the earliest prior period presented; and

(d) an explanation if it is not practicable to determine the amounts to be disclosed in (b) or (c).

Financial statements of subsequent periods need not repeat these disclosures.

Section 11 and Section 12 are combined to create a new Section 11, which is structured in two parts: Part I *Basic Financial Instruments* and Part II *Other Financial Instrument Issues*. Paragraphs of the former Section 12 are renumbered accordingly.

The title of Section 11 is amended. Deleted text is struck through.

Section 11
~~Basic~~ Financial Instruments

Paragraph 11.1 and the heading above paragraph 11.1 are amended.

Scope of this section ~~Sections 11 and 12~~

11.1 Section 11 ~~and Section 12 *Other*~~ *Financial Instruments ~~Instrument Issues~~* ~~together~~ deals ~~deal~~ with recognising, derecognising, measuring and disclosing **financial instruments** (**financial assets** and **financial liabilities**). Part I of Section 11 applies to basic financial instruments and is relevant to all entities. Part II of Section 11 ~~12~~ applies to other, more complex financial instruments and transactions. If an entity enters into only basic financial instrument transactions then Part II of Section 11 ~~12~~ is not applicable. However, all ~~even~~ entities ~~with only basic financial instruments~~ shall consider the scope of Part II of Section 11 ~~12~~ to ensure they are exempt.

The heading above paragraph 11.2 is added. Paragraph 11.2 and the heading above paragraph 11.2 are deleted. New text is underlined and deleted text is struck through.

Part I of Section 11
Basic Financial Instruments

~~Accounting policy choice~~

~~11.2 An entity shall choose to apply either:~~

~~(a) the requirements of both Sections 11 and 12 in full; or~~

~~(b) the **recognition** and **measurement** requirements of IAS 39 *Financial Instruments: Recognition and Measurement*[†] and the disclosure requirements of Sections 11 and 12~~

~~to account for all of its financial instruments. An entity's choice of (a) or (b) is an accounting policy choice. Paragraphs 10.8–10.14 contain requirements for determining when a change in accounting policy is appropriate, how such a change should be accounted for and what information should be disclosed about the change.~~

† ~~Until IAS 39 is superseded by IFRS 9 *Financial Instruments*, an entity shall apply the version of IAS 39 that is in effect at the entity's reporting date, by reference to the full IFRS publication titled *International Financial Reporting Standards IFRS® Consolidated without early application* (Blue Book). When IAS 39 is superseded by IFRS 9, an entity shall apply the version of IAS 39 that applied immediately prior to IFRS 9 superseding IAS 39. A copy of that version will be retained for reference on the SME webpages of the IASB website (http://go.ifrs.org/IFRSforSMEs).~~

Paragraphs 11.4–11.6 and the heading above paragraph 11.3 are amended. New text is underlined and deleted text is struck through.

Introduction to Part I of Section 11

11.3 A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or **equity** instrument of another entity.

11.4 Part I of Section 11 requires an amortised cost model for all basic financial instruments except for issued **financial guarantee contracts**, and investments in non-convertible preference shares and non-puttable ordinary or preference shares that are **publicly traded** or whose **fair value** can otherwise be measured reliably without undue cost or effort.

11.5 Basic financial instruments within the scope of Part I of Section 11 are those that satisfy the conditions in paragraph 11.8. Examples of financial instruments that normally satisfy those conditions include:

(a) **cash**;

(b) demand and fixed-term deposits when the entity is the depositor, for example bank accounts;

(c) commercial paper and commercial bills held;

(d) accounts, notes and loans receivable and payable;

(e) bonds and similar debt instruments;

(f) investments in non-convertible preference shares and non-puttable ordinary and preference shares;~~ and~~

(g) commitments to receive a loan if the commitment cannot be net settled in cash; and~~.~~

(h) issued financial guarantee contracts.

11.6 Examples of financial instruments that do not normally satisfy the conditions in paragraph 11.8, and are therefore within the scope of Part II of Section 11 ~~12~~, include:

(a) asset-backed securities, such as collateralised mortgage obligations, repurchase agreements and securitised packages of receivables;

(b) options, rights, warrants, futures contracts, forward contracts and interest rate swaps that can be settled in cash or by exchanging another financial instrument;

(c) financial instruments that qualify and are designated as **hedging instruments** in accordance with the requirements in Part II of Section 11 ~~12~~;

(d) commitments to make a loan to another entity; and

(e) commitments to receive a loan if the commitment can be net settled in cash.

Paragraph 11.7 and the heading above paragraph 11.7 are amended. New text is underlined and deleted text is struck through.

Scope of Part I of Section 11

11.7 Part I of Section 11 applies to all financial instruments meeting the conditions of paragraph 11.8 except for the following:

(a) investments in **subsidiaries** and~~,~~ **associates** and **joint arrangements** ~~**ventures**~~ that are accounted for in accordance with Section 9 *Consolidated and Separate Financial Statements*, Section 14 *Investments in Associates* or Section 15 ~~*Investments in*~~ *Joint Arrangements* ~~*Ventures*~~.

(b) financial instruments that meet the definition of an entity's own equity, including the equity component of **compound financial instruments** issued by the entity (see Section 22 *Liabilities and Equity*).

(c) **leases**, to which Section 20 *Leases* or paragraph 11.51(f) ~~12.3(f)~~ apply. However, the **derecognition** requirements in paragraphs 11.33–11.38 apply to the derecognition of lease receivables recognised by a lessor and lease payables recognised by a lessee, and the impairment requirements in paragraphs 11.26A–11.26L ~~11.21–11.26~~ apply to lease receivables recognised by a lessor.

(d) employers' rights and obligations under **employee benefit** plans, to which Section 28 *Employee Benefits* applies.

(e) financial instruments, contracts and obligations under **share-based payment transactions** to which Section 26 *Share-based Payment* applies.

(f) reimbursement **assets** that are accounted for in accordance with Section 21 *Provisions and Contingencies* (see paragraph 21.9).

(g) rights and obligations within the scope of Section 23 *Revenue from Contracts with Customers* that are financial instruments, except for receivables and those that Section 23 specifies are accounted for in accordance with this section.

Paragraphs 11.8–11.9B and 11.11 are amended. Paragraphs 11.9ZA and 11.11A are added. New text is underlined and deleted text is struck through.

Basic financial instruments

11.8 An entity shall account for the following financial instruments as basic financial instruments in accordance with Part I of Section 11:

(a) cash;

(b) a debt instrument (such as an account, note or loan receivable or payable) that meets the conditions in paragraph 11.9 and/or paragraph 11.9ZA;

(c) a commitment to receive a loan that:

(i) cannot be settled net in cash; and

(ii) when the commitment is executed, is expected to meet the conditions in paragraph 11.9.

(d) an investment in non-convertible preference shares and non-puttable **ordinary shares** ~~ordinary shares~~ or preference shares; and~~.~~

(e) issued financial guarantee contracts.

11.9 A debt instrument that satisfies all of the conditions in (a)–(d) shall be accounted for in accordance with with Part I of Section 11:

(a) returns to the holder (the lender/creditor) assessed in the currency in which the debt instrument is denominated are either:

(i) a fixed amount;

(ii) a fixed rate of return over the life of the instrument;

(iii) a variable return that, throughout the life of the instrument, is equal to a single referenced quoted or observable interest rate (such as SONIA ~~LIBOR~~); or

(iv) some combination of such fixed and variable rates, provided that both the fixed and variable rates are positive (for example, an interest rate swap with a positive fixed rate and negative variable rate would not meet this criterion).

For fixed and variable rate interest returns, interest is calculated by multiplying the rate for the applicable period by the principal amount outstanding during the period.

(b) there is no contractual provision that could, by its terms, result in the holder (the lender/creditor) losing the principal amount or any interest attributable to the current period or prior periods. The fact that a debt instrument is subordinated to other debt instruments is not an example of such a contractual provision. A party may pay or receive reasonable compensation on early termination of a contract and still meet this condition.

(c) contractual provisions that permit or require the issuer (the borrower) to prepay a debt instrument or permit or require the holder (the lender/creditor) to put it back to the issuer (ie to demand repayment) before maturity are not contingent on future events other than to protect:

(i) the holder against a change in the credit risk of the issuer or the instrument (for example, defaults, credit downgrades or loan covenant violations) or a change in **control** of the issuer; or

(ii) the holder or issuer against changes in relevant taxation or law.

(d) there are no conditional returns or repayment provisions except for the variable rate return described in (a) and prepayment provisions described in (c).

11.9ZA A debt instrument that does not meet all of the conditions in paragraph 11.9(a)–(d) shall nevertheless be accounted for in accordance with Part I of Section 11 if the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. A debt instrument with contractual terms that introduce exposure to unrelated risks or volatility—for example, changes in equity prices or commodity prices—is unlikely to meet this requirement. For this assessment, 'interest' includes reasonable compensation for the time value of money, credit risk, and other basic lending risks and costs—for example, liquidity risk, administrative costs associated with holding the instrument and lender's profit margin—consistent with a basic lending arrangement.

11.9A Examples of debt instruments that would normally satisfy the conditions in paragraph 11.9(a)(iv) include:

(a) a bank loan that has a fixed interest rate for an initial period that then reverts to a quoted or observable variable interest rate after that period; and

(b) a bank loan with interest payable at a quoted or observable variable interest rate plus a fixed rate throughout the life of the loan, for example SONIA ~~LIBOR~~ plus 200 basis points.

11.9B An example of a debt instrument that would normally satisfy the conditions set out in paragraph 11.9(b)–(c) ~~11.9(c)~~ would be a bank loan that permits the borrower to terminate the arrangement early, even though the borrower may be required to pay a penalty to compensate the bank for its costs of the borrower terminating the arrangement early.

11.10 Other examples of financial instruments that would normally satisfy the conditions in paragraph 11.9 are:

(a) trade accounts and notes receivable and payable, and loans from banks or other third parties.

(b) accounts payable in a foreign currency. However, any change in the account payable because of a change in the exchange rate is recognised in **profit or loss** as required by paragraph 30.10.

(c) loans to or from subsidiaries or associates that are due on demand.

(d) a debt instrument that would become immediately receivable if the issuer defaults on an interest or principal payment (such a provision does not violate the conditions in paragraph 11.9).

11.11 Examples of financial instruments that do not satisfy the conditions in paragraph 11.9 or 11.9ZA (and are therefore within the scope of Part II of Section 11 ~~12~~) include:

(a) an investment in another entity's equity instruments other than non-convertible preference shares and non-puttable ordinary and preference shares (see paragraph 11.8(d));

(b) an interest rate swap that returns a cash flow that is positive or negative, or a forward commitment to purchase a commodity or financial instrument that is capable of being cash-settled and that, on settlement, could have positive or negative cash flow, because such swaps and forwards do not meet the condition in paragraph 11.9(a);

(c) options and forward contracts, because returns to the holder are not fixed and the condition in paragraph 11.9(a) is not met; and

(d) investments in convertible debt, because the return to the holder can vary with the price of the issuer's equity shares instead of just with market interest rates.

11.11A Reassessment of a financial instrument classified at initial recognition in accordance with paragraphs 11.8–11.9ZA shall occur only if contractual terms are modified in a way that leads to the derecognition of the financial instrument.

Initial recognition of financial assets and liabilities

11.12 An entity shall recognise a financial asset or a financial liability only when the entity becomes a party to the contractual provisions of the instrument.

Paragraph 11.13 is amended. New text is underlined.

Initial measurement

11.13 When a financial asset or financial liability is recognised initially, an entity shall measure it at the transaction price (including **transaction costs** except in the initial measurement of financial assets and liabilities that are subsequently measured at fair value through profit or loss) unless the arrangement constitutes, in effect, a financing transaction for either the entity (for a financial liability) or the counterparty (for a financial asset) to the arrangement. An arrangement constitutes a financing transaction if payment is deferred beyond normal business terms, for example, providing interest-free credit to a buyer for the sale of goods, or is financed at a rate of interest that is not a market rate, for example, an interest-free or below market interest rate loan made to an employee. If the arrangement constitutes a financing transaction, the entity shall measure the financial asset or financial liability at the **present value** of the future payments discounted at a market rate of interest for a similar debt instrument as determined at initial recognition.

Examples—financial assets

1 For a long-term loan made to another entity, a receivable is recognised at the present value of cash receivable (including interest payments and repayment of principal) from that entity.

2 For goods sold to a customer on short-term credit, a receivable is recognised at the undiscounted amount of cash receivable from that entity, which is normally the invoice price.

continued...

...continued

Examples—financial assets	
3	For an item sold to a customer on two-year interest-free credit, a receivable is recognised at the current cash sale price for that item. If the current cash sale price is not known, it may be estimated as the present value of the cash receivable discounted using the prevailing market rate(s) of interest for a similar receivable.
4	For a cash purchase of another entity's ordinary shares, the investment is recognised at the amount of cash paid to acquire the shares.

Examples—financial liabilities	
1	For a loan received from a bank, a payable is recognised initially at the present value of cash payable to the bank (for example, including interest payments and repayment of principal).
2	For goods purchased from a supplier on short-term credit, a payable is recognised at the undiscounted amount owed to the supplier, which is normally the invoice price.
<u>3</u>	<u>For a financial guarantee contract issued, for example, to a third party on behalf of a related party of the entity, a liability is recognised initially at the premium received plus the present value of any future premium payments receivable, if any.</u>

Paragraphs 11.14, 11.17 and 11.20 are amended and paragraph 11.14A is added. New text is underlined and deleted text is struck through.

Subsequent measurement

11.14 At the end of each **reporting period**, an entity shall measure financial instruments as follows, without any deduction for transaction costs the entity may incur on sale or other disposal:

(a) debt instruments that meet the conditions in paragraph 11.8(b) shall be measured at **amortised cost** using the **effective interest method**. Paragraphs 11.15–11.20 provide guidance on determining amortised cost using the effective interest method. Debt instruments that are classified as current assets or current **liabilities** shall be measured at the undiscounted amount of the cash or other consideration expected to be paid or received (ie net of impairment—see paragraphs 11.21–<u>11.26L</u>~~11.26~~) unless the arrangement constitutes, in effect, a financing transaction (see paragraph 11.13).

(b) commitments to receive a loan that meet the conditions in paragraph 11.8(c) shall be measured at cost (which sometimes is nil) less impairment.

(c) investments in non-convertible preference shares and non-puttable ordinary or preference shares shall be measured as follows (<u>Section 12 provides</u> ~~paragraphs 11.27–11.32 provide~~ guidance on fair value):

(i) if the shares are publicly traded or their fair value can otherwise be measured reliably without undue cost or effort, the investment shall be measured at fair value with changes in fair value recognised in profit or loss; and

(ii) all other such investments shall be measured at cost less impairment.

(d) issued financial guarantee contracts are measured at the higher of:

(i) the expected **credit losses** measured in accordance with paragraphs 11.26B–11.26L; and

(ii) the amount initially recognised, if any, amortised on a straight-line basis over the life of the guarantee.

Impairment or uncollectability must be assessed for financial assets in (a), (b) and (c)(ii). Paragraphs 11.21–11.26L~~11.26~~ provide guidance.

11.14A **Dividends** are recognised in profit or loss only when:

(a) the entity's right to receive payment is established;

(b) it is probable that the economic benefits associated with the dividend will flow to the entity; and

(c) the amount of the dividend can be measured reliably.

Amortised cost and effective interest method

11.15 The **amortised cost of a financial asset or financial liability** at each **reporting date** is the net of the following amounts:

(a) the amount at which the financial asset or financial liability is measured at initial recognition;

(b) minus any repayments of the principal;

(c) plus or minus the cumulative **amortisation** using the effective interest method of any difference between the amount at initial recognition and the maturity amount;

(d) minus, in the case of a financial asset, any reduction (directly or through the use of an allowance account) for impairment or uncollectability.

Financial assets and financial liabilities that have no stated interest rate, that do not relate to an arrangement that constitutes a financing transaction and that are classified as current assets or current liabilities are initially measured at an undiscounted amount in accordance with paragraph 11.13. Consequently, (c) does not apply to them.

11.16 The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or a group of financial assets or financial liabilities) and of allocating the interest **income** or interest **expense** over the relevant period. The **effective interest rate** is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the **carrying amount** of the financial asset or financial liability. The effective interest rate is determined on the basis of the carrying amount of the financial asset or liability at initial recognition. Under the effective interest method:

(a) the amortised cost of a financial asset (liability) is the present value of future cash receipts (payments) discounted at the effective interest rate; and

(b) the interest expense (income) in a period equals the carrying amount of the financial liability (asset) at the beginning of a period multiplied by the effective interest rate for the period.

11.17 When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example prepayment, call and similar options) and known credit losses that have been incurred, but it shall not consider expected credit losses ~~possible future credit losses not yet incurred~~.

11.18 When calculating the effective interest rate, an entity shall amortise any related fees, finance charges paid or received (such as 'points'), transaction costs and other premiums or discounts over the expected life of the instrument, except as follows. The entity shall use a shorter period if that is the period to which the fees, finance charges paid or received, transaction costs, premiums or discounts relate. This will be the case when the variable to which the fees, finance charges paid or received, transaction costs, premiums or discounts relate is repriced to market rates before the expected maturity of the instrument. In such a case, the appropriate amortisation period is the period to the next such repricing date.

11.19 For variable rate financial assets and variable rate financial liabilities, periodic re-estimation of cash flows to reflect changes in market rates of interest alters the effective interest rate. If a variable rate financial asset or variable rate financial liability is recognised initially at an amount equal to the principal receivable or payable at maturity, re-estimating the future interest payments normally has no significant effect on the carrying amount of the asset or liability.

11.20 If an entity revises its estimates of payments or receipts (excluding changes in estimates of expected credit losses), the entity shall adjust the carrying amount of the financial asset or financial liability (or group of financial instruments) to reflect actual and revised estimated cash flows. The entity shall recalculate the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate. The entity shall recognise the adjustment as income or expense in profit or loss at the date of the revision.

Example of determining amortised cost for a five-year loan using the effective interest method

On 1 January 20X0, an entity acquires a bond for CU900, incurring transaction costs of CU50.[a] Interest of CU40 is receivable annually, in arrears, over the next five years (31 December 20X0–31 December 20X4). The bond has a mandatory redemption of CU1100 on 31 December 20X4.

Year	Carrying amount at beginning of period**	Interest income at 6.9584%*	Cash inflow	Carrying amount at end of period**
	CU	CU	CU	CU
20X0	950.00	66.11	(40.00)	976.11
20X1	976.11	67.92	(40.00)	1,004.03
20X2	1,004.03	69.86	(40.00)	1,033.89
20X3	1,033.89	71.94	(40.00)	1,065.83
20X4	1,065.83	74.17	(40.00)	1,100.00
			(1,100.00)	–

* The effective interest rate of 6.9584 per cent is the rate that discounts the expected cash flows on the bond to the initial carrying amount:

$40 \div (1.069584)^1 + 40 \div (1.069584)^2 + 40 \div (1.069584)^3 + 40 \div (1.069584)^4 + 1{,}140 \div (1.069584)^5 = 950$

** The carrying amount is shown before the allowance for expected credit losses.

(a) In this publication, monetary items are denominated in 'currency units' (CU).

Paragraphs 11.21, 11.23–11.25 are amended. Paragraphs 11.26A–11.26L and headings above paragraphs 11.21, 11.26A, 11.26B, 11.26G, 11.26H, 11.26J and 11.26K are added. Paragraphs 11.27–11.32 and the heading above paragraph 11.21 are deleted. New text is underlined and deleted text is struck through.

~~Impairment of financial assets measured at cost or amortised cost~~

Impairment of trade receivables and contract assets, and financial assets measured at cost

Recognition

11.21 At the end of each reporting period, an entity shall assess whether there is objective evidence of impairment of any trade receivables and **contract assets** within the scope of Section 23, and any financial assets that are measured at cost in accordance with paragraphs 11.14(b) and 11.14(c)(ii) ~~or amortised cost~~.

If there is objective evidence of impairment, the entity shall recognise an impairment loss in profit or loss immediately.

11.22 Objective evidence that a financial asset or group of assets is impaired includes observable data that come to the attention of the holder of the asset about the following loss events:

(a) significant financial difficulty of the issuer or obligor;

(b) a breach of contract, such as a default or delinquency in interest or principal payments;

(c) the creditor, for economic or legal reasons relating to the debtor's financial difficulty, granting to the debtor a concession that the creditor would not otherwise consider;

(d) it has become **probable** that the debtor will enter bankruptcy or other financial reorganisation; or

(e) observable data indicating that there has been a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, even though the decrease cannot yet be identified with the individual financial assets in the group, such as adverse national or local economic conditions or adverse changes in industry conditions.

11.23 Other factors may also be evidence of impairment, including significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the debtor or issuer operates.

11.24 An entity shall assess the following financial assets individually for impairment:

(a) all equity instruments regardless of significance; and

(b) other financial assets that are individually significant.

An entity shall assess other financial assets for impairment ~~financial assets~~ either individually or grouped on the basis of similar credit risk characteristics.

Measurement

11.25 An entity shall measure an impairment loss ~~on the following financial assets measured at cost or amortised cost~~ as follows:

(a) for a financial asset measured at amortised cost in accordance with paragraph 11.14(a), the impairment loss is the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. ~~If such a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.~~

(b) for a financial asset measured at cost less impairment in accordance with paragraphs 11.14(b) and 11.14(c)(ii) the impairment loss is the difference between the asset's carrying amount and the best estimate (which will necessarily be an approximation) of the amount (which might be zero) that the entity would receive for the asset if it were to be sold at the reporting date.

Reversal

11.26 If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the entity shall reverse the previously recognised impairment loss either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset (net of any allowance account) that exceeds what the carrying amount would have been had the impairment not previously been recognised. The entity shall recognise the amount of the reversal in profit or loss immediately.

Impairment of other financial assets measured at amortised cost

11.26A At the end of each reporting period, an entity shall recognise an allowance for expected credit losses on any financial assets measured at amortised cost in accordance with paragraph 11.14(a) that are not trade receivables or contract assets in the scope of Section 23. An entity shall recognise in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the allowance for expected credit losses at the reporting date to the amount that is required to be recognised in accordance with paragraphs 11.26B–11.26L.

Measurement of expected credit losses

11.26B An entity shall measure expected credit losses of a financial instrument in a way that reflects:

(a) an unbiased and probability-weighted amount that is determined by evaluating alternative possible outcomes;

(b) the time value of money; and

(c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. For the purposes of this paragraph only, 'undue cost or effort' refers to the extent information shall be obtained to apply (c). It is not an undue cost or effort exemption as discussed in paragraphs 2.28–2.31.

11.26C Expected credit losses are a probability-weighted estimate of credit losses (that is, the present value of all cash shortfalls) over the expected life of the financial instrument. The maximum period to consider when measuring expected credit losses is the maximum contractual period (including extension options) over which an entity is exposed to credit risk. Because expected credit losses consider the amount and timing of payments, a credit loss arises even if the entity expects to be paid in full but later than when contractually due.

11.26D A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The estimate of expected cash shortfalls considers the probability of a foreclosure and the cash flows that would result from it, for example, cash flows from collateralised assets.

11.26E An entity may use practical expedients when measuring expected credit losses if they are consistent with the principles in paragraph 11.26B.

11.26F Expected credit losses on lease receivables shall be measured in a way consistent with the cash flows and the discount rate used in the measurement of the lease receivable in accordance with Section 20.

Financial guarantee contracts

11.26G For a financial guarantee contract, the issuer is required to make payments to the holder only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, cash shortfalls (see paragraph 11.26D) are the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that an entity expects to receive from the holder, the debtor or any other party. If the asset is fully guaranteed, the estimation of cash shortfalls for a financial guarantee contract would be consistent with the estimations of cash shortfalls for the asset subject to the guarantee.

Probability-weighted outcome

11.26H When measuring expected credit losses, an entity need not identify every possible scenario. However, that measurement shall reflect at least two outcomes, the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low.

11.26I The average credit losses of a group of financial instruments with shared risk characteristics may be a reasonable estimate of the probability-weighted amount. In other situations when financial assets are individually significant—for example a loan to a related party—the identification of scenarios that specify the amount and timing of the cash flows for particular outcomes and the estimated probability of those outcomes will probably be needed.

Time value of money

11.26J Expected credit losses shall be discounted to the reporting date, using the effective interest rate determined at initial recognition. If a financial instrument has a variable interest rate, expected credit losses shall be discounted using the current effective interest rate determined in accordance with paragraph 11.19.

Reasonable and supportable information

11.26K An entity shall use reasonable and supportable information to estimate expected credit losses. It may source data, both internally (entity-specific data) and externally. Possible data sources include: internal historical credit-loss experience; internal ratings; the credit-loss experience of other entities; and external ratings, reports and statistics. An entity with insufficient sources of entity-specific data may make use of the experience of its peer group for the comparable financial instrument (or groups of financial instruments).

11.26L Historical information is an important anchor or base from which to measure expected credit losses. However, an entity shall adjust historical data, such as credit-loss experience, to reflect, and be directionally consistent with, changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status or other factors that are indicative of credit losses). In some cases, the best reasonable and supportable information could be the unadjusted historical information, depending on the nature of the historical information and when it was calculated, compared to circumstances at the reporting date and the characteristics of the financial instrument being considered.

~~Fair value~~

~~11.27 An entity shall use the following hierarchy to estimate the fair value of an asset:~~

~~(a) the best evidence of fair value is a quoted price for an identical asset (or similar asset) in an **active market**. This is usually the current bid price.~~

~~(b) when quoted prices are unavailable, the price in a binding sale agreement or a recent transaction for an identical asset (or similar asset) in an arm's length transaction between knowledgeable, willing parties provides evidence of fair value. However this price may not be a good estimate of fair value if there has been a significant change in economic circumstances or a significant period of time between the date of the binding sale agreement, or the transaction, and the measurement date. If the entity can demonstrate that the last transaction price is not a good estimate of fair value (for example, because it reflects the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale), then that price is adjusted.~~

~~(c) if the market for the asset is not active and any binding sale agreements or recent transactions of an identical asset (or similar asset) on their own are not a good estimate of fair value, an entity estimates the fair value by using another valuation technique. The objective of using a valuation technique is to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.~~

~~Other sections of this Standard make reference to the fair value guidance in paragraphs 11.27–11.32, including Section 9, Section 12, Section 14, Section 15, Section 16 *Investment Property*, Section 17 *Property, Plant and Equipment* and Section 28.~~

~~Valuation technique~~

~~11.28~~ ~~Valuation techniques include using recent arm's length market transactions for an identical asset between knowledgeable, willing parties, if available, reference to the current fair value of another asset that is substantially the same as the asset being measured, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the asset and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique.~~

~~11.29~~ ~~The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations. Fair value is estimated on the basis of the results of a valuation technique that makes maximum use of market inputs, and relies as little as possible on entity-determined inputs. A valuation technique would be expected to arrive at a reliable estimate of the fair value if~~

~~(a)~~ ~~it reasonably reflects how the market could be expected to price the asset; and~~

~~(b)~~ ~~the inputs to the valuation technique reasonably represent market expectations and measures of the risk return factors inherent in the asset.~~

~~No active market~~

~~11.30~~ ~~The fair value of investments in assets that do not have a quoted market price in an active market 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.~~

~~11.31~~ ~~There are many situations in which the variability in the range of reasonable fair value estimates of assets that do not have a quoted market price is likely not to be significant. Normally it is possible to estimate the fair value of an asset that an entity has acquired from an outside party. However, if the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed, an entity is precluded from measuring the asset at fair value.~~

~~11.32~~ ~~If a reliable measure of fair value is no longer available for an asset measured at fair value (or is not available without undue cost or effort when such an exemption is provided (see paragraphs 11.14(c) and 12.8(b)), its carrying amount at the last date the asset was reliably measurable becomes its new~~

~~cost. The entity shall measure the asset at this cost amount less impairment until a reliable measure of fair value becomes available (or becomes available without undue cost or effort when such an exemption is provided).~~

Derecognition of a financial asset

11.33 An entity shall derecognise a financial asset only when either:

(a) the contractual rights to the cash flows from the financial asset expire or are settled;

(b) the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or

(c) the entity, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer—in this case, the entity shall:

(i) derecognise the asset; and

(ii) recognise separately any rights and obligations retained or created in the transfer.

The carrying amount of the transferred asset shall be allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations shall be measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised in accordance with this paragraph shall be recognised in profit or loss in the period of the transfer.

11.34 If a transfer does not result in derecognition because the entity has retained significant risks and rewards of ownership of the transferred asset, the entity shall continue to recognise the transferred asset in its entirety and shall recognise a financial liability for the consideration received. The asset and liability shall not be offset. In subsequent periods, the entity shall recognise any income on the transferred asset and any expense incurred on the financial liability.

11.35 If a transferor provides non-cash collateral (such as debt or equity instruments) to the transferee, the accounting for the collateral by the transferor and the transferee depends on whether the transferee has the right to sell or repledge the collateral and on whether the transferor has defaulted. The transferor and transferee shall account for the collateral as follows:

(a) if the transferee has the right by contract or custom to sell or repledge the collateral, the transferor shall reclassify that asset in its **statement of financial position** (for example, as a loaned asset, pledged equity instruments or repurchase receivable) separately from other assets;

(b) if the transferee sells collateral pledged to it, it shall recognise the proceeds from the sale and a liability measured at fair value for its obligation to return the collateral;

(c) if the transferor defaults under the terms of the contract and is no longer entitled to redeem the collateral, it shall derecognise the collateral and the transferee shall recognise the collateral as its asset initially measured at fair value or, if it has already sold the collateral, derecognise its obligation to return the collateral; and

(d) except as provided in (c), the transferor shall continue to carry the collateral as its asset and the transferee shall not recognise the collateral as an asset.

Example—transfer that qualifies for derecognition

An entity sells a group of its accounts receivable to a bank at less than their face amount. The entity continues to handle collections from the debtors on behalf of the bank, including sending monthly statements, and the bank pays the entity a market-rate fee for servicing the receivables. The entity is obliged to remit promptly to the bank any and all amounts collected, but it has no obligation to the bank for slow payment or non-payment by the debtors. In this case, the entity has transferred to the bank substantially all of the risks and rewards of ownership of the receivables. Accordingly, it removes the receivables from its statement of financial position (ie derecognises them) and it shows no liability in respect of the proceeds received from the bank. The entity recognises a loss calculated as the difference between the carrying amount of the receivables at the time of sale and the proceeds received from the bank. The entity recognises a liability to the extent that it has collected funds from the debtors but has not yet remitted them to the bank.

Example—transfer that does not qualify for derecognition

The facts are the same as the preceding example except that the entity has agreed to buy back from the bank any receivables for which the debtor is in arrears as to principal or interest for more than 120 days. In this case, the entity has retained the risk of slow payment or non-payment by the debtors—a significant risk with respect to receivables. Accordingly, the entity does not treat the receivables as having been sold to the bank, and it does not derecognise them. Instead, it treats the proceeds from the bank as a loan secured by the receivables. The entity continues to recognise the receivables as an asset until they are collected or written off as uncollectable.

Derecognition of a financial liability

11.36 An entity shall derecognise a financial liability (or a part of a financial liability) only when it is extinguished—ie when the obligation specified in the contract is discharged, is cancelled or expires.

11.37 If an existing borrower and lender exchange financial instruments with substantially different terms, the entities shall account for the transaction as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, an entity shall account for a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) as an extinguishment of the original financial liability and the recognition of a new financial liability.

11.38 The entity shall recognise in profit or loss any difference between the carrying amount of the financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed.

Paragraphs 11.39–11.41, 11.48 and the heading above paragraph 11.45 are amended. Paragraph 11.43 is deleted. Paragraphs 11.49–11.50 and the heading above paragraph 11.49 are added. New text is underlined and deleted text is struck through.

Disclosures

11.39 The following disclosures make reference to disclosures for financial liabilities measured at fair value through profit or loss. Entities that have only basic financial instruments (and therefore do not apply Part II of Section 11~~12~~) will not have any financial liabilities measured at fair value through profit or loss and hence will not need to provide such disclosures.

Disclosure of accounting policies for financial instruments

11.40 In accordance with paragraph 8.5, an entity shall disclose material accounting policy information. Information about the **measurement basis** (or bases) for financial instruments used in preparing the financial statements is expected to be material accounting policy information.~~, in the summary of significant **accounting policies**, the measurement basis (or bases) used for financial instruments and the other accounting policies used for financial instruments that are relevant to an understanding of the **financial statements**.~~

Statement of financial position—categories of financial assets and financial liabilities

11.41 An entity shall disclose the carrying amounts of each of the following categories of financial assets and financial liabilities at the reporting date, in total, either in the statement of financial position or in the notes:

(a) financial assets measured at fair value through profit or loss (paragraph 11.14(c)(i) and paragraphs 11.55–11.56~~ 12.8 and 12.9~~);

(b) financial assets that are debt instruments measured at amortised cost (paragraph 11.14(a));

(c) financial assets that are equity instruments measured at cost less impairment (paragraph 11.14(c)(ii) and paragraphs 11.55–11.56 ~~12.8 and 12.9~~);

(d) financial liabilities measured at fair value through profit or loss (paragraphs 11.55–11.56 ~~12.8 and 12.9~~);

(e) financial liabilities measured at amortised cost (paragraph 11.14(a)); ~~and~~

(f) loan commitments measured at cost less impairment (paragraph 11.14(b)); and~~.~~

(g) issued financial guarantee contracts (paragraph 11.14(d)).

11.42 An entity shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its **financial position** and **performance**. For example, for long-term debt such information would normally include the terms and conditions of the debt instrument (such as interest rate, maturity, repayment schedule, and restrictions that the debt instrument imposes on the entity).

~~11.43~~ ~~For all financial assets and financial liabilities measured at fair value, the entity shall disclose the basis for determining fair value, for example, quoted market price in an active market or a valuation technique. When a valuation technique is used, the entity shall disclose the assumptions applied in determining fair value for each class of financial assets or financial liabilities. For example, if applicable, an entity discloses information about the assumptions relating to prepayment rates, rates of estimated credit losses, and interest rates or discount rates.~~

11.44 If a reliable measure of fair value is no longer available, or is not available without undue cost or effort when such an exemption is provided, for any financial instruments that would otherwise be required to be measured at fair value through profit or loss in accordance with this Standard, the entity shall disclose that fact, the carrying amount of those financial instruments and, if an undue cost or effort exemption has been used, the reasons why a reliable fair value measurement would involve undue cost or effort.

Transferred financial assets that do not qualify for derecognition~~Derecognition~~

11.45 If an entity has transferred financial assets to another party in a transaction that does not qualify for derecognition (see paragraphs 11.33–11.35), the entity shall disclose the following for each class of such financial assets:

(a) the nature of the assets;

(b) the nature of the risks and rewards of ownership to which the entity remains exposed; and

(c) the carrying amounts of the assets and of any associated liabilities that the entity continues to recognise.

Collateral

11.46 When an entity has pledged financial assets as collateral for liabilities or **contingent liabilities**, it shall disclose the following:

(a) the carrying amount of the financial assets pledged as collateral; and

(b) the terms and conditions relating to its pledge.

Defaults and breaches on loans payable

11.47 For **loans payable** recognised at the reporting date for which there is a breach of terms or a default of principal, interest, sinking fund or redemption terms that have not been remedied by the reporting date, an entity shall disclose the following:

(a) details of that breach or default;

(b) the carrying amount of the related loans payable at the reporting date; and

(c) whether the breach or default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were authorised for issue.

Items of income, expense, gains or losses

11.48 An entity shall disclose the following items of income, expense, gains ~~gains~~ or losses:

(a) income, expense, gains or losses, including changes in fair value, recognised on:

(i) financial assets measured at fair value through profit or loss;

(ii) financial liabilities measured at fair value through profit or loss;

(iii) financial assets measured at amortised cost;~~ and~~

(iv) financial liabilities measured at amortised cost; and~~.~~

(v) issued financial guarantee contracts.

(b) total interest income and total interest expense (calculated using the effective interest method) for financial assets or financial liabilities that are not measured at fair value through profit or loss; and

(c) the amount of any impairment loss for each class of financial asset.

Quantitative and qualitative information about amounts arising from expected credit losses

11.49 An entity shall explain the inputs, assumptions and estimation techniques used to apply the requirements in paragraphs 11.26B–11.26L. For this purpose the entity shall disclose:

(a) the basis of inputs and assumptions and the estimation techniques used to measure the expected credit losses;

(b) how forward-looking information has been incorporated into the determination of expected credit losses, including the use of macroeconomic information; and

(c) changes in the estimation techniques or significant assumptions made during the reporting period and the reasons for those changes.

11.50 To explain the changes in the allowance for expected credit losses and the reasons for those changes, an entity shall provide, by class of financial instrument, a reconciliation from the opening balance to the closing balance of the allowance, in a table. The entity shall disclose information about the changes in the allowance for financial assets separately from those for expected credit losses on issued financial guarantee contracts.

Section 12 is included within Section 11 as Part II of Section 11 *Other Financial Instrument Issues*. New text is underlined and deleted text is struck through.

Part II of Section 11 ~~12~~
Other Financial Instrument Issues

Paragraphs 12.1–12.2 are deleted. Deleted text is struck through.

~~Scope of Sections 11 and 12~~

~~12.1~~ ~~Section 11 *Basic Financial Instruments* and Section 12 together deal with recognising, derecognising, measuring and disclosing **financial instruments** (**financial assets** and **financial liabilities**). Section 11 applies to basic financial instruments and is relevant to all entities. Section 12 applies to other, more complex financial instruments and transactions. If an entity enters into only basic financial instrument transactions then Section 12 is not applicable. However, even entities with only basic financial instruments shall consider the scope of Section 12 to ensure they are exempt.~~

~~Accounting policy choice~~

~~12.2~~ ~~An entity shall choose to apply either:~~

~~(a)~~ ~~the requirements of both Sections 11 and 12 in full; or~~

~~(b)~~ ~~the **recognition** and **measurement** requirements of IAS 39 *Financial Instruments: Recognition and Measurement* and the disclosure requirements of Sections 11 and 12~~

~~to account for all of its financial instruments. An entity's choice of (a) or (b) is an accounting policy choice. Paragraphs 10.8–10.14 contain requirements for determining when a change in accounting policy is appropriate, how such a change should be accounted for and what information should be disclosed about the change in accounting policy.~~

Paragraphs 12.3–12.5 are renumbered and amended. The heading above paragraph 12.3 (renumbered as paragraph 11.51) is amended. New text is underlined and deleted text is struck through.

Scope of Part II of Section 11 ~~12~~

11.51 ~~12.3~~ Part II of Section 11 ~~12~~ applies to all financial instruments except the following:

(a) those covered by Part I of Section 11.

(b) investments in **subsidiaries** and~~,~~ **associates** and **joint arrangements** ~~**ventures**~~ that are accounted for in accordance with Section 9 *Consolidated and Separate Financial Statements*, Section 14 *Investments in Associates* or Section 15 ~~*Investments in*~~ *Joint Arrangements* ~~*Ventures*~~.

(c) employers' rights and obligations under **employee benefit** plans (see Section 28 *Employee Benefits*).

(d) rights under **insurance contracts** unless the insurance contract could result in a loss to either party as a result of contractual terms that are unrelated to:

(i) changes in the insured risk;

(ii) changes in foreign exchange rates; or

(iii) a default by one of the counterparties.

(e) financial instruments that meet the definition of an entity's own equity, including the equity component of **compound financial instruments** issued by the entity (see Section 22 *Liabilities and Equity*).

(f) **leases** within the scope of Section 20 *Leases*. Consequently, Part II of Section 11 ~~12~~ applies to leases that could result in a loss to the lessor or the lessee as a result of contractual terms that are unrelated to:

(i) changes in the price of the leased **asset**;

(ii) changes in foreign exchange rates;

(iii) changes in lease payments based on variable market interest rates; or

(iv) a default by one of the counterparties.

~~(g) contracts for contingent consideration in a **business combination** (see Section 19 *Business Combinations and Goodwill*). This exemption applies only to the acquirer.~~

(h) financial instruments, contracts and obligations under **share-based payment transactions** to which Section 26 *Share-based Payment* applies.

(i) reimbursement assets that are accounted for in accordance with Section 21 *Provisions and Contingencies* (see paragraph 21.9).

11.52 ~~12.4~~ Most contracts to buy or sell a non-financial item such as a commodity, **inventory** or **property, plant and equipment** are excluded from this section because they are not financial instruments. However, Part II of Section 11 ~~this section~~ applies to all contracts that impose risks on the buyer or seller that are not typical of contracts to buy or sell non-financial items. For example, Part II of Section 11 ~~this section~~ applies to contracts that could result in a loss to the buyer or seller as a result of contractual terms that are unrelated to changes in the price of the non-financial item, changes in foreign exchange rates or a default by one of the counterparties.

11.53 ~~12.5~~ In addition to the contracts described in paragraph 11.52~~12.4~~, Part II of Section 11 ~~this section~~ applies to contracts to buy or sell non-financial items if the contract can be settled net in **cash** or another financial instrument, or by exchanging financial instruments as if the contracts were financial instruments, with the following exception: contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements are not financial instruments for the purposes of Section 11 ~~this section~~.

Paragraph 12.6 is renumbered. New text is underlined and deleted text is struck through.

Initial recognition of financial assets and liabilities

11.54 ~~12.6~~ An entity shall recognise a financial asset or a financial liability only when the entity becomes a party to the contractual provisions of the instrument.

Paragraph 12.7 is renumbered. New text is underlined and deleted text is struck through.

Initial measurement

11.55 ~~12.7~~ When a financial asset or financial liability is recognised initially, an entity shall measure it at its **fair value**, which is normally the transaction price.

Paragraph 12.8 is renumbered and amended. Paragraph 11.57 is added. Paragraph 12.9 is renumbered. New text is underlined and deleted text is struck through.

Subsequent measurement

11.56 ~~12.8~~ At the end of each **reporting period**, an entity shall measure all financial instruments within the scope of of Part II of Section 11 ~~12~~ at fair value and recognise changes in fair value in **profit or loss**, except as follows:

(a) some changes in the fair value of **hedging instruments** in a designated hedging relationship are required to be recognised in **other comprehensive income** by paragraph 11.71~~12.23~~; and

(b) **equity** instruments that are not **publicly traded** and whose fair value cannot otherwise be measured reliably without undue cost or effort and contracts linked to such instruments that, if exercised, will result in delivery of such instruments, shall be measured at cost less impairment.

11.57 Dividends are recognised in profit or loss only when:

(a) the entity's right to receive payment is established;

(b) it is probable that the economic benefits associated with the dividend will flow to the entity; and

(c) the amount of the dividend can be measured reliably.

11.58 ~~12.9~~ If a reliable measure of fair value is no longer available without undue cost or effort for an equity instrument, or a contract linked to such an instrument that if exercised will result in the delivery of such instruments, that is not publicly traded but is measured at fair value through profit or loss, its fair value at the last date that the instrument was reliably measurable without undue cost or effort is treated as the cost of the instrument. The entity shall measure the instrument at this cost amount less impairment until it is able to determine a reliable measure of fair value without undue cost or effort.

Paragraph 12.10 is renumbered and amended. Paragraph 12.11 is renumbered. Paragraph 12.12 is deleted. New text is underlined and deleted text is struck through.

Fair value

11.59 ~~12.10~~ An entity shall apply the guidance on fair value in Section 12 ~~paragraphs 11.27–11.32~~ to fair value measurements in accordance with ~~this section as well as for fair value measurements in accordance with~~ Section 11.

11.60 ~~12.11~~ The fair value of a financial liability that is due on demand is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

~~12.12~~ ~~An entity shall not include **transaction costs** in the initial measurement of financial assets and liabilities that will be measured subsequently at fair value through profit or loss. If payment for an asset is deferred or is financed at a rate of interest that is not a market rate, the entity shall initially measure the asset at the **present value** of the future payments discounted at a market rate of interest.~~

Paragraph 12.13 is renumbered and amended. New text is underlined and deleted text is struck through.

Impairment of financial assets measured at cost or amortised cost

11.61 ~~12.13~~ An entity shall apply the guidance on impairment in paragraphs 11.21–11.26L ~~11.26~~ to financial assets measured at cost less impairment in accordance with Part II of Section 11 ~~this section~~.

Paragraph 12.14 is renumbered and amended. New text is underlined and deleted text is struck through.

Derecognition of a financial asset or financial liability

11.62 ~~12.14~~ An entity shall apply the **derecognition** requirements in paragraphs 11.33–11.38 to financial assets and financial liabilities to which Section 11 ~~this section~~ applies.

Paragraphs 12.17, 12.20, 12.22 and 12.24 are renumbered. Paragraphs 12.15–12.16, 12.18–12.19, 12.21, 12.23 and 12.25 are renumbered and amended. New text is underlined and deleted text is struck through.

Hedge accounting

11.63 ~~12.15~~ If specified criteria are met, an entity may designate a hedging relationship between a hedging instrument and a **hedged item** in such a way as to qualify for hedge accounting. Hedge accounting permits the gain ~~**gain**~~ or loss on the hedging instrument and on the hedged item to be recognised in profit or loss at the same time.

11.64 ~~12.16~~ To qualify for hedge accounting, an entity shall comply with all of the following conditions:

(a) the entity designates and documents the hedging relationship so that the risk being hedged, the hedged item and the hedging instrument are clearly identified and the risk in the hedged item is the risk being hedged with the hedging instrument.

(b) the hedged risk is one of the risks specified in paragraph 11.65~~12.17~~.

(c) the hedging instrument is as specified in paragraph 11.66~~12.18~~.

(d) the entity expects the hedging instrument to be highly effective in offsetting the designated hedged risk. The **effectiveness of a hedge** is the degree to which changes in the fair value or cash flows of the hedged item that are attributable to the hedged risk are offset by changes in the fair value or cash flows of the hedging instrument.

11.65 ~~12.17~~ This Standard permits hedge accounting only for the following risks:

(a) interest rate risk of a debt instrument measured at amortised cost;

(b) foreign exchange or interest rate risk in a **firm commitment** or a **highly probable forecast transaction**;

(c) price risk of a commodity that an entity holds or in a firm commitment or highly probable forecast transaction to purchase or sell a commodity; and

(d) foreign exchange risk in a net investment in a **foreign operation**.

Foreign exchange risk of a debt instrument measured at amortised cost is not in the list because hedge accounting would not have any significant effect on the **financial statements**. Basic accounts, notes and loans receivable and payable are normally measured at amortised cost (see paragraph 11.5(d)). This would include payables denominated in a foreign currency. Paragraph 30.10 requires any change in the **carrying amount** of the payable because of a change in the exchange rate to be recognised in profit or loss. Consequently, both the change in fair value of the hedging instrument (the cross-currency swap) and the change in the carrying amount of the payable relating to the change in the exchange rate would be recognised in profit or loss and should offset each other except to the extent of the difference between the spot rate (at which the **liability** is measured) and the forward rate (at which the swap is measured).

11.66 ~~12.18~~ This Standard permits hedge accounting only if the hedging instrument has all of the following terms and conditions:

(a) it is an interest rate swap, a foreign currency swap, a foreign currency forward exchange contract or a commodity forward exchange contract that is expected to be highly effective in offsetting a risk identified in paragraph 11.65 ~~12.17~~ that is designated as the hedged risk;

(b) it involves a party external to the **reporting entity** ~~reporting entity~~ (ie external to the **group**~~, segment~~ or individual entity being reported on);

(c) its **notional amount** is equal to the designated amount of the principal or notional amount of the hedged item;

(d) it has a specified maturity date not later than:

  (i) the maturity of the financial instrument being hedged;

  (ii) the expected settlement of the commodity purchase or sale commitment; or

  (iii) the occurrence of the highly probable forecast foreign currency or commodity transaction being hedged.

(e) it has no prepayment, early termination or extension features.

Hedge of fixed interest rate risk of a recognised financial instrument or commodity price risk of a commodity held

11.67 ~~12.19~~ If the conditions in paragraph 11.64 ~~12.16~~ are met and the hedged risk is the exposure to a fixed interest rate risk of a debt instrument measured at amortised cost or the commodity price risk of a commodity that it holds, the entity shall:

(a) recognise the hedging instrument as an asset or liability and the change in the fair value of the hedging instrument in profit or loss; and

(b) recognise the change in the fair value of the hedged item related to the hedged risk in profit or loss and as an adjustment to the carrying amount of the hedged item.

11.68 ~~12.20~~ If the hedged risk is the fixed interest rate risk of a debt instrument measured at amortised cost, the entity shall recognise the periodic net cash settlements on the interest rate swap that is the hedging instrument in profit or loss in the period in which the net settlements accrue.

11.69 ~~12.21~~ The entity shall discontinue the hedge accounting specified in paragraph 11.67~~12.19~~ if:

(a) the hedging instrument expires or is sold or terminated;

(b) the hedge no longer meets the conditions for hedge accounting specified in paragraph 11.64 ~~12.16~~; or

(c) the entity revokes the designation.

11.70 ~~12.22~~ If hedge accounting is discontinued and the hedged item is an asset or liability carried at amortised cost that has not been derecognised, any gains or losses recognised as adjustments to the carrying amount of the hedged item are amortised into profit or loss using the **effective interest method** over the remaining life of the hedged item.

Hedge of variable interest rate risk of a recognised financial instrument, foreign exchange risk or commodity price risk in a firm commitment or highly probable forecast transaction or a net investment in a foreign operation

11.71 ~~12.23~~ If the conditions in paragraph 11.64~~12.16~~ are met and the hedged risk is:

(a) the variable interest rate risk in a debt instrument measured at amortised cost;

(b) the foreign exchange risk in a firm commitment or a highly probable forecast transaction;

(c) the commodity price risk in a firm commitment or highly probable forecast transaction; or

(d) the foreign exchange risk in a net investment in a foreign operation,

the entity shall recognise in other comprehensive income the portion of the change in the fair value of the hedging instrument that was effective in offsetting the change in the fair value or expected cash flows of the hedged item. The entity shall recognise in profit or loss in each period any excess (in absolute amount) of the cumulative change in the fair value of the hedging instrument over the cumulative change in the fair value of the expected cash flows of the hedged item since inception of the hedge (sometimes called hedge ineffectiveness). The hedging gain or loss recognised in other comprehensive income shall be reclassified to profit or loss when the hedged item is recognised in profit or loss, subject to the requirements in paragraph 11.73 ~~12.25~~. However, the cumulative amount of any exchange differences that relate to a hedge of a net investment in a foreign operation recognised in other comprehensive income shall not be reclassified to profit or loss on disposal or partial disposal of the foreign operation.

11.72 ~~12.24~~ If the hedged risk is the variable interest rate risk in a debt instrument measured at amortised cost, the entity shall subsequently recognise in profit or loss the periodic net cash settlements from the interest rate swap that is the hedging instrument in the period in which the net settlements accrue.

11.73 ~~12.25~~ The entity shall discontinue prospectively the hedge accounting specified in paragraph 11.71~~12.23~~ if:

(a) the hedging instrument expires or is sold or terminated;

(b) the hedge no longer meets the criteria for hedge accounting in paragraph 11.64~~12.16~~;

(c) in a hedge of a forecast transaction, the forecast transaction is no longer highly probable; or

(d) the entity revokes the designation.

If the forecast transaction is no longer expected to take place or if the hedged debt instrument measured at amortised cost is derecognised, any gain or loss on the hedging instrument that was recognised in other comprehensive income shall be reclassified to profit or loss.

Paragraphs 12.26–12.29 are renumbered and amended. New text is underlined and deleted text is struck through.

Disclosures

11.74 ~~12.26~~ An entity applying Part II of Section 11 ~~this section~~ shall make all of the disclosures required in Part I of Section 11 incorporating in those disclosures financial instruments that are within the scope of Part II of Section 11 ~~this section~~ as well as those within the scope of Part I of Section 11. In addition, if the entity uses hedge accounting, it shall make the additional disclosures in paragraphs 11.75–11.77~~12.27–12.29~~.

11.75 ~~12.27~~ An entity shall disclose the following separately for hedges of each of the four types of risks described in paragraph 11.65~~12.17~~:

(a) a description of the hedge;

(b) a description of the financial instruments designated as hedging instruments and their fair values at the **reporting date**; and

(c) the nature of the risks being hedged, including a description of the hedged item.

11.76 ~~12.28~~ If an entity uses hedge accounting for a hedge of fixed interest rate risk or commodity price risk of a commodity held (paragraphs 11.67–11.70~~12.19–12.22~~) it shall disclose the following:

(a) the amount of the change in fair value of the hedging instrument recognised in profit or loss for the period; and

(b) the amount of the change in fair value of the hedged item recognised in profit or loss for the period.

11.77 ~~12.29~~ If an entity uses hedge accounting for a hedge of variable interest rate risk, foreign exchange risk, commodity price risk in a firm commitment or highly probable forecast transaction or a net investment in a foreign operation (paragraphs 11.71–11.73~~12.23–12.25~~), it shall disclose the following:

(a) the periods when the cash flows are expected to occur and when they are expected to affect profit or loss;

(b) a description of any forecast transaction for which hedge accounting had previously been used, but which is no longer expected to occur;

(c) the amount of the change in fair value of the hedging instrument that was recognised in other comprehensive income during the period (paragraph 11.71~~12.23~~);

(d) the amount that was reclassified to profit or loss for the period (paragraphs 11.71~~12.23~~ and 11.73~~12.25~~); and

(e) the amount of any excess of the cumulative change in fair value of the hedging instrument over the cumulative change in the fair value of the expected cash flows that was recognised in profit or loss for the period (paragraph 11.71~~12.23~~).

A new section, Section 12 *Fair Value Measurement* is added. For ease of reading, new text is not underlined.

Section 12
Fair Value Measurement

Scope of this section

12.1 This section applies when another section requires or permits **fair value** measurements or disclosures about fair value measurements, except:

(a) **share-based payment transactions** within Section 26 *Share-based Payment*; and

(b) leasing transactions within the scope of Section 20 *Leases*.

12.2 The disclosures required by this section are not required for:

(a) **plan assets** measured at fair value in accordance with Section 28 *Employee Benefits*; and

(b) **assets** for which the **recoverable amount** is fair value less costs of disposal in accordance with Section 27 *Impairment of Assets*.

Measurement

12.3 The objective of a fair value measurement is to estimate the price at which an **orderly transaction** (not a forced transaction) to sell an asset or to transfer a liability would take place between **market participants** at the measurement date under current market conditions (that is, an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability).

12.4 Fair value is a market-based measurement, not an entity-specific measurement. Therefore, it is measured using the assumptions that market participants would use when pricing the asset or liability. An entity's intention to hold an asset or to settle or otherwise fulfil a liability is not relevant when measuring fair value.

12.5 When measuring fair value an entity shall take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Such characteristics include, for example:

(a) the condition and location of the asset; and

(b) restrictions, if any, on the sale or use of the asset.

12.6 A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

(a) in the **principal market** for the asset or liability; or

(b) in the absence of a principal market, in the **most advantageous market** for the asset or liability.

The entity must have access to the principal (or most advantageous) market at the measurement date. If there is no observable market, the entity shall assume that a transaction takes place at the measurement date as a basis for estimating fair value.

12.7 In the absence of evidence to the contrary, the market in which an entity would normally enter into a transaction to sell the asset or to transfer the liability is presumed to be the principal market or, in the absence of a principal market, the most advantageous market.

12.8 The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for **transaction costs**. Transaction costs are not a characteristic of an asset or a liability; rather, they are specific to a transaction.

12.9 If location is a characteristic of the asset, the price in the principal (or most advantageous) market shall be adjusted for **transport costs**.

Highest and best use for non-financial assets

12.10 A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

12.11 The highest and best use of a non-financial asset takes into account the use of the asset that is physically possible, legally permissible and financially feasible, as follows:

(a) a use that is physically possible takes into account the physical characteristics of the asset that market participants would take into account when pricing the asset (for example, the location or size of a property);

(b) a use that is legally permissible takes into account any legal restrictions on the use of the asset that market participants would take into account when pricing the asset (for example, the zoning regulations applicable to a property); and

(c) a use that is financially feasible takes into account whether a use generates adequate **income** or **cash flows** that market participants would require from an investment in that asset put to that use.

12.12 An entity's current use of a non-financial asset is presumed to be its highest and best use unless market or other factors suggest that a different use by market participants would maximise the value of the asset.

12.13 If the highest and best use of a non-financial asset provides maximum value to market participants through its use in combination with other assets (and liabilities) as a group, the fair value of the asset would assume that the asset would be used with those other assets (and liabilities) and that those complementary assets (and liabilities) would be available to market participants. Assumptions about the highest and best use of a non-financial asset shall be consistent for all the assets (for which highest and best use is relevant) of the group of assets and liabilities within which the asset would be used.

Valuation techniques

12.14 When a price for an identical asset or liability is not observable, an entity measures fair value using another valuation technique. The entity shall use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant **observable inputs** and minimising the use of **unobservable inputs**.

12.15 Three widely used valuation techniques are the market approach, the cost approach and the income approach. An entity shall use valuation techniques consistent with one or more of these approaches to measure fair value:

(a) the market approach uses prices and other relevant information generated by market transactions involving identical or comparable (that is, similar) assets, liabilities or a group of assets and liabilities, such as a **business**. For example, valuation techniques consistent with the market approach often use market multiples derived from a set of comparables.

(b) the cost approach reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

(c) the income approach converts future amounts (for example, cash flows or income and **expenses**) to a single current (that is, discounted) amount. Those valuation techniques include, for example:

   (i) **present value** techniques;

   (ii) option pricing models; and

   (iii) the multi-period excess earnings method, which is used to measure the fair value of some **intangible assets**.

12.16 Revisions resulting from a change in the valuation technique or its application shall be accounted for as a change in **accounting estimate** in accordance with Section 10. However, the disclosures in Section 10 for a change in accounting estimate are not required for revisions resulting from a change in a valuation technique or its application.

12.17 If an asset or a liability measured at fair value has a bid price and an ask price (for example, an input from a dealer market), the price within the bid–ask spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorised within the fair value hierarchy (that is Level 1, 2 or 3; see paragraphs 12.22–12.27). The use of bid prices for asset positions and ask prices for liability positions is permitted, but is not required.

Reliable measure of fair value

12.18 A valuation technique would be expected to arrive at a reliable **measure** of the fair value if:

(a) it reasonably reflects how the market could be expected to price the asset; and

(b) the inputs to the valuation technique reasonably represent market expectations and measures of the risk return factors inherent in the asset.

12.19 The fair value of investments in assets that do not have a quoted market price in an **active market** is reliably measurable if:

(a) the variability in the range of reasonable fair value measures is not significant for that asset; or

(b) the probabilities of the various measures within the range can be reasonably assessed and used in estimating fair value.

12.20 There are many situations in which the variability in the range of reasonable fair value measures of assets that do not have a quoted market price is likely not to be significant. Normally it is possible to estimate the fair value of an asset that an entity has acquired from an outside party. However, if the range of reasonable fair value measures is significant and the probabilities of the various measures cannot be reasonably assessed, the entity is precluded from measuring the asset at fair value.

12.21 If a reliable measure of fair value is no longer available for an asset measured at fair value (or is not available without undue cost or effort when such an exemption is provided (for example, see paragraphs 11.14(c) and 11.56(b)), its **carrying amount** at the last date the asset was reliably measurable becomes its new cost. An entity shall measure the asset at this cost amount less **impairment** until a reliable measure of fair value becomes available (or becomes available without undue cost or effort when such an exemption is provided).

Fair value hierarchy

12.22 This section establishes a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). The fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement (Level 3 being the lowest level input).

Level 1 inputs

12.23 Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A quoted price in an active market provides the most reliable evidence of fair value and shall normally be used without adjustment to measure fair value whenever available.

12.24 If an entity holds a position in a single asset or liability (including a position comprising a large number of identical assets or liabilities, such as a holding of **financial instruments**) and the asset or liability is traded in an active market, the fair value of the asset or liability shall be measured within Level 1 as the product of the quoted price for the individual asset or liability and the quantity held by the entity.

Level 2 inputs

12.25 Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include the following:

(a) quoted prices for similar assets or liabilities in active markets.

(b) quoted prices for identical or similar assets or liabilities in markets that are not active.

(c) inputs other than quoted prices that are observable for the asset or liability, for example:

  (i) interest rates and yield curves observable at commonly quoted intervals;

  (ii) implied volatilities; and

  (iii) credit spreads.

(d) market-corroborated inputs.

12.26 An adjustment to a Level 2 input that is significant to the entire measurement might result in a fair value measurement categorised within Level 3 of the fair value hierarchy if the adjustment uses significant unobservable inputs.

Level 3 inputs

12.27 Level 3 inputs are unobservable inputs for the asset or liability. An entity shall develop unobservable inputs using the best information available in the circumstances, which might include the entity's own data. In developing unobservable inputs, an entity may begin with its own data, but it shall adjust this data if reasonably available information indicates that other market participants would use different data or there is something particular to the entity that is not available to other market participants (for example, an entity-specific synergy). An entity need not undertake exhaustive efforts to obtain information about market participant assumptions. However, an entity shall take into account all information about market participant assumptions that is reasonably available.

Disclosures

12.28 An entity shall disclose for each **class of assets** and liabilities measured at fair value in the **statement of financial position** after initial **recognition**:

(a) the carrying amounts at the end of the **reporting period**;

(b) the level of the fair value hierarchy within which the fair value measurements are categorised in their entirety (Level 1, 2 or 3); and

(c) a description of the valuation technique(s) it used for recurring and non-recurring fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, and the inputs used in the fair value measurement.

12.29 For recurring fair value measurements categorised within Level 3 of the fair value hierarchy, an entity shall disclose:

(a) total gains or losses for the period recognised in profit or loss, and the line items in **profit or loss** in which those gains or losses are recognised; and

(b) total gains or losses for the period recognised in **other comprehensive income**, and the line items in other comprehensive income in which those gains or losses are recognised.

12.30 An entity shall determine appropriate classes of assets and liabilities on the basis of:

(a) the nature, characteristics and risks of the asset or liability; and

(b) the level of the fair value hierarchy within which the fair value measurement is categorised.

12.31 A class of assets and liabilities will often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide sufficient information to permit reconciliation to the line items presented in the statement of financial position.

12.32 An entity shall present the quantitative disclosures required by paragraphs 12.28–12.31 in a table unless another format is more appropriate.

Appendix to Section 12
Guidance on fair value measurements

This appendix accompanies, but is not part of, Section 12.

These examples portray hypothetical situations illustrating the judgements that might apply when an entity measures assets and liabilities at fair value in different valuation situations. Although some aspects of the examples may be present in actual fact patterns, all the relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying Section 12.

Example 1—Highest and best use (land)

12A.1 An entity acquires land in a business combination. The land is currently developed for industrial use as a site for a factory. The current use of the land is presumed to be its highest and best use unless market or other factors suggest a different use. Nearby sites have recently been developed for residential use as sites for high-rise apartment buildings. On the basis of that development and recent zoning and other changes to facilitate that development, the entity determines that the land currently used as a site for a factory could be developed as a site for residential use (that is, for high-rise apartment buildings) because market participants would take into account the potential to develop the site for residential use when pricing the land.

12A.2 The highest and best use of the land would be determined by comparing both of the following:

(a) the value of the land as currently developed for industrial use (that is, the land would be used in combination with other assets, such as the factory, or with other assets and liabilities).

(b) the value of the land as a vacant site for residential use, taking into account the costs of demolishing the factory and other costs (including the uncertainty about whether the entity would be able to convert the asset to the alternative use) necessary to convert the land to a vacant site (that is, the land is to be used by market participants on a stand-alone basis).

The highest and best use of the land would be determined on the basis of the higher of those values. In situations involving real estate appraisal, the determination of highest and best use might take into account factors relating to the factory's operations, including its assets and liabilities.

Example 2—Level 1 principal (or most advantageous) market

12A.3 An asset is sold in two different active markets at different prices. An entity enters into transactions in both markets and can access the price in those markets for the asset at the measurement date. In Market A, the price that would be received is CU26, transaction costs in that market are CU3 and the costs to transport the asset to that market are CU2 (that is, the net amount that would be received is CU21). In Market B, the price that would be received is CU25, transaction costs in that market are CU1 and the costs to transport the asset to that market are CU2 (that is, the net amount that would be received in Market B is CU22).

12A.4 If Market A is the principal market for the asset (that is, the market with the greatest volume and level of activity for the asset), the fair value of the asset would be measured using the price that would be received in that market, after taking into account transport costs (CU24).

12A.5 If neither market is the principal market for the asset, the fair value of the asset would be measured using the price in the most advantageous market. The most advantageous market is the market that maximises the amount that would be received to sell the asset, after taking into account transaction costs and transport costs (that is, the net amount that would be received in the respective markets).

12A.6 Because the entity would maximise the net amount that would be received for the asset in Market B (CU22), the fair value of the asset would be measured using the price in that market (CU25), less transport costs (CU2), resulting in a fair value measurement of CU23. Although transaction costs are taken into account when determining which market is the most advantageous market, the price used to measure the fair value of the asset is not adjusted for those costs (although it is adjusted for transport costs).

Example 3—Restriction on the sale of an equity instrument

12A.7 An entity holds an equity instrument (a financial asset) for which sale is legally or contractually restricted for a specified period. (For example, such a restriction could limit sale to qualifying investors.) The restriction is a characteristic of the instrument and, therefore, would be transferred to market participants. In that case the fair value of the instrument would be measured on the basis of the quoted price for an otherwise identical unrestricted equity instrument of the same issuer that trades in a public market, adjusted to reflect the effect of the restriction. The adjustment would reflect the amount market participants would demand because of the risk relating to the inability to access a public market for the instrument for the specified period. The adjustment will vary depending on all the following:

(a) the nature and duration of the restriction;

(b) the extent to which buyers are limited by the restriction (for example, there might be a large number of qualifying investors); and

(c) qualitative and quantitative factors specific to both the instrument and the issuer.

Example 4—Restrictions on the use of an asset

12A.8 A donor contributes land in an otherwise developed residential area to a not-for-profit neighbourhood association. The land is currently used as a playground. The donor specifies that the land must continue to be used by the association as a playground in perpetuity. Upon review of relevant documentation (for example, legal and other), the association determines that the fiduciary responsibility to meet the donor's restriction would not be transferred to market participants if the association sold the asset, that is, the donor restriction on the use of the land is specific to the association. Furthermore, the association is not restricted from selling the land. Without the restriction on the use of the land by the association, the land could be used as a site for residential development. In addition, the land is subject to an easement (that is, a legal right that enables a utility to run power lines across the land). Following is an analysis of the effect on the fair value measurement of the land arising from the restriction and the easement:

(a) donor restriction on use of land. Because in this situation the donor restriction on the use of the land is specific to the association, the restriction would not be transferred to market participants. Therefore, the fair value of the land would be the higher of its fair value used as a playground (that is, the fair value of the asset would be maximised through its use by market participants in combination with other assets or with other assets and liabilities) and its fair value as a site for residential development (that is, the fair value of the asset would be maximised through its use by market participants on a stand-alone basis), regardless of the restriction on the use of the land by the association.

(b) easement for utility lines. Because the easement for utility lines is specific to (that is, a characteristic of) the land, it would be transferred to market participants with the land. Therefore, the fair value measurement of the land would take into account the effect of the easement, regardless of whether the highest and best use is as a playground or as a site for residential development.

Section 13
Inventories

Paragraphs 13.2–13.3, and 13.12 are amended. Paragraph 13.2A is added. New text is underlined and deleted text is struck through.

Scope of this section

13.1 This section sets out the principles for recognising and measuring **inventories**. 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.

13.2 This section applies to all inventories, except:

~~(a)~~ ~~work in progress arising under **construction contracts**, including directly related service contracts (see Section 23 *Revenue*);~~

(b) **financial instruments** (see Section 11 ~~*Basic*~~ *Financial Instruments* ~~and Section 12 *Other Financial Instrument Issues*~~); and

(c) **biological assets** related to **agricultural activity** and **agricultural produce** at the point of harvest (see Section 34 *Specialised Activities*).

13.2A This section applies to the presentation and disclosure of refund assets held in inventory representing expected product returns. An entity shall recognise and measure refund assets in accordance with paragraphs 23.51–23.57.

13.3 This section does not apply to the measurement ~~**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 fair value less costs to sell ~~**fair value less costs to sell**~~ through **profit or loss**; or

(b) commodity brokers and dealers that measure their inventories at fair value less costs to sell through profit or loss.

Measurement of inventories

13.4 An entity shall measure inventories at the lower of cost and estimated selling price less costs to complete and sell.

Cost of inventories

13.5 An entity shall include in the cost of inventories all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Costs of purchase

13.6 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.

13.7 An entity may purchase inventories on deferred settlement terms. In some cases, the arrangement effectively contains an unstated financing element, for example, a difference between the purchase price for normal credit terms and the deferred settlement amount. In these cases, the difference is recognised as interest **expense** over the period of the financing and is not added to the cost of the inventories.

Costs of conversion

13.8 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.

Allocation of production overheads

13.9 An entity shall allocate fixed production overheads to the costs of conversion on the basis of 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.

Joint products and by-products

13.10 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 raw materials or conversion of each product are not separately identifiable, an entity shall allocate them 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, the entity shall measure them at selling price less costs to complete and sell and deduct this amount 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 included in inventories

13.11 An entity shall include other costs in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition.

13.12 Paragraph 11.67(b)~~12.19(b)~~ requires ~~provides~~ that, in some circumstances, the change in the **fair value** of the **hedging instrument** in a hedge of fixed interest rate risk or commodity price risk of a commodity held adjusts the carrying amount of the commodity.

Costs excluded from inventories

13.13 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 during 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.

Cost of inventories of a service provider

13.14 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 nonattributable overheads that are often factored into prices charged by service providers.

Cost of agricultural produce harvested from biological assets

13.15 Section 34 requires that inventories comprising agricultural produce that an entity has harvested from its biological assets shall be measured on initial **recognition** at their fair value less estimated costs to sell at the point of harvest. This becomes the cost of the inventories at that date for application of this section.

Techniques for measuring cost, such as standard costing, retail method and most recent purchase price

13.16 An entity may use techniques such as the standard cost method, the retail method or most recent purchase price for measuring the cost of inventories if the result approximates 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. The retail method measures cost by reducing the sales value of the inventory by the appropriate percentage gross margin.

Cost formulas

13.17 An entity shall measure the cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects by using specific identification of their individual costs.

13.18 An entity shall measure the cost of inventories, other than those dealt with in paragraph 13.17, 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. The last-in, first-out method (LIFO) is not permitted by this Standard.

Impairment of inventories

13.19 Paragraphs 27.2–27.4 require an entity to assess at the end of each **reporting period** whether any inventories are impaired, ie the carrying amount is not fully recoverable (for example, because of damage, obsolescence or declining selling prices). If an item (or group of items) of inventory is impaired, those paragraphs require the entity to measure the inventory at its selling price less costs to complete and sell and to recognise an **impairment loss**. Those paragraphs also require a reversal of a prior impairment in some circumstances.

Recognition as an expense

13.20 When inventories are sold, the entity shall recognise the carrying amount of those inventories as an expense in the period in which the related **revenue** is recognised.

13.21 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 accounted for subsequently in accordance with the section of this Standard relevant to that type of asset.

Disclosures

13.22 An entity shall disclose the following:

(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 amount of inventories recognised as an expense during the period;

(d) impairment losses recognised or reversed in profit or loss in accordance with Section 27 *Impairment of Assets*; and

(e) the total carrying amount of inventories pledged as security for **liabilities**.

Section 14
Investments in Associates

Paragraphs 14.2, 14.8, 14.10 and 14.12–14.15 are amended. New text is underlined and deleted text is struck through.

Scope of this section

14.1 This section applies to accounting for **associates** in **consolidated financial statements** and in the **financial statements** of an investor that is not a **parent** but that has an investment in one or more associates. Paragraph 9.26 establishes the requirements for accounting for associates in **separate financial statements**.

Associates defined

14.2 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 arrangement~~**joint venture**~~.

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

(a) if an investor holds, directly or indirectly (for example, through subsidiaries), 20 per cent or more of the voting power of the associate, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case;

(b) conversely, if the investor holds, directly or indirectly (for example, through subsidiaries), less than 20 per cent of the voting power of the associate, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated; and

(c) a substantial or majority ownership by another investor does not preclude an investor from having significant influence.

Measurement—accounting policy election

14.4 An investor shall account for all of its investments in associates using one of the following:

(a) the cost model in paragraph 14.5;

(b) the equity method in paragraph 14.8; or

(c) the **fair value** model in paragraph 14.9.

Cost model

14.5 An investor shall measure its investments in associates, other than those for which there is a published price quotation (see paragraph 14.7) at cost less any accumulated **impairment losses** recognised in accordance with Section 27 *Impairment of Assets*.

14.6 The investor shall recognise dividends and other distributions received from the investment as **income** without regard to whether the distributions are from accumulated profits of the associate arising before or after the date of acquisition.

14.7 An investor shall measure its investments in associates for which there is a published price quotation using the fair value model (see paragraph 14.9).

Equity method

14.8 Under the equity method of accounting, an equity investment is initially recognised at the transaction price (including **transaction costs**) and is subsequently adjusted to reflect the investor's share of the **profit or loss** and **other comprehensive income** of the associate:

(a) *distributions and other adjustments to carrying amount*. Distributions received from the associate reduce the **carrying amount** of the investment. Adjustments to the carrying amount may also be required as a consequence of changes in the associate's equity arising from items of other comprehensive income.

(b) *potential voting rights*. Although potential voting rights are considered in deciding whether significant influence exists, an investor shall measure its share of profit or loss and other comprehensive income of the associate and its share of changes in the associate's equity on the basis of present ownership interests. Those measurements shall not reflect the possible exercise or conversion of potential voting rights.

(c) *implicit goodwill and fair value adjustments*. On acquisition of the investment in an associate, an investor shall account for any difference (whether positive or negative) between the cost of acquisition and the investor's share of the fair values of the net identifiable **assets** of the associate in accordance with paragraphs 19.10M–19.10O and 19.23~~19.22–19.24~~. An investor shall adjust its share of the associate's profits or losses after acquisition to account for additional **depreciation** or **amortisation** of the associate's depreciable or amortisable assets (including **goodwill**) on the basis of the excess of their fair values over their carrying amounts at the time the investment was acquired.

(d) *impairment*. If there is an indication that an investment in an associate may be impaired, an investor shall test the entire carrying amount of the investment, including financial instruments that in substance form part of the investor's net investment in the associate, for impairment in accordance with Section 27, as a single asset. A financial instrument for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, part of the investor's net investment (for example, this may include preference shares or long-term receivables or loans). An investor shall apply Section 11 to any such financial instrument before it applies this paragraph or paragraph 14.8(h). Any goodwill included as part of the carrying amount of the investment in the associate is not tested separately for impairment but, instead, as part of the test for impairment of the investment as a whole.

(e) *investor's transactions with associates*. The investor shall eliminate unrealised profits and losses resulting from upstream (associate to investor) and downstream (investor to associate) transactions to the extent of the investor's ownership interest in the associate. Unrealised losses on such transactions may provide evidence of an impairment of the asset transferred.

(f) *date of associate's financial statements*. In applying the equity method, the investor shall use the financial statements of the associate as of the same date as the financial statements of the investor unless it is **impracticable** to do so. If it is impracticable, the investor shall use the most recent available financial statements of the associate, with adjustments made for the effects of any significant transactions or events occurring between the accounting period ends.

(g) *associate's accounting policies*. If the associate uses **accounting policies** that differ from those of the investor, the investor shall adjust the associate's financial statements to reflect the investor's accounting policies for the purpose of applying the equity method unless it is impracticable to do so.

(h) *losses in excess of investment*. If an investor's share of losses of an associate equals or exceeds the carrying amount of its investment in the associate, the investor shall discontinue recognising its share of further losses. The investment in an associate is the carrying amount of the investment determined using the equity method together with any financial instruments that in substance form part of the investor's net investment in the associate (see paragraph 14.8(d)). After the investor's interest is reduced to zero, the investor shall recognise additional losses by a **provision** (see Section 21 *Provisions and Contingencies*) only to the extent that the investor has incurred legal or **constructive obligations** or has made payments on behalf of the associate. If the associate subsequently reports profits, the investor shall resume recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

(i) *discontinuing the equity method*. An investor shall cease using the equity method from the date that significant influence ceases:

   (i) if the associate becomes a subsidiary or a jointly controlled entity~~joint venture~~, the investor shall remeasure its previously held equity interest to fair value and recognise the resulting gain ~~gain~~ or loss, if any, in profit or loss.

(ii) if an investor loses significant influence over an associate as a result of a full or partial disposal, it shall derecognise that associate and recognise in profit or loss the difference between, on the one hand, the sum of the proceeds received plus the fair value of any retained interest and, on the other hand, the carrying amount of the investment in the associate including goodwill at the date significant influence is lost. Thereafter, the investor shall account for any retained interest using Section 11 ~~*Basic*~~ *Financial Instruments* ~~and Section 12 *Other Financial Instrument Issues*, as appropriate~~.

(iii) if an investor loses significant influence for reasons other than a partial disposal of its investment, the investor shall regard the carrying amount of the investment at that date as a new cost basis and shall account for the investment using Section ~~Sections 11 and~~ 12~~, as appropriate.~~

Fair value model

14.9 When an investment in an associate is recognised initially, an investor shall measure it at the transaction price. Transaction price excludes transaction costs.

14.10 At each **reporting date**, an investor shall measure its investments in associates at fair value, with changes in fair value recognised in profit or loss, using the fair value measurement guidance in Section 12 *Fair Value Measurement*~~paragraphs 11.27–11.32~~. An investor using the fair value model shall use the cost model for any investment in an associate for which fair value cannot be measured reliably without undue cost or effort.

Financial statement presentation

14.11 An investor shall classify investments in associates as non-current assets.

Disclosures

14.12 An entity shall disclose the following:

(a) its **accounting policy** for investments in associates;

(b) the carrying amount of investments in associates (see paragraph 4.2(j)); and

(c) the fair value of its investment ~~investments~~ in an associate ~~associates~~ if a market price for the investment is quoted and the entity accounts ~~accounted~~ for the associate using the equity method ~~for which there are published price quotations~~.

14.13 For investments in associates accounted for using ~~by~~ the cost model, an investor shall disclose the amount of dividends and other distributions recognised as income.

14.14 For investments in associates accounted for using ~~by~~ the equity method, an investor shall disclose separately its share of the profit or loss ~~of such associates~~ and its share of any **discontinued operations** ~~of such associates~~.

14.15 For investments in associates accounted for using ~~by~~ the fair value model, an investor shall make the disclosures required in Section 12~~by paragraphs 11.41–11.44~~. If an investor applies the undue cost or effort exemption in paragraph 14.10 for any associates it shall disclose that fact, the reasons why fair value measurement would involve undue cost or effort and the carrying amount of investments in associates accounted for under the cost model.

The title of Section 15 is amended. Deleted text is struck through and new text is underlined.

Section 15
~~Investments in~~ Joint ArrangementsVentures

Paragraph 15.1 is amended. New text is underlined and deleted text is struck through.

Scope of this section

15.1 This section applies to an entity that is a party to a ~~accounting for~~ **joint arrangement~~ventures~~** in **consolidated financial statements**, if the entity is not a parent, and in the individual **financial statements** ~~of an investor that is not a **parent** but that has a **venturer**'s interest in one or more joint ventures~~. Paragraph 9.26 establishes the requirements for accounting for a party's ~~venturer's~~ interest in a jointly controlled entity ~~joint venture~~ in **separate financial statements**. References to 'party' in this section are to an entity that participates in a joint arrangement.

Paragraphs 15.2–15.3 and the heading above paragraph 15.2 are amended. Paragraph 15.2A is added. New text is underlined and deleted text is struck through.

Joint arrangements ~~ventures~~ defined

15.2 **Joint control** is the contractually agreed sharing of **control** of an arrangement, which ~~over an economic activity and~~ exists only when ~~the strategic financial and operating~~ decisions about the **relevant activities** ~~relating to the activity~~ require the unanimous consent of the parties sharing control ~~(the venturers)~~.

15.2A An entity that is a party to an arrangement shall assess whether the contractual arrangement gives all the parties, or a group of the parties, control of the arrangement collectively. All the parties, or a group of the parties, control the arrangement collectively when they must act together to direct the activities that significantly affect the returns of the arrangement (that is, the relevant activities).

15.3 A joint arrangement ~~venture~~ is an ~~a contractual~~ arrangement of which ~~whereby~~ two or more parties have ~~undertake an economic activity that is subject to~~ joint control. Joint arrangements ~~ventures~~ can take the form of jointly controlled operations, jointly controlled **assets** or **jointly controlled entities**.

Paragraphs 15.4–15.5 are amended. New text is underlined and deleted text is struck through.

Jointly controlled operations

15.4 The operation of some joint arrangements ~~ventures~~ involves the use of the assets and other resources of the parties ~~venturers~~ to the joint arrangement instead of the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the parties ~~venturers~~ themselves. Each party~~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 arrangement ~~venture~~ activities may be carried out by the party's ~~venturer's~~ employees alongside the party's ~~venturer's~~ similar activities. The joint arrangement ~~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 parties~~venturers~~.

15.5 In respect of its interests in jointly controlled operations, a party ~~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 **revenue** ~~**income**~~ that it earns from the sale of goods or services by the joint arrangement~~venture~~.

Paragraphs 15.6–15.7 are amended. New text is underlined and deleted text is struck through.

Jointly controlled assets

15.6 Some joint arrangements ~~ventures~~ involve the joint control, and often the joint ownership, by the parties ~~venturers~~ of one or more assets contributed to, or acquired for the purpose of, the joint arrangement ~~venture~~ and dedicated to the purposes of the joint arrangement~~venture~~.

15.7 In respect of its interest in a jointly controlled asset, a party ~~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 parties ~~venturers~~ in relation to the joint arrangement~~venture~~;

(d) any revenue ~~income~~ from the sale or use of its share of the output of the joint arrangement~~venture~~, together with its share of any expenses incurred by the joint arrangement~~venture~~; and

(e) any expenses that it has incurred in respect of its interest in the joint arrangement~~venture~~.

Paragraphs 15.8–15.15 are amended. New text is underlined and deleted text is struck through.

Jointly controlled entities

15.8 A jointly controlled entity is a joint arrangement ~~venture~~ that involves the establishment of a corporation, partnership or other entity in which each party ~~venturer~~ has an interest. The entity operates in the same way as other entities, except that an ~~a contractual~~ arrangement between the parties ~~venturers~~ establishes joint control ~~over the economic activity of the entity~~.

Measurement—accounting policy election

15.9 A party ~~venturer~~ shall account for all of its interests in jointly controlled entities using one of the following:

(a) the cost model in paragraph 15.10;

(b) the equity method in paragraph 15.13; or

(c) the **fair value** model in paragraph 15.14.

Cost model

15.10 A party ~~venturer~~ shall measure its investments in jointly controlled entities, other than those for which there is a published price quotation (see paragraph 15.12) at cost less any accumulated **impairment losses** recognised in accordance with Section 27 *Impairment of Assets*.

15.11 The party ~~venturer~~ shall recognise distributions received from the investment as income without regard to whether the distributions are from accumulated profits of the jointly controlled entity arising before or after the date of acquisition.

15.12 A party ~~venturer~~ shall measure its investments in jointly controlled entities for which there is a published price quotation using the fair value model (see paragraph 15.14).

Equity method

15.13 A party ~~venturer~~ shall measure its investments in jointly controlled entities using ~~by~~ the equity method following ~~using~~ the procedures in paragraph 14.8 (substituting 'joint control' where that paragraph refers to 'significant influence').

Fair value model

15.14 When an investment in a jointly controlled entity is recognised initially, a party ~~venturer~~ shall measure it at transaction price. Transaction price excludes **transaction costs**.

15.15 At each **reporting date**, a party ~~venturer~~ shall measure its investments in jointly controlled entities at fair value, with changes in fair value recognised in **profit or loss**, using the fair value measurement ~~**measurement**~~ guidance in Section 12 *Fair Value Measurement*~~paragraphs 11.27–11.32~~. A party ~~venturer~~ using the fair value model shall use the cost model for any investment in a jointly controlled entity for which fair value cannot be measured reliably without undue cost or effort.

Paragraphs 15.16–15.17 and the heading above paragraph 15.16 are amended. New text is underlined and deleted text is struck through.

Transactions between a party to the joint arrangement ~~venturer~~ and a joint arrangement~~venture~~

15.16 When a party to the joint arrangement ~~venturer~~ contributes or sells assets to a joint arrangement~~venture~~, **recognition** of any portion of a gain ~~**gain**~~ or loss from the transaction shall reflect the substance of the transaction. While the assets are retained by the joint arrangement~~venture~~, and provided the party to the joint arrangement ~~venturer~~ has transferred the significant risks and rewards of ownership, the party ~~venturer~~ shall recognise only that portion of the gain or loss that is attributable to the interests of the other parties~~venturers~~. The party ~~venturer~~ shall recognise the full amount of any loss when the contribution or sale provides evidence of an impairment loss.

15.17 When a party to the joint arrangement ~~venturer~~ purchases assets from a joint arrangement~~venture~~, that party ~~the venturer~~ shall not recognise its share of the profits of the joint arrangement ~~venture~~ from the transaction until it resells the assets to an independent party. A party to the joint arrangement ~~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 an impairment loss.

Paragraph 15.18 and the heading above paragraph 15.18 are amended. Paragraphs 15.18A–15.18B are added. New text is underlined and deleted text is struck through.

If a party ~~investor~~ does not have joint control

15.18 A party ~~An investor in a joint venture~~ that participates in, but does not have joint control of, a jointly controlled entity shall account for its interest in the arrangement ~~that investment~~ in accordance with Section 11 ~~*Basic*~~ *Financial Instruments*~~, Section 12 *Other Financial Instrument Issues* or, if~~ unless it has significant influence over the jointly controlled entity~~in the joint venture~~, in which case it shall account for it in accordance with Section 14 *Investments in Associates*.

15.18A A party that participates in, but does not have joint control of, a jointly controlled operation involving the use of assets and other resources instead of the establishment of a separate vehicle shall account for its interest in the arrangement in accordance with paragraph 15.5.

15.18B A party that participates in, but does not have joint control of, a jointly controlled asset involving joint ownership of one or more assets contributed to, or acquired for the purpose of, the joint arrangement and dedicated to the purpose of the joint arrangement shall account for its interest in the arrangement in accordance with paragraph 15.7.

Paragraphs 15.19–15.21 are amended. New text is underlined and deleted text is struck through.

Disclosures

15.19 An entity shall disclose the following:

(a) the **accounting policy** it uses for recognising its interests in jointly controlled entities;

(b) the **carrying amount** of investments in jointly controlled entities (see paragraph 4.2(k));

(c) the fair value of its investment ~~investments~~ in a jointly controlled entity~~entities~~, if a market price for the investment is quoted and the entity accounts ~~accounted~~ for the jointly controlled entity using the equity method ~~for which there are published price quotations~~; and

(d) the aggregate amount of its commitments relating to jointly controlled entities~~joint ventures~~, including its share in the ~~capital~~ commitments that have been incurred jointly with other parties~~venturers, as well as its share of the capital commitments of the joint ventures themselves~~.

15.20 For jointly controlled entities accounted for in accordance with the equity method, the party ~~venturer~~ shall also make the disclosures required by paragraph 14.14 for equity method investments.

15.21 For jointly controlled entities accounted for in accordance with the fair value model, the party ~~venturer~~ shall make the disclosures required in Section 12~~by paragraphs 11.41–11.44~~. If a party ~~venturer~~ applies the undue cost or effort exemption in paragraph 15.15 for any jointly controlled entity it shall disclose that fact, the reasons why fair value measurement would involve undue cost or effort and the carrying amount of investments in jointly controlled entities accounted for under the cost model.

Section 16
Investment Property

Paragraph 16.3A is added. Paragraphs 16.7, 16.9–16.10 are amended. New text is underlined and deleted text is struck through.

Scope of this section

16.1 This section applies to accounting for investments in land or buildings that meet the definition of **investment property** in paragraph 16.2 and some property interests held by a lessee under an **operating lease** (see paragraph 16.3) that are treated like investment property. Only investment property whose **fair value** can be measured reliably without undue cost or effort on an ongoing basis is accounted for in accordance with this section at fair value through **profit or loss**. All other investment property is accounted for using the cost model in Section 17 *Property, Plant and Equipment* and remains within the scope of Section 17 unless a reliable measure of fair value becomes available and it is expected that fair value will be reliably measurable on an ongoing basis.

Definition and initial recognition of investment property

16.2 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, instead of 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.

16.3 A property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property using this section if, and only if, the property would otherwise meet the definition of an investment property and the lessee can measure the fair value of the property interest without undue cost or effort on an ongoing basis. This classification alternative is available on a property-by-property basis.

16.3A An entity shall use its judgement to determine whether the acquisition of investment property is the acquisition of an asset or of a group of assets, or a **business combination** within the scope of Section 19 *Business Combinations and Goodwill*. Determining whether a specific transaction meets the definition of a business combination as defined in Section 19 and includes an investment property as defined in this section requires the separate application of both sections.

16.4 Mixed use property shall be separated between investment property and **property**, **plant and equipment**. However, if the fair value of the investment property component cannot be measured reliably without undue cost or effort, the entire property shall be accounted for as property, plant and equipment in accordance with Section 17.

Measurement at initial recognition

16.5 An entity shall measure investment property at its cost at initial **recognition**. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure such as legal and brokerage fees, property transfer taxes and other **transaction costs**. If payment is deferred beyond normal credit terms, the cost is the **present value** of all future payments. An entity shall determine the cost of a self-constructed investment property in accordance with paragraphs 17.10–17.14.

16.6 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 20.9, even if the lease would otherwise be classified as an operating lease if it was in the scope of Section 20 *Leases*. In other words, the **asset** is recognised at the lower of the fair value of the property and the present value of the **minimum lease payments**. An equivalent amount is recognised as a **liability** in accordance with paragraph 20.9.

Measurement after recognition

16.7 Investment property whose fair value can be measured reliably without undue cost or effort shall be measured at fair value at each **reporting date** with changes in fair value recognised in profit or loss. 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. Section 12 *Fair Value Measurement* provides ~~Paragraphs 11.27–11.32 provide~~ guidance on determining fair value. An entity shall account for all other investment property using the cost model in Section 17.

Transfers

16.8 If a reliable measure of fair value is no longer available without undue cost or effort for an item of investment property measured using the fair value model, the entity shall thereafter account for that item in accordance with Section 17 until a reliable measure of fair value becomes available. The **carrying amount** of the investment property on that date becomes its cost under Section 17. Paragraph 16.10(e)(iii) requires disclosure of this change. It is a change of circumstances and not a change in accounting policy.

16.9 Other than as required by paragraph 16.8, an entity shall transfer a property to, or from, investment property only when there is a change in use. A change in use occurs when the property ~~first~~ meets, or ceases to meet, the definition of investment property and there is evidence of the change in use.

Disclosures

16.10 An entity shall disclose the following for all investment property accounted for at fair value through profit or loss (paragraph 16.7):

~~(a)~~ ~~the methods and significant assumptions applied in determining the fair value of investment property.~~

(b) 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 class of the investment property being valued. If there has been no such valuation, that fact shall be disclosed.

(c) the existence and amounts of restrictions on the realisability of investment property or the remittance of **income** and proceeds of disposal.

(d) contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

(e) a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing separately:

   (i) additions, disclosing separately those additions resulting from acquisitions through **business combinations**;

   (ii) net gains ~~**gains**~~ or losses from fair value adjustments;

   (iii) transfers to and from investment property carried at cost less accumulated **depreciation** and **impairment** (see paragraph 16.8);

   (iv) transfers to and from **inventories** and owner-occupied property; and

   (v) other changes.

This reconciliation need not be presented for prior periods.

16.11 In accordance with Section 20, 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 lease or operating lease provides lessees' disclosures for finance leases and lessors' disclosures for any operating leases into which it has entered.

Section 17
Property, Plant and Equipment

Paragraphs 17.3, 17.4, 17.15B, 17.19, 17.21–17.23, 17.28–17.29, 17.31 and 17.33 are amended. New text is underlined and deleted text is struck through.

Scope of this section

17.1 This section applies to accounting for **property**, **plant and equipment** and accounting for **investment property** whose **fair value** cannot be measured reliably without undue cost or effort on an ongoing basis. Section 16 *Investment Property* applies to investment property whose fair value can be measured reliably without undue cost or effort.

17.2 Property, plant and equipment are tangible **assets** 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.

17.3 Property, plant and equipment does not include:

(a) **biological assets** related to **agricultural activity** other than **bearer plants** that, at initial recognition, can be measured separately from the produce on them without undue cost or effort (see Section 34 *Specialised Activities*). This section applies to such bearer plants but it does not apply to the produce on those bearer plants.~~; or~~

(b) mineral rights and mineral reserves, such as oil, natural gas and similar non-regenerative resources.

Recognition

17.4 ~~An entity shall apply the **recognition** criteria in paragraph 2.27 in determining whether to recognise an item of property, plant or equipment. Consequently, the~~ An entity shall recognise the cost of an item of property, plant and equipment 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.

17.5 Items such as spare parts, stand-by equipment and servicing equipment are recognised in accordance with this section when they meet the definition of property, plant and equipment. Otherwise, such items are classified as **inventory**.

17.6 Parts of some items of property, plant and equipment may require replacement at regular intervals (for example, the roof of a building). An entity shall add to 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 replacement part is expected to provide incremental future benefits to the entity. The carrying amount of those parts that are replaced is **derecognised** in accordance with paragraphs 17.27–17.30 regardless of whether the replaced parts had been depreciated separately. If it is not practicable for an entity to determine the carrying amount of the replaced part, the entity 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. Paragraph 17.16 provides that if the major components of an item of property, plant and equipment have significantly different patterns of consumption of economic benefits, an entity shall allocate the initial cost of the asset to its major components and **depreciate** each such component separately over its **useful life**.

17.7 A condition of continuing to operate an item of property, plant and equipment (for example, a bus) 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 major inspection (as distinct from physical parts) is derecognised. This is done regardless of whether the cost of the previous major 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.

17.8 Land and buildings are separable assets and an entity shall account for them separately, even when they are acquired together.

Measurement at recognition

17.9 An entity shall measure an item of property, plant and equipment at initial recognition at its cost.

Elements of cost

17.10 The cost of an item of property, plant and equipment comprises all of the following:

(a) its purchase price, including legal and brokerage fees, 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. These can include the costs of site preparation, initial delivery and handling, installation and assembly and testing of functionality.

(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.

17.11 The following costs are not costs of an item of property, plant and equipment and an entity shall recognise them as an **expense** when they are incurred:

(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);

(d) administration and other general overhead costs; and

(e) **borrowing costs** (see Section 25 *Borrowing Costs*).

17.12 The **income** and related expenses of incidental operations during construction or development of an item of property, plant and equipment are recognised in **profit or loss** if those operations are not necessary to bring the item to its intended location and operating condition.

Measurement of cost

17.13 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 cost is the **present value** of all future payments.

Exchanges of assets

17.14 An item of property, plant or equipment may be acquired in exchange for a non-monetary asset, or assets, or a combination of monetary and non-monetary assets. An entity shall measure the cost of the acquired asset 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. In that case, the asset's cost is measured at the carrying amount of the asset given up.

Measurement after initial recognition

17.15 An entity shall choose either the cost model in paragraph 17.15A or the revaluation model in paragraph 17.15B as its accounting policy and shall apply that policy to an entire class of property, plant and equipment. An entity shall apply the cost model to investment property whose fair value cannot be measured reliably without undue cost or effort. An entity shall recognise the costs of day-to-day servicing of an item of property, plant and equipment in profit or loss in the period in which the costs are incurred.

Cost-model

17.15A An entity shall measure an item of property, plant and equipment after initial recognition at cost less any accumulated **depreciation** and any accumulated **impairment losses**.

Revaluation model

17.15B An entity shall measure an item of property, plant and equipment whose fair value can be measured reliably 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 end of the **reporting period**. Section 12 *Fair Value Measurement* provides ~~Paragraphs 11.27–11.32 provide~~ guidance on determining fair value. 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.

17.15C If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in **other comprehensive income** and accumulated in **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.

17.15D 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 recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.

Depreciation

17.16 If the major components of an item of property, plant and equipment have significantly different patterns of consumption of economic benefits, an entity shall allocate the initial cost of the asset to its major components and depreciate each such component separately over its useful life. Other assets shall be depreciated over their useful lives as a single asset. With some exceptions, such as quarries and sites used for landfill, land has an unlimited useful life and therefore is not depreciated.

17.17 The depreciation charge for each period shall be recognised in profit or loss unless another section of this Standard requires the cost to be recognised as part of the cost of an asset. For example, the depreciation of manufacturing property, plant and equipment is included in the costs of inventories (see Section 13 *Inventories*).

Depreciable amount and depreciation period

17.18 An entity shall allocate the **depreciable amount** of an asset on a systematic basis over its useful life.

17.19 Factors such as a change in how an asset is used, significant unexpected wear and tear, technological advancement and changes in market prices may indicate that the **residual value** or useful life of an asset has changed since the most recent annual **reporting date**. If such indicators are present, an entity shall review its previous estimates and, if current expectations differ, amend the residual value, depreciation method or useful life. The entity shall account for the change in residual value, depreciation method or useful life as a change in an **accounting estimate** in accordance with Section 10 *Accounting Policies, Estimates and Errors*~~paragraphs 10.15–10.18~~.

17.20 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. Depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. However, under usage methods of depreciation the depreciation charge can be zero while there is no production.

17.21 An entity shall consider all the following factors in determining the useful life of an asset:

(a) the 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. Expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technical or commercial obsolescence of the asset.

(d) legal or similar limits on the use of the asset, such as the expiry dates of related **leases**.

Depreciation method

17.22 An entity shall select a depreciation method that reflects the pattern in which it expects to consume the asset's future economic benefits. The possible depreciation methods include the straight-line method, the diminishing balance method and a method based on usage such as the units of production method. A depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate.

17.23 If there is an indication that there has been a significant change since the last annual reporting date in the pattern by which an entity expects to consume an asset's future economic benefits, the entity shall review its present depreciation method and, if current expectations differ, change the depreciation method to reflect the new pattern. The entity shall account for the change as a change in an accounting estimate in accordance with Section 10~~paragraphs 10.15–10.18~~.

Impairment

Recognition and measurement of impairment

17.24 At each reporting date, an entity shall apply Section 27 *Impairment of Assets* to determine whether an item or group of items of property, plant and equipment is impaired and, if so, how to recognise and measure the impairment loss. That section explains when and 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 an impairment loss.

Compensation for impairment

17.25 An entity shall include in profit or loss compensation from third parties for items of property, plant and equipment that were impaired, lost or given up only when the compensation becomes receivable.

Property, plant and equipment held for sale

17.26 Paragraph 27.9(f) states that a plan to dispose of an asset before the previously expected date is an indicator of impairment that triggers the calculation of the asset's recoverable amount for the purpose of determining whether the asset is impaired.

Derecognition

17.27 An entity shall derecognise an item of property, plant and equipment:

(a) on disposal; or

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

17.28 An entity shall recognise the gain ~~**gain**~~ or loss on the **derecognition** of an item of property, plant and equipment in profit or loss when the item is derecognised (unless Section 20 *Leases* requires otherwise on a sale and leaseback). The entity shall not classify such gains as **revenue**.

17.29 The ~~In determining the~~ date of disposal of an item is the date the recipient obtains control of that item in accordance with the requirements in paragraphs 23.83–23.87 for determining when a promise is satisfied.~~, an entity shall apply the criteria in Section 23 *Revenue* for recognising revenue from the sale of goods.~~ Section 20 applies to disposal by a sale and leaseback.

17.30 An entity shall determine the gain or loss arising from the derecognition of an item of property, plant and equipment as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Disclosures

17.31 An entity shall disclose the following for each class of property, plant and equipment determined in accordance with paragraph 4.11(a) and separately for investment property carried at cost less accumulated depreciation and impairment:

(a) the measurement ~~**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 reporting period; and

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

(i) additions;

(ii) disposals;

(iii) acquisitions through **business combinations**;

(iv) increases or decreases resulting from revaluations under paragraphs 17.15B–17.15D and from impairment losses recognised or reversed in other comprehensive income in accordance with Section 27;

(v) transfers to and from investment property carried at fair value through profit or loss (see paragraph 16.8);

(vi) impairment losses recognised or reversed in profit or loss in accordance with Section 27;

(vii) depreciation; and

(viii) other changes.

This reconciliation need not be presented for prior periods.

17.32 An entity shall also disclose the following:

(a) the existence and carrying amounts of property, plant and equipment to which the entity has restricted title or that is pledged as security for **liabilities**;

(b) the amount of contractual commitments for the acquisition of property, plant and equipment; and

(c) if an entity has investment property whose fair value cannot be measured reliably without undue cost or effort it shall disclose that fact and the reasons why fair value measurement would involve undue cost or effort for those items of investment property.

17.33 If items of property, plant and equipment are stated at revalued amounts, an entity shall disclose the following:

(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;~~

(d) 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

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

Section 18
Intangible Assets other than Goodwill

Paragraphs 18.1–18.2, 18.4, 18.24 and 18.26–18.27 are amended. Paragraph 18.22A and a footnote to paragraph 18.4 are added. New text is underlined and deleted text is struck through.

Scope of this section

18.1 This section applies to accounting for all **intangible assets** other than **goodwill** (see Section 19 *Business Combinations and Goodwill*)~~, and~~ intangible assets held by an entity for sale in the ordinary course of business (see Section 13 *Inventories* ~~and Section 23 *Revenue*~~) and assets arising from **contracts** with **customers** that are recognised in accordance with Section 23 *Revenue from Contracts with Customers*.

18.2 An intangible asset is an identifiable non-monetary asset ~~**asset**~~ without physical substance. Such an asset is identifiable when:

(a) it is separable, ie capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or **liability**; or

(b) it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

18.3 This section does not apply to the following:

(a) **financial assets**; or

(b) mineral rights and mineral reserves, such as oil, natural gas and similar non-regenerative resources.

Recognition

General principle for recognising intangible assets

18.4 ~~An entity shall apply the **recognition** criteria in paragraph 2.27 in determining whether to recognise an intangible asset. Consequently, the~~An entity shall recognise an intangible asset as an asset if, and only if:

(a) it is **probable** that the expected future economic benefits that are attributable to the asset will flow to the entity;

(b) the cost or value of the asset can be measured reliably; and

(c) the asset does not result from expenditure incurred internally on an intangible item.[3]

3 This section uses the term asset in a way that differs in some respects from the definition of an asset in paragraph 2.43 and the Glossary. For the purpose of this section, an asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.

18.5 An entity shall assess the probability of expected future economic benefits using reasonable and supportable assumptions that represent management's best estimate of the economic conditions that will exist over the **useful life** of the asset.

18.6 An entity uses judgement to assess the degree of certainty attached to the flow of future economic benefits that are attributable to the use of the asset on the basis of the evidence available at the time of initial recognition, giving greater weight to external evidence.

18.7 The probability recognition criterion in paragraph 18.4(a) is always considered satisfied for intangible assets that are separately acquired.

Acquisition as part of a business combination

18.8 An intangible asset acquired in a **business combination** shall be recognised unless its **fair value** cannot be measured reliably without undue cost or effort at the acquisition date.

Initial measurement

18.9 An entity shall measure an intangible asset initially at cost.

Separate acquisition

18.10 The cost of a separately acquired 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.

Acquisition as part of a business combination

18.11 If an intangible asset is acquired in a business combination, the cost of that intangible asset is its fair value at the acquisition date.

Acquisition by way of a government grant

18.12 If an intangible asset is acquired by way of a **government grant**, the cost of that intangible asset is its fair value at the date the grant is received or receivable in accordance with Section 24 *Government Grants*.

Exchanges of assets

18.13 An intangible asset may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. An entity shall measure the cost of such an intangible asset 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. In that case, the asset's cost is measured at the **carrying amount** of the asset given up.

Internally generated intangible assets

18.14 An entity shall recognise expenditure incurred internally on an intangible item, including all expenditure for both **research** and **development** activities, as an **expense** when it is incurred unless it forms part of the cost of another asset that meets the recognition criteria in this Standard.

18.15 As examples of applying the preceding paragraph, an entity shall recognise expenditure on the following items as an expense and shall not recognise such expenditure as intangible assets:

(a) internally generated brands, logos, publishing titles, customer lists and items similar in substance;

(b) start-up activities (ie start-up costs), which include establishment costs such as legal and secretarial costs incurred in establishing a legal entity, expenditure to open a new facility or business (ie pre-opening costs) and expenditure for starting new operations or launching new products or processes (ie pre-operating costs);

(c) training activities;

(d) advertising and promotional activities;

(e) relocating or reorganising part or all of an entity; and

(f) internally generated goodwill.

18.16 Paragraph 18.15 does not preclude recognising a prepayment as an asset when payment for goods or services has been made in advance of the delivery of the goods or the rendering of the services.

Past expenses not to be recognised as an asset

18.17 Expenditure on an intangible item that was initially recognised as an expense shall not be recognised at a later date as part of the cost of an asset.

Measurement after recognition

18.18 An entity shall measure intangible assets at cost less any accumulated **amortisation** and any accumulated **impairment losses**. The requirements for amortisation are set out in this section. The requirements for recognition of impairment are set out in Section 27 *Impairment of Assets*.

Useful life

18.19 For the purpose of this Standard, all intangible assets shall be considered to have a finite useful life. The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights, but may be shorter depending on the period over which the entity expects to use the asset. If the contractual or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost.

18.20 If the useful life of an intangible asset cannot be established reliably, the life shall be determined based on management's best estimate but shall not exceed ten years.

Amortisation period and amortisation method

18.21 An entity shall allocate the **depreciable amount** of an intangible asset on a systematic basis over its useful life. The amortisation charge for each period shall be recognised as an expense, unless another section of this Standard requires the cost to be recognised as part of the cost of an asset such as **inventories** or **property**, **plant and equipment**.

18.22 Amortisation begins when the intangible asset is available for use, ie when it is in the location and condition necessary for it to be usable in the manner intended by management. Amortisation ceases when the asset is derecognised. The entity shall choose an amortisation method that reflects the pattern in which it expects to consume the asset's future economic benefits. If the entity cannot determine that pattern reliably, it shall use the straight-line method.

18.22A There is a presumption that an amortisation method based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate. However, an entity can rebut this presumption and use an amortisation method based on revenue generated by an activity that includes the use of an intangible asset only in the limited circumstances:

(a) in which the intangible asset is expressed as a measure of revenue (that is, when rights over the use of an intangible asset are specified as a fixed total amount of revenue to be generated); or

(b) when it can be demonstrated that revenue and the consumption of the intangible asset's future economic benefits are highly correlated.

Residual value

18.23 An entity shall assume that the **residual value** of an intangible asset is zero unless:

(a) there is a commitment by a third party to purchase the asset at the end of its useful life; or

(b) there is an **active market** for the asset and:

  (i) residual value can be determined by reference to that market; and

  (ii) it is probable that such a market will exist at the end of the asset's useful life.

Review of amortisation period and amortisation method

18.24 Factors such as a change in how an intangible asset is used, technological advancement,~~;~~ and changes in market prices may indicate that the residual value or useful life of an intangible asset has changed since the most recent annual **reporting date**. If such indicators are present, an entity shall review its previous estimates and, if current expectations differ, amend the residual value, amortisation method or useful life. The entity shall account for the change in residual value, amortisation method or useful life as a change in ~~**change in an**~~ **accounting estimate** in accordance with Section 10 *Accounting Policies, Estimates and Errors*~~paragraphs 10.15–10.18~~.

Recoverability of the carrying amount—impairment losses

18.25 To determine whether an intangible asset is impaired, an entity shall apply Section 27. That section explains when and 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 an impairment loss.

Retirements and disposals

18.26 An entity shall derecognise an intangible asset, and shall recognise a gain ~~**gain**~~ or loss in **profit or loss**:

(a) on disposal; or

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

Disclosures

18.27 An entity shall disclose the following for each class of intangible assets:

(a) the useful lives or the amortisation rates used;

(b) the amortisation methods used;

(c) the gross carrying amount and any accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the **reporting period**;

(d) the line item(s) in the **statement of comprehensive income** (and in the **income statement**, if presented) in which any amortisation of intangible assets is included; and

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

(i) additions;

(ii) disposals;

(iii) acquisitions through business combinations;

(iv) amortisation;

(v) impairment losses recognised or reversed in profit or loss in accordance with Section 27; and

(vi) other changes.

This reconciliation need not be presented for prior periods.

18.28 An entity shall also disclose:

(a) a description, the carrying amount and remaining amortisation period of any individual intangible asset that is **material** to the entity's **financial statements**;

(b) for intangible assets acquired by way of a government grant and initially recognised at fair value (see paragraph 18.12):

(i) the fair value initially recognised for these assets; and

(ii) their carrying amounts.

(c) the existence and carrying amounts of intangible assets to which the entity has restricted title or that are pledged as security for liabilities; and

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

18.29 An entity shall disclose the aggregate amount of research and development expenditure recognised as an expense during the period (ie the amount of expenditure incurred internally on research and development that has not been capitalised as part of the cost of another asset that meets the recognition criteria in this Standard).

Section 19
Business Combinations and Goodwill

Paragraphs 19.1–19.2 are amended. New text is underlined and deleted text is struck through.

Scope of this section

19.1 This section applies to a transaction or other event that meets the definition of a ~~accounting for~~ **business combination** ~~**combinations**~~ (see paragraph 19.3). It establishes principles and requirements for how ~~provides guidance on identifying~~ the **acquirer**~~acquirer~~:

(a) recognises and measures in its financial statements the identifiable~~, measuring the cost of the business combination and allocating that cost to the~~ **assets** acquired, ~~and~~ ~~**liabilities**~~ ~~and~~ ~~**provisions**~~ ~~for~~ ~~**contingent**~~ the **liabilities** assumed and any **non-controlling interest** in the **acquiree**; and

(b) recognises and measures the ~~. It also addresses accounting for~~ **goodwill** acquired (both at the time of a business combination and subsequently) or a gain from a bargain purchase.

19.2 This section does not apply to: ~~specifies the accounting for all business combinations except:~~

(a) combinations of entities or **businesses** under common **control**. Common control means that all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

(b) formations ~~the formation~~ of a **joint arrangement** ~~**venture**~~ in the financial statements of the joint arrangement itself.

(c) acquisitions of an asset or a group of assets that does ~~do~~ not constitute a business.

Paragraph 19.2A is added. Paragraphs 19.3–19.4 are amended. Paragraph 19.5 is deleted. New text is underlined and deleted text is struck through.

Business combinations defined

19.2A An entity shall determine whether a transaction or other event is a business combination by applying the definition in paragraph 19.3, which requires that the assets acquired and the liabilities assumed constitute a business. If the assets acquired do not constitute a business, the **reporting entity** shall account for the transaction or other event as an asset acquisition. Paragraphs 19A.1–19A.10 provide guidance on the definition of a business.

19.3 A business combination is a transaction or other event in which an ~~the bringing together of separate entities or businesses into one reporting entity. The result of nearly all business combinations is that one entity, the~~ acquirer~~,~~ obtains control of one or more ~~other~~ businesses~~, the acquiree~~. ~~The acquisition date is the date on which the acquirer obtains control of the acquiree.~~ An acquirer might obtain control of an acquiree in a variety of ways, for example:

(a) by transferring **cash**, **cash equivalents** or other assets (including net assets that constitute a business);

(b) by incurring liabilities;

(c) by issuing equity instruments; or

(d) by providing more than one type of consideration.

19.4 A business combination may be structured in a variety of ways for legal, taxation or other reasons, which include but are not limited to:~~. It may involve the purchase by an entity of the **equity** of another entity, the purchase of all the net assets of another entity, the assumption of the liabilities of another entity, or the purchase of some of the net assets of another entity that together form one or more businesses.~~

(a) one or more businesses become subsidiaries of an acquirer or the net assets of one or more businesses are legally merged into the acquirer;

(b) one combining entity transfers its net assets, or its **owners** transfer their equity instruments, to another combining entity or its owners;

(c) all of the combining entities transfer their net assets, or the owners of those entities transfer their equity interests, to a newly formed entity; or

(d) a group of former owners of one of the combining entities obtains control of the combined entity.

~~19.5~~ ~~A business combination may be effected by the issue of equity instruments, the transfer of **cash**, **cash equivalents** or other assets, or a mixture of these. The transaction may be between the shareholders of the combining entities or between one entity and the shareholders of another entity. It may involve the establishment of a new entity to control the combining entities or net assets transferred, or the restructuring of one or more of the combining entities.~~

Paragraphs 19.6–19.10 are amended. New text is underlined and deleted text is struck through.

Accounting

19.6 An entity shall account for each ~~All~~ business combination ~~combinations shall be accounted for~~ by applying the acquisition ~~purchase~~ method.

19.7 Applying the acquisition ~~purchase~~ method requires~~involves the following steps~~:

(a) identifying the ~~an~~ acquirer;

(aa) determining the acquisition date;

(b) recognising and measuring identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree~~the cost of the business combination~~; and

(c) recognising and measuring goodwill or a gain from a bargain purchase ~~allocating, at the acquisition date, the cost of the business combination to the assets acquired and liabilities and provisions for contingent liabilities assumed~~.

Identifying the acquirer

19.8 For each business combination, one of the combining entities shall be identified as the acquirer.~~An acquirer shall be identified for all business combinations. The acquirer is the combining entity that obtains control of the other combining entities or businesses.~~

19.9 The requirement ~~Control is the power to govern the financial and operating policies of an entity or business so as to obtain benefits from its activities. Control of one entity by another is described~~ in Section 9 *Consolidated and Separate Financial Statements* shall be used to identify the acquirer—that is, the entity that obtains control of the acquiree.

19.10 If a business combination has occurred but applying the requirements in Section 9 does not clearly indicate which of the combining entities is the acquirer, the factors in paragraphs 19A.11–19A.15 shall be considered in making that determination.~~Although it may sometimes be difficult to identify an acquirer, there are usually indications that one exists. For example:~~

~~(a)~~ ~~if the **fair value** of one of the combining entities is significantly greater than that of the other combining entity, the entity with the greater fair value is likely to be the acquirer;~~

~~(b)~~ ~~if the business combination is effected through an exchange of voting ordinary equity instruments for cash or other assets, the entity giving up cash or other assets is likely to be the acquirer; and~~

~~(c) if the business combination results in the management of one of the combining entities being able to dominate the selection of the management team of the resulting combined entity, the entity whose management is able so to dominate is likely to be the acquirer.~~

Paragraph 19.10A and the heading above paragraph 19.10A are added. New text is underlined.

Determining the acquisition date

19.10A The acquirer shall identify the acquisition date, which is the date on which it obtains control of the acquiree.

Paragraphs 19.10B–19.10L and the headings above paragraphs 19.10B, 19.10D and 19.10F are added. New text is underlined.

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

Recognition principle

19.10B At the acquisition date, the acquirer shall recognise, separately from the goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree, if, and only if, the conditions in paragraph 19.10C are met.

19.10C To qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must:

(a) meet the definitions of assets and liabilities in Section 2 *Concepts and Pervasive Principles* at the acquisition date; and

(b) be part of what the acquirer and the acquiree (or its former owners) exchanged in the business combination transaction rather than the result of separate transactions (see paragraph 19.19A).

Measurement principle

19.10D The acquirer shall measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.

19.10E For each business combination, the acquirer shall measure at the acquisition date any non-controlling interests in the acquiree at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Exceptions to the recognition or measurement principles

19.10F Paragraphs 19.10G–19.10L provide exceptions to the recognition and measurement principles set out in paragraphs 19.10B–19.10E and specify both the particular items for which exceptions are provided and the nature of those exceptions.

19.10G In accordance with paragraph 18.8, an acquirer shall recognise an **intangible asset** acquired in a business combination, that meets the recognition principles set out in Section 18 *Intangible Assets other than Goodwill*, if its fair value can be measured reliably without undue cost or effort at the acquisition date.

19.10H For liabilities and **contingent liabilities** that would be within the scope of Section 21 *Provisions and Contingencies* if they were incurred separately rather than assumed in a business combination, an acquirer shall apply paragraph 21.6 to determine whether at the acquisition date a present obligation exists as a result of past events for a **provision** or contingent liability.

19.10I Paragraph 19.10J applies to a present obligation identified in accordance with paragraph 19.10H that meets the definition of a contingent liability as set out in paragraph 21.12 (that is, when it is a present obligation that exists but would not be recognised in accordance with Section 21 because it fails to meet one or both of the conditions (b) and (c) in paragraph 21.4).

19.10J At the acquisition date, the acquirer shall recognise a contingent liability assumed in a business combination if it is a present obligation that arises from past events and its fair value can be measured reliably. Therefore, contrary to paragraphs 21.4(b) and 21.12, the acquirer recognises a contingent liability assumed in a business combination at the acquisition date even if it is not probable that the acquirer will be required to transfer economic benefits in settlement.

19.10K A **deferred tax asset** or **deferred tax liability** arising from the assets acquired and liabilities assumed in a business combination shall be recognised and measured in accordance with Section 29 *Income Tax*.

19.10L A liability (or asset, if any) related to the acquiree's **employee benefit** arrangements shall be recognised and measured in accordance with Section 28 *Employee Benefits*.

Paragraphs 19.10M–19.10O and the headings above paragraphs 19.10M and 19.10N are added. New text is underlined.

Recognising and measuring goodwill or a gain from a bargain purchase

19.10M The acquirer shall recognise goodwill as of the acquisition date measured as the excess of (a) over (b) below:

(a) the aggregate of:

(i) the consideration transferred measured in accordance with paragraph 19.11, which generally requires acquisition-date fair value;

(ii) the amount of any non-controlling interest in the acquiree measured in accordance with paragraph 19.10E; and

(iii) in a business combination achieved in stages (see paragraphs 19.13B–19.13C), the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.

(b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with paragraphs 19.10D–19.10L.

Bargain purchases (sometimes referred to as 'negative goodwill')

19.10N Occasionally, an acquirer will make a bargain purchase, which is a business combination in which the amount in paragraph 19.10M(b) exceeds the aggregate of the amounts specified in paragraph 19.10M(a). If that excess remains after applying paragraph 19.10O, the acquirer shall recognise the resulting gain in profit or loss on the acquisition date. The gain shall be attributed to the acquirer.

19.10O Before recognising a gain on a bargain purchase, the acquirer shall reassess whether it has correctly identified all of the assets acquired and all of the liabilities assumed and shall recognise any additional assets or liabilities that are identified in that reassessment. The acquirer shall then review the procedures used to measure the amounts required to be recognised at the acquisition date for all of the following:

(a) the identifiable assets acquired and the liabilities assumed;

(b) for a business combination achieved in stages, the acquirer's previously held equity interest in the acquiree; and

(c) the consideration transferred.

Paragraph 19.11 is amended. The heading above paragraph 19.11 is deleted and the heading above paragraph 19.11 is added. New text is underlined and deleted text is struck through.

~~Cost of a business combination~~

Consideration transferred

19.11 The consideration transferred in a business combination acquirer ~~acquirer~~ shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity instruments issued by the acquirer. Examples of potential forms of consideration include cash, other assets, a business or a subsidiary of the acquirer, **contingent consideration**, ordinary or preference equity instruments, options and warrants. ~~measure the cost of a business combination as the aggregate of:~~

~~(a)~~ ~~the fair values, at the date of acquisition, of assets given, liabilities incurred or assumed and equity instruments issued by the acquirer, in exchange for control of the acquiree; plus~~

~~(b)~~ ~~any costs directly attributable to the business combination.~~

Paragraphs 19.12–19.13 are amended. Paragraph 19.13A is added. The heading above 19.12 is deleted and the heading above 19.12 is added. New text is underlined and deleted text is struck through.

~~Adjustments to the cost of a business combination contingent on future events~~

Contingent consideration

19.12 The consideration the acquirer transfers in exchange for the acquiree includes any asset or liability resulting from a contingent consideration arrangement (see paragraph 19.11). The acquirer shall recognise the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquiree if it can be measured reliably.~~When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events, the acquirer shall include the estimated amount of that adjustment in the cost of the combination at the acquisition date if the adjustment is **probable** and can be measured reliably.~~

19.13 However, if the acquisition-date fair value of contingent consideration cannot be measured reliably without undue cost or effort, the acquirer shall recognise, at the acquisition date, an estimate of the most likely amount of contingent consideration~~ potential adjustment is not recognised at the acquisition date but subsequently becomes probable and can be measured reliably, the additional consideration shall be treated as an adjustment to the cost of the combination~~.

19.13A The acquirer shall classify an obligation to pay contingent consideration that meets the definition of a **financial instrument** as a **financial liability** or as **equity** on the basis of the definitions of an equity instrument and a financial liability in Section 22 *Liabilities and Equity*. The acquirer shall classify as an asset a right to the return of previously transferred consideration if specified conditions are met. Paragraph 19.23B provides guidance on the subsequent accounting for contingent consideration.

Paragraphs 19.13B–19.13C and the heading above paragraph 19.13B are added. New text is underlined.

A business combination achieved in stages (so-called 'step acquisition')

19.13B An acquirer sometimes obtains control of an acquiree in which it held an equity interest immediately before the acquisition date. If this is the case, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss.

19.13C When a party to a joint arrangement obtains control of a business that is a jointly controlled operation or a jointly controlled asset immediately before the acquisition date, the transaction is a business combination achieved in stages. The acquirer shall therefore apply the requirements for a business combination achieved in stages, including remeasuring its entire previously held interest in the jointly controlled operation or the jointly controlled asset in accordance with paragraph 19.13B.

Paragraphs 19.14–19.18 are deleted. Deleted text is struck through.

~~Allocating the cost of a business combination to the assets acquired and liabilities and contingent liabilities assumed~~

~~19.14~~ ~~The acquirer shall, at the acquisition date, allocate the cost of a business combination by recognising the acquiree's identifiable assets and liabilities and a provision for those contingent liabilities that satisfy the **recognition** criteria in paragraph 19.15 at their fair values at that date except as follows:~~

~~(a)~~ ~~a **deferred tax asset** or **deferred tax liability** arising from the assets acquired and liabilities assumed in a business combination shall be recognised and measured in accordance with Section 29 *Income Tax*; and~~

~~(b)~~ ~~a liability (or asset, if any) related to the acquiree's **employee benefit** arrangements shall be recognised and measured in accordance with Section 28 *Employee Benefits*.~~

~~Any difference between the cost of the business combination and the acquirer's interest in the net fair value of the identifiable assets, liabilities and provisions for contingent liabilities so recognised shall be accounted for in accordance with paragraphs 19.22–19.24 (as goodwill or so-called 'negative goodwill'). Any **non-controlling interest** in the acquiree is measured at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.~~

~~19.15~~ ~~The acquirer shall recognise separately the acquiree's identifiable assets, liabilities and contingent liabilities at the acquisition date only if they satisfy the following criteria at that date:~~

~~(a)~~ ~~in the case of an asset other than an **intangible asset**, it is probable that any associated future economic benefits will flow to the acquirer and its fair value can be measured reliably;~~

~~(b)~~ ~~in the case of a liability other than a contingent liability, it is probable that an outflow of resources will be required to settle the obligation and its fair value can be measured reliably;~~

~~(c)~~ ~~in the case of an intangible asset, its fair value can be measured reliably without undue cost or effort; and~~

~~(d)~~ ~~in the case of a contingent liability, its fair value can be measured reliably.~~

~~19.16~~ ~~The acquirer's **statement of comprehensive income** shall incorporate the acquiree's profits and losses after the acquisition date by including the acquiree's **income** and **expenses** based on the cost of the business combination to the acquirer. For example, **depreciation** expense included~~

~~after the acquisition date in the acquirer's statement of comprehensive income that relates to the acquiree's depreciable assets shall be based on the fair values of those depreciable assets at the acquisition date, ie their cost to the acquirer.~~

~~19.17~~ ~~Application of the purchase method starts from the acquisition date, which is the date on which the acquirer obtains control of the acquiree. Because control is the power to govern the financial and operating policies of an entity or business so as to obtain benefits from its activities, it is not necessary for a transaction to be closed or finalised at law before the acquirer obtains control. All pertinent facts and circumstances surrounding a business combination shall be considered in assessing when the acquirer has obtained control.~~

~~19.18~~ ~~In accordance with paragraph 19.14, the acquirer recognises separately only the identifiable assets, liabilities and contingent liabilities of the acquiree that existed at the acquisition date and that satisfy the recognition criteria in paragraph 19.15. Consequently:~~

~~(a)~~ ~~the acquirer shall recognise liabilities for terminating or reducing the activities of the acquiree as part of allocating the cost of the combination only when the acquiree has, at the acquisition date, an existing liability for restructuring recognised in accordance with Section 21 *Provisions and Contingencies*; and~~

~~(b)~~ ~~the acquirer, when allocating the cost of the combination, shall not recognise liabilities for future losses or other costs expected to be incurred as a result of the business combination.~~

Paragraph 19.19 is amended and the heading above paragraph 19.19 is added. New text is underlined.

<u>Measurement period</u>

19.19 If the initial accounting for a business combination is incomplete by the end of the **reporting period** in which the combination occurs, the acquirer shall recognise in its **financial statements** provisional amounts for the items for which the accounting is incomplete. Within twelve months after the acquisition date, the acquirer shall retrospectively adjust the provisional amounts recognised as assets and liabilities at the acquisition date (ie account for them as if they were made at the acquisition date) to reflect new information obtained<u> about any relevant facts and circumstances that existed at the acquisition date. Any adjustments made will affect the goodwill acquired or a gain from a bargain purchase recognised</u>. Beyond twelve months after the acquisition date, adjustments to the initial accounting for a business combination shall be recognised only to correct an **error** in accordance with Section 10 *Accounting Policies, Estimates and Errors*.

Paragraph 19.19A and the heading above paragraph 19.19A are added. New text is underlined.

Acquisition-related costs

19.19A Acquisition-related costs are costs the acquirer incurs to effect a business combination. Those costs are to be accounted for separately from the business combination. The acquirer shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception: the cost to issue debt or equity securities shall be recognised in accordance with Section 11 and Section 22, respectively.

Paragraph 19.19B and the heading above paragraph 19.19B are added. New text is underlined.

Subsequent measurement and accounting

19.19B In general, an acquirer shall subsequently measure and account for assets acquired, liabilities assumed or incurred and equity instruments issued in a business combination in accordance with the applicable sections of this Standard. However, paragraphs 19.23–19.23B provide guidance on subsequently measuring and accounting for:

(a) goodwill;

(b) contingent liabilities recognised as of the acquisition date; and

(c) contingent consideration.

Paragraphs 19.20–19.21 and the heading above paragraph 19.20 are deleted. Deleted text is struck through.

~~Contingent liabilities~~

~~19.20 Paragraph 19.15 specifies that the acquirer recognises separately a provision for a contingent liability of the acquiree only if its fair value can be measured reliably. If its fair value cannot be measured reliably:~~

~~(a) there is a resulting effect on the amount recognised as goodwill or accounted for in accordance with paragraph 19.24; and~~

~~(b) the acquirer shall disclose the information about that contingent liability as required by Section 21.~~

~~19.21 After their initial recognition, the acquirer shall measure contingent liabilities that are recognised separately in accordance with paragraph 19.15 at the higher of:~~

~~(a) the amount that would be recognised in accordance with Section 21; and~~

~~(b) the amount initially recognised less amounts previously recognised as **revenue** in accordance with Section 23 *Revenue*.~~

Paragraph 19.22 is deleted and paragraph 19.23 is amended. New text is underlined and deleted text is struck through.

Goodwill

~~19.22~~ ~~The acquirer shall, at the acquisition date:~~

~~(a)~~ ~~recognise goodwill acquired in a business combination as an asset; and~~

~~(b)~~ ~~initially measure that goodwill at its cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised in accordance with paragraph 19.14.~~

19.23 After its initial recognition, the acquirer shall measure goodwill acquired in a business combination at cost less accumulated **amortisation** and accumulated **impairment losses**:

(a) the acquirer ~~an entity~~ shall follow the principles in paragraphs 18.19–18.24 for amortisation of goodwill. If the **useful life** of goodwill cannot be established reliably, the life shall be determined based on management's best estimate but shall not exceed ten years.

(b) the acquirer ~~an entity~~ shall follow Section 27 *Impairment of Assets* for recognising and measuring the impairment of goodwill.

Paragraphs 19.23A–19.23B and the headings above these paragraphs are added. New text is underlined.

Contingent liabilities

19.23A After their initial recognition and until the liability is settled, cancelled or expires, the acquirer shall measure a contingent liability recognised in a business combination at the higher of:

(a) the amount that would be recognised in accordance with Section 21; and

(b) the amount initially recognised less, if appropriate, the cumulative amount of **income** recognised in accordance with the principles of Section 23 *Revenue from Contracts with Customers*.

Contingent consideration

19.23B Except for those changes in the amount of contingent consideration that are measurement period adjustments in accordance with paragraph 19.19, changes resulting from events after the acquisition date, such as meeting an earnings target, reaching a specified share price or reaching a milestone on a research and development project, are not measurement period adjustments. The acquirer shall account for changes in the amount of contingent consideration that are not measurement period adjustments as follows:

(a) contingent consideration classified as equity shall not be remeasured and its subsequent settlement shall be accounted for within equity.

(b) other contingent consideration that:

(i) is within the scope of Part II of Section 11 *Other Financial Instrument Issues* (whose fair value can be measured reliably without undue cost or effort) shall be measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

(ii) is not within the scope of Part II of Section 11 (whose fair value cannot be measured reliably without undue cost or effort (see paragraph 19.13)) shall be reviewed at each reporting date and adjusted to reflect the current estimate of the most likely amount of the contingent consideration at that reporting date. Any adjustments to the amounts previously recognised shall be recognised in profit or loss.

Paragraph 19.24 and the heading above paragraph 19.24 are deleted. Deleted text is struck through.

~~Excess over cost of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities~~

~~19.24~~ ~~If the acquirer's interest in the net fair value of the identifiable assets, liabilities and provisions for contingent liabilities recognised in accordance with paragraph 19.14 exceeds the cost of the business combination (sometimes referred to as 'negative goodwill'), the acquirer shall:~~

~~(a)~~ ~~reassess the identification and **measurement** of the acquiree's assets, liabilities and provisions for contingent liabilities and the measurement of the cost of the combination; and~~

~~(b)~~ ~~recognise immediately in **profit or loss** any excess remaining after that reassessment.~~

Disclosures

Paragraphs 19.25–19.26 are amended. Paragraph 19.26A and the heading above paragraph 19.26A are added. New text is underlined and deleted text is struck through.

For business combination(s) during the reporting period

19.25 For each business combination during the period, the acquirer shall disclose the following:

(a) the name ~~names~~ and description ~~descriptions~~ of the acquiree ~~combining entities or businesses~~;

(b) the acquisition date;

(c) the percentage of voting equity instruments acquired;

(d) the acquisition-date fair value of the total consideration transferred ~~the cost of the combination~~ and a description of the components of that consideration ~~cost~~ (such as cash, equity instruments and debt instruments);

(da) for contingent consideration arrangements:

(i) the amount recognised as of the acquisition date;

(ii) a description of the arrangement and the basis for determining the amount of the payment; and

(iii) if the acquisition-date fair value of contingent consideration cannot be measured reliably without undue cost or effort (see paragraph 19.13), at the acquisition date, the acquirer shall disclose that fact and the reasons why a reliable fair value measurement would involve undue cost or effort;

(e) the amounts recognised at the acquisition date for each class of the acquiree's assets~~, liabilities~~ and ~~contingent~~ liabilities~~, including goodwill~~;

(f) for a bargain purchase, the amount of any gain ~~excess~~ recognised in profit or loss in accordance with paragraph 19.10N~~19.24~~ and the line item in the statement of comprehensive income (and in the **income statement**, if presented) in which the gain ~~excess~~ is recognised;~~ and~~

(g) a qualitative description of the factors that make up the goodwill recognised, such as expected synergies from combining operations of the acquiree and the acquirer, ~~or~~ intangible assets ~~or other items~~ not recognised in accordance with paragraph 19.10G~~19.15~~ or other factors; and

(h) for each contingent liability that is not recognised in accordance with paragraph 19.10J because its fair value cannot be measured reliably, the acquirer shall disclose the information required by paragraph 21.15.

For all business combinations

19.26 An acquirer shall disclose the useful lives used for goodwill and a reconciliation of the **carrying amount** of goodwill at the beginning and end of the reporting period~~, showing~~. The reconciliation should show separately:

(a) additional goodwill recognised during the reporting period ~~changes~~ arising from new business combinations;

(b) impairment losses recognised during the reporting period applying Section 27;

(c) goodwill relating to ~~disposals of~~ previously acquired businesses derecognised during the reporting period; and

(d) other changes.

This reconciliation need not be presented for prior periods.

For each reporting period after the acquisition date

19.26A For each reporting period after the acquisition date until the entity collects, sells or otherwise loses the right to a contingent consideration asset, or until the entity settles a contingent consideration liability or the liability is cancelled or expires, the entity shall disclose for each material business combination and in aggregate for individually immaterial business combinations that are material collectively:

(a) any changes in the recognised amounts, including any differences arising upon settlement; and

(b) the valuation techniques and key model inputs used to measure contingent consideration.

Appendix A to Section 19 is added. For ease of reading, new text is not underlined.

Appendix A to Section 19
Application guidance

This application guidance is an integral part of Section 19.

Definition of a business (application of paragraph 19.2A)

19A.1 A business consists of inputs and processes applied to those inputs that have the ability to contribute to the creation of outputs. The three elements of a business are defined as follows:

(a) input: any economic resource that creates outputs, or has the ability to contribute to the creation of outputs when one or more processes are applied to it. Examples include non-current assets, intellectual property, the ability to obtain access to necessary materials or rights and employees.

(b) process: any system, standard, protocol, convention or rule that when applied to an input or inputs, creates outputs or has the ability to contribute to the creation of outputs. Examples include strategic management processes, operational processes and resource management processes.

(c) output: the result of inputs and processes applied to those inputs that provide goods or services to customers, generate investment income or generate other income from ordinary activities.

Optional test to identify concentration of fair value

19A.2 Paragraph 19A.3 sets out an optional concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. An entity may elect to apply, or not apply, the test. An entity may make such an election separately for each transaction or other event. The concentration test has the following consequences:

(a) if the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

(b) if the concentration test is not met, or if the entity elects not to apply the test, the entity shall then perform the assessment set out in paragraphs 19A.4–19A.10.

19A.3 The concentration test is met if substantially all of the fair value of the gross assets (not net assets) acquired is concentrated in a single identifiable asset or group of similar identifiable assets. For the concentration test:

(a) gross assets acquired shall exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities;

(b) the fair value of the gross assets acquired shall include any consideration transferred (plus the non-controlling interest's proportionate share in the recognised amounts of the acquiree's net identifiable assets and the fair value of any previously held interest) in excess of the fair value of net identifiable assets acquired;

(c) a single identifiable asset shall include any asset or group of assets that would be recognised and measured as a single identifiable asset in a business combination;

(d) if a tangible asset is attached to, and cannot be physically removed and used separately from, another tangible asset, without incurring significant cost, or significant diminution in utility or fair value to either asset (for example, land and buildings), those assets shall be considered a single identifiable asset; and

(e) when assessing whether assets are similar, an entity shall consider the nature of each single identifiable asset and the risks associated with managing and creating outputs from the assets (that is, the risk characteristics).

Elements of a business

19A.4 Although businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be capable of being conducted and managed for the purpose identified in the definition of a business, an integrated set of activities and assets requires two essential elements—inputs and processes applied to those inputs. A business need not include all of the inputs or processes that the seller used in operating that business. However, to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Paragraphs 19A.7–19A.10 specify how to assess whether a process is substantive.

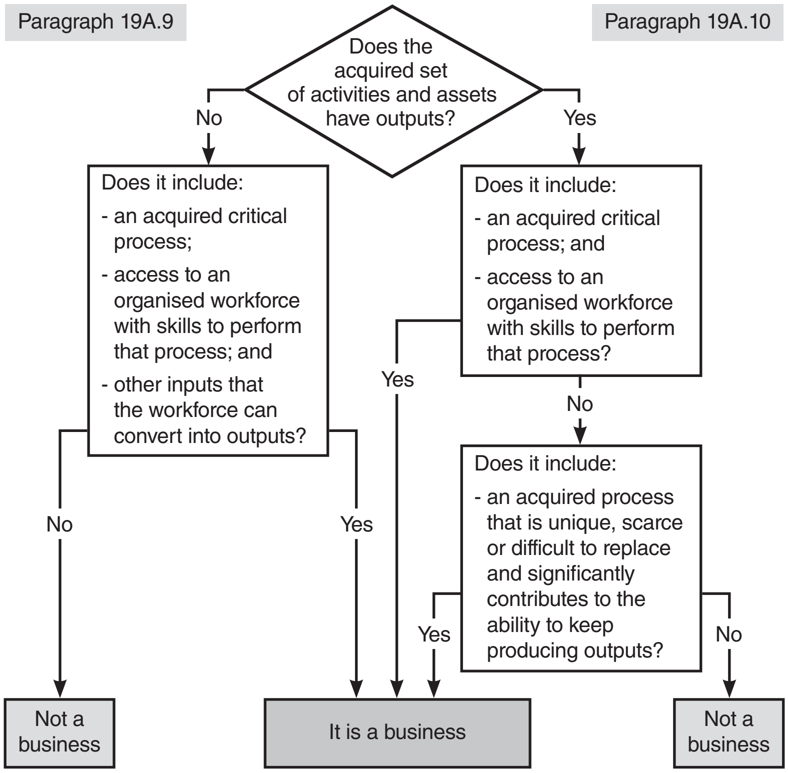
19A.5 If an acquired set of activities and assets has outputs, continuation of revenue does not on its own indicate that both an input and a substantive process have been acquired.

19A.6 Determining whether a particular set of activities and assets is a business shall be based on whether the integrated set is capable of being conducted and managed as a business by a market participant. Thus, in evaluating whether a particular set is a business, it is not relevant whether a seller operated the set as a business or whether the acquirer intends to operate the set as a business.

Assessing whether an acquired process is substantive

19A.7 Paragraphs 19A.8–19A.10 explain how to assess whether an acquired process is substantive if the acquired set of activities and assets does not have outputs (paragraph 19A.9) and if it does have outputs (paragraph 19A.10). Diagram 19.1 summarises how an entity assesses whether an acquired process is substantive.

Diagram 19.1: How an entity assesses whether an acquired process is substantive



19A.8 An example of an acquired set of activities and assets that does not have outputs at the acquisition date is an early-stage entity that has not started generating revenue. Moreover, if an acquired set of activities and assets was generating revenue at the acquisition date, it is considered to have outputs at that date, even if subsequently it will no longer generate revenue from external customers, for example because it will be integrated by the acquirer.

19A.9 If a set of activities and assets does not have outputs at the acquisition date, an acquired process (or group of processes) shall be considered substantive only if:

(a) it is critical to the ability to develop or convert an acquired input or inputs into outputs; and

(b) the inputs acquired include both an organised workforce that has the necessary skills, knowledge, or experience to perform that process (or group of processes) and other inputs that the organised workforce could develop or convert into outputs. Those other inputs could include:

(i) intellectual property that could be used to develop a good or service;

(ii) other economic resources that could be developed to create outputs; or

(iii) rights to obtain access to necessary materials or rights that enable the creation of future outputs.

Examples of the inputs mentioned in (b)(i)–(iii) include technology, in-process research and development projects, and real estate.

19A.10 If a set of activities and assets has outputs at the acquisition date, an acquired process (or group of processes) shall be considered substantive if, when applied to an acquired input or inputs, it:

(a) is critical to the ability to continue producing outputs, and the inputs acquired include an organised workforce with the necessary skills, knowledge or experience to perform that process (or group of processes); or

(b) significantly contributes to the ability to continue producing outputs and:

(i) is considered unique or scarce; or

(ii) cannot be replaced without significant cost, effort or delay in the ability to continue producing outputs.

Identifying the acquirer (application of paragraphs 19.8–19.10)

19A.11 In a business combination effected primarily by transferring cash or other assets or by incurring liabilities, the acquirer is usually the entity that transfers the cash or other assets or incurs the liabilities.

19A.12 In a business combination effected primarily by exchanging equity instruments, the acquirer is usually the entity that issues its equity instruments. Other pertinent facts and circumstances shall also be considered in identifying the acquirer in a business combination effected by exchanging equity instruments. For example, the acquirer is usually the combining entity:

(a) whose owners as a group retain or receive the largest portion of the voting rights in the combined entity, after the business combination;

(b) whose single owner or organised group of owners holds the largest minority voting interest in the combined entity, if no other owner or organised group of owners has a significant voting interest;

(c) whose owners have the ability to elect or appoint or to remove a majority of the members of the governing body of the combined entity;

(d) whose (former) management dominates the senior management of the combined entity; and

(e) that pays a premium over the pre-combination fair value of the equity instruments of the other combining entity or entities.

19A.13 The acquirer is usually the combining entity whose relative size (measured in, for example, assets, revenues or profit) is significantly greater than that of the other combining entity or entities.

19A.14 In a business combination involving more than two entities, determining the acquirer shall include a consideration of, among other things, which of the combining entities initiated the combination, as well as the relative size of the combining entities.

19A.15 A new entity formed to effect a business combination is not necessarily the acquirer. If a new entity is formed to issue equity instruments to effect a business combination, one of the combining entities that existed before the business combination shall be identified as the acquirer by applying the guidance in paragraph 19.10 and paragraphs 19A.11–19A.14. In contrast, a new entity that transfers cash or other assets or incurs liabilities as consideration may be the acquirer.

Appendix B to Section 19 is added. For ease of reading, new text is not underlined.

Appendix B to Section 19
Illustrative examples

The examples accompany, but are not part of, Section 19. They illustrate application of the guidance in paragraphs 19A.1–19A.10.

Definition of a business (application of paragraph 19.2A)

Example A—acquisition of real estate

Scenario 1—Background

19B.1 An entity (Purchaser) purchases a portfolio of 10 single-family homes that each have an in-place lease. The fair value of the consideration paid is equal to the aggregate fair value of the 10 single-family homes acquired. Each single-family home includes the land, building and property improvements. Each home has a different floor area and interior design. The 10 single-family homes are located in the same area and the classes of customers (for example, tenants) are similar. The risks associated with operating in the real estate market of the homes acquired are not significantly different. No employees, other assets, processes or other activities are transferred.

Scenario 1—Application of requirements

19B.2 Purchaser elects to apply the optional concentration test set out in paragraph 19A.3 and concludes that:

(a) each single-family home is considered a single identifiable asset in accordance with paragraph 19A.3 for the following reasons:

   (i) the building and property improvements are attached to the land and cannot be removed without incurring significant cost; and

   (ii) the building and the in-place lease are considered a single identifiable asset, because they would be recognised and measured as a single identifiable asset in a business combination.

(b) the group of 10 single-family homes is a group of similar identifiable assets because the assets (all single-family homes) are similar in nature and the risks associated with managing and creating outputs are not significantly different. This is because the types of homes and classes of customers are not significantly different.

(c) consequently, substantially all of the fair value of the gross assets acquired is concentrated in a group of similar identifiable assets.

19B.3 Therefore, Purchaser concludes that the acquired set of activities and assets is not a business.

Scenario 2—Background

19B.4 Assume the same facts as in Scenario 1 except that Purchaser also purchases a multi-tenant corporate office park with six 10-storey office buildings that are fully leased. The additional set of activities and assets acquired includes the land, buildings, leases and contracts for outsourced cleaning, security and maintenance. No employees, other assets, other processes or other activities are transferred. The aggregate fair value associated with the office park is similar to the aggregate fair value associated with the 10 single-family homes. The processes performed through the contracts for outsourced cleaning and security are ancillary or minor within the context of all the processes required to create outputs.

Scenario 2—Application of requirements

19B.5 Purchaser elects to apply the optional concentration test set out in paragraph 19A.3 and concludes that the single-family homes and the office park are not similar identifiable assets, because the single-family homes and the office park differ significantly in the risks associated with operating the assets, obtaining tenants and managing tenants. In particular, the scale of operations and risks associated with the two classes of customers are significantly different. Consequently, the fair value of the gross assets acquired is not substantially all concentrated in a group of similar identifiable assets, because the fair value of the office park is similar to the aggregate fair value of the 10 single-family homes. Thus Purchaser assesses whether the set meets the minimum requirements to be considered a business in accordance with paragraphs 19A.4–19A.10.

19B.6 The set of activities and assets has outputs because it generates revenue through the in-place leases. Consequently, Purchaser applies the criteria in paragraph 19A.10 to determine whether any processes acquired are substantive.

19B.7 Purchaser concludes that the criterion in paragraph 19A.10(a) is not met because:

(a) the set does not include an organised workforce; and

(b) Purchaser considers that the processes performed by the outsourced cleaning, security and maintenance personnel (the only processes acquired) are ancillary or minor within the context of all the processes required to create outputs and, therefore, are not critical to the ability to continue producing outputs.

19B.8 After considering the only processes acquired, those performed by the outsourced cleaning, security and maintenance personnel, Purchaser also concludes that the criteria in paragraph 19A.10(b) are not met. Either of the following reasons justifies that conclusion:

(a) the processes do not significantly contribute to the ability to continue producing outputs.

(b) the processes are readily accessible in the marketplace. Thus, they are not unique or scarce. In addition, they could be replaced without significant cost, effort or delay in the ability to continue producing outputs.

19B.9 Because none of the criteria in paragraph 19A.10 is met, Purchaser concludes that the acquired set of activities and assets is not a business.

Scenario 3—Background

19B.10 Assume the same facts as in Scenario 2, except that the acquired set of activities and assets also includes the employees responsible for leasing, tenant management, and managing and supervising all operational processes.

Scenario 3—Application of requirements

19B.11 Purchaser elects not to apply the optional concentration test set out in paragraph 19A.3 and therefore assesses whether the set meets the minimum requirements to be considered a business in accordance with paragraphs 19A.4–19A.10.

19B.12 The acquired set of activities and assets has outputs because it generates revenue through the in-place leases. Consequently, Purchaser applies the criteria in paragraph 19A.10.

19B.13 Purchaser concludes that the criterion in paragraph 19A.10(a) is met because the set includes an organised workforce with the necessary skills, knowledge or experience to perform processes (that is, leasing, tenant management, and managing and supervising the operational processes) that are substantive because they are critical to the ability to continue producing outputs when applied to the acquired inputs (that is, the land, buildings and in-place leases). Furthermore, Purchaser concludes that the criterion in paragraph 19A.4 is met because those substantive processes and inputs together significantly contribute to the ability to create output. Consequently, Purchaser concludes that the acquired set of activities and assets is a business.

Example B—acquisition of a drug candidate

Scenario 1—Background

19B.14 An entity (Purchaser) purchases a legal entity that contains:

(a) the rights to an in-process research and development project that is developing a compound to treat diabetes and is in its final testing phase (Project 1). Project 1 includes the historical know-how, formula protocols, designs and procedures expected to be needed to complete the final testing phase.

(b) a contract that provides outsourced clinical trials. The contract is priced at current market rates and a number of vendors in the marketplace could provide the same services. Therefore, the fair value associated with this contract is nil. Purchaser has no option to renew the contract.

No employees, other assets, other processes or other activities are transferred.

Scenario 1—Application of requirements

19B.15 Purchaser elects to apply the optional concentration test set out in paragraph 19A.3 and concludes that:

(a) Project 1 is a single identifiable asset because it would be recognised and measured as a single identifiable intangible asset in a business combination; and

(b) because the acquired contract has a fair value of nil, substantially all of the fair value of the gross assets acquired is concentrated in Project 1.

19B.16 Consequently, Purchaser concludes that the acquired set of activities and assets is not a business.

Scenario 2—Background

19B.17 Assume the same facts as in Scenario 1 except that the acquired set of activities and assets also includes another in-process research and development project that is developing a compound to treat Alzheimer's disease and is in its final testing phase (Project 2). Project 2 includes the historical know-how, formula protocols, designs and procedures expected to be needed to complete the final phase of testing. The fair value associated with Project 2 is similar to the fair value associated with Project 1. No employees, other assets, processes or other activities are transferred.

Scenario 2—Application of requirements

19B.18 Purchaser elects to apply the optional concentration test set out in paragraph 19A.3 and concludes that:

(a) Project 1 and Project 2 are identifiable intangible assets that would each be recognised and measured as a separate identifiable asset in a business combination.

(b) Project 1 and Project 2 are not similar identifiable assets because significantly different risks are associated with managing and creating outputs from each asset. Each project has significantly different risks associated with developing, completing and marketing the compound to customers. The compounds are intended to treat significantly different medical conditions, and each project has a significantly different potential customer base.

(c) consequently, the fair value of the gross assets acquired is not substantially all concentrated in a single identifiable asset or group of similar identifiable assets. Therefore, Purchaser assesses whether the set meets the minimum requirements to be considered a business in accordance with paragraphs 19A.4–19A.10.

19B.19 The acquired set of activities and assets does not have outputs because it has not started generating revenue. Thus, Purchaser applies the criteria in paragraph 19A.9. Purchaser concludes that those criteria are not met for the following reasons:

(a) the set does not include an organised workforce; and

(b) although the contract that provides outsourced clinical trials might give access to an organised workforce that has the necessary skills, knowledge or experience to perform processes needed to carry out the clinical trials, that organised workforce cannot develop or convert the inputs acquired by Purchaser into outputs. Successful clinical trials are a pre-condition for producing output, but carrying out those trials will not develop or convert the acquired inputs into outputs.

Consequently, Purchaser concludes that the acquired set of activities and assets is not a business.

Section 20
Leases

Paragraphs 20.1, 20.6 and 20.12 are amended. New text is underlined and deleted text is struck through.

Scope of this section

20.1 This section covers accounting for all **leases** other than:

(a) leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources (see Section 34 *Specialised Activities*);

(b) licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights (see Section 18 *Intangible Assets other than Goodwill*);

(c) measurement ~~**measurement**~~ of property held by lessees that is accounted for as **investment property** and measurement of investment property provided by lessors under **operating leases** (see Section 16 *Investment Property*);

(d) measurement of **biological assets** held by lessees under **finance leases** and biological assets provided by lessors under operating leases (see Section 34);

(e) leases that could lead to a loss to the lessor or the lessee as a result of contractual terms that are unrelated to changes in the price of the leased **asset**, changes in foreign exchange rates, changes in lease payments based on variable market interest rates, or a default by one of the counterparties (see paragraph 11.51(f)~~12.3(f)~~); and

(f) operating leases that are onerous.

20.2 This section 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 section 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.

20.3 Some arrangements, such as some outsourcing arrangements, telecommunication contracts that provide rights to capacity and take-or-pay contracts, do not take the legal form of a lease but convey rights to use assets in return for payments. Such arrangements are in substance leases of assets and they shall be accounted for under this section.

Classification of leases

20.4 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.

20.5 Whether a lease is a finance lease or an operating lease depends on the substance of the transaction instead of 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.

20.6 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 ~~**gains**~~ or losses from the fluctuation in the **residual value** of the leased asset 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.

20.7 The examples and indicators in paragraphs 20.5 and 20.6 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 is transferred to the lessee at the end of the lease for a variable payment equal to the asset's then fair value, or if there are contingent rents, as a result of which the lessee does not have substantially all risks and rewards incidental to ownership.

20.8 Lease classification is made at the inception of the lease and is not changed during the term of the lease unless the lessee and the lessor agree to change the provisions of the lease (other than simply by renewing the lease), in which case the lease classification shall be re-evaluated.

Financial statements of lessees—finance leases

Initial recognition

20.9 At the commencement of the lease term, a lessee shall recognise its rights of use and obligations under finance leases as assets and **liabilities** in its **statement of financial position** at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, determined at the inception of the lease. Any initial direct costs of the lessee (incremental costs that are directly attributable to negotiating and arranging a lease) are added to the amount recognised as an asset.

20.10 The present value of the minimum lease payments shall be calculated using the **interest rate implicit in the lease**. If this cannot be determined, the **lessee's incremental borrowing rate** shall be used.

Subsequent measurement

20.11 A lessee shall apportion minimum lease payments between the finance charge and the reduction of the outstanding liability using the **effective interest method** (see paragraphs 11.15–11.20). The lessee shall allocate the finance charge to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. A lessee shall charge contingent rents as **expenses** in the periods in which they are incurred.

20.12 A lessee shall depreciate an asset leased under a finance lease in accordance with the relevant section of this Standard for that type of asset, for example, Section 17 *Property, Plant and Equipment* or ~~,~~ Section 18 ~~or Section 19 *Business Combinations and Goodwill*~~. 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**. A lessee shall also assess at each **reporting date** whether an asset leased under a finance lease is impaired (see Section 27 *Impairment of Assets*).

Disclosures

20.13 A lessee shall make the following disclosures for finance leases:

(a) for each **class of asset**, the net **carrying amount** at the end of the **reporting period**;

(b) the total of future minimum lease payments at the end of the reporting period, for each of the following periods:

  (i) not later than one year;

  (ii) later than one year and not later than five years; and

  (iii) later than five years.

(c) a general description of the lessee's significant leasing arrangements including, for example, information about contingent rent, renewal or purchase options and escalation clauses, subleases and restrictions imposed by lease arrangements.

20.14 In addition, the requirements for disclosure about assets in accordance with Sections 17, 18, 27 and 34 apply to lessees for assets leased under finance leases.

Financial statements of lessees—operating leases

Recognition and measurement

20.15 A lessee shall recognise lease payments under operating leases (excluding costs for services such as insurance and maintenance) as an expense over the lease term on a straight-line basis unless either:

(a) another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on that basis; or

(b) the payments to the lessor are structured to increase in line with expected general inflation (based on published indexes or statistics) to compensate for the lessor's expected inflationary cost increases.

If payments to the lessor vary because of factors other than general inflation, then the condition (b) is not met.

Example of applying paragraph 20.15(b):

X operates in a jurisdiction in which the consensus forecast by local banks is that the general price level index, as published by the government, will increase by an average of 10 per cent annually over the next five years. X leases some office space from Y for five years under an operating lease. The lease payments are structured to reflect the expected 10 per cent annual general inflation over the five-year term of the lease as follows

Year 1	CU100,000
Year 2	CU110,000
Year 3	CU121,000
Year 4	CU133,000
Year 5	CU146,000

X recognises annual rent expense equal to the amounts owed to the lessor. If the escalating payments are not clearly structured to compensate the lessor for expected inflationary cost increases based on published indexes or statistics, then X recognises annual rent expense on a straight-line basis: CU122,000 each year (sum of the amounts payable under the lease divided by five years).

Disclosures

20.16 A lessee shall 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; and

   (iii) later than five years.

(b) lease payments recognised as an expense; and

(c) a general description of the lessee's significant leasing arrangements including, for example, information about contingent rent, renewal or purchase options and escalation clauses, subleases, and restrictions imposed by lease arrangements.

Financial statements of lessors—finance leases

Initial recognition and measurement

20.17 A lessor shall recognise assets held under a finance lease in its statement of financial position and present them as a receivable at an amount equal to the **net investment in the lease**. The net investment in a lease is the lessor's **gross investment in the lease** discounted at the interest rate implicit in the lease. The 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.

20.18 For finance leases other than those involving manufacturer or dealer lessors, initial direct costs (costs that are incremental and directly attributable to negotiating and arranging a lease) are included in the initial measurement of the finance lease receivable and reduce the amount of **income** recognised over the lease term.

Subsequent measurement

20.19 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. 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. If there is an indication that the estimated unguaranteed residual value used in computing the lessor's gross investment in the lease has changed significantly, the income allocation over the lease term is revised, and any reduction in respect of amounts accrued is recognised immediately in **profit or loss**.

Manufacturer or dealer lessors

20.20 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.

20.21 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 asset 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.

20.22 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.

Disclosures

20.23 A lessor shall make the following disclosures for finance leases:

(a) a reconciliation between the gross investment in the lease at the end of the reporting period and the present value of minimum lease payments receivable at the end of the reporting period. In addition, a lessor shall disclose the gross investment in the lease and the present value of minimum lease payments receivable at the end of the reporting period, for each of the following periods:

(i) not later than one year;

(ii) later than one year and not later than five years; and

(iii) later than five years.

(b) unearned finance income.

(c) the unguaranteed residual values accruing to the benefit of the lessor.

(d) the accumulated allowance for uncollectable minimum lease payments receivable.

(e) contingent rents recognised as income in the period.

(f) a general description of the lessor's significant leasing arrangements, including, for example, information about contingent rent, renewal or purchase options and escalation clauses, subleases, and restrictions imposed by lease arrangements.

Financial statements of lessors—operating leases

Recognition and measurement

20.24 A lessor shall present assets subject to operating leases in its **statement of financial position** according to the nature of the asset.

20.25 A lessor shall recognise lease income from operating leases (excluding amounts for services such as insurance and maintenance) in profit or loss on a straight-line basis over the lease term, unless either:

(a) another systematic basis is representative of the time pattern of the lessee's benefit from the leased asset, even if the receipt of payments is not on that basis; or

(b) the payments to the lessor are structured to increase in line with expected general inflation (based on published indexes or statistics) to compensate for the lessor's expected inflationary cost increases.

If payments to the lessor vary according to factors other than inflation, then condition (b) is not met.

20.26 A lessor shall recognise as an expense costs, including **depreciation**, incurred in earning the lease income. The depreciation policy for depreciable leased assets shall be consistent with the lessor's normal depreciation policy for similar assets.

20.27 A lessor shall add to the carrying amount of the leased asset any initial direct costs it incurs in negotiating and arranging an operating lease and shall recognise such costs as an expense over the lease term on the same basis as the lease income.

20.28 To determine whether a leased asset has become impaired, a lessor shall apply Section 27.

20.29 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.

Disclosures

20.30 A lessor shall disclose the following for operating leases:

(a) the 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; and

(iii) later than five years.

(b) total contingent rents recognised as income; and

(c) a general description of the lessor's significant leasing arrangements, including, for example, information about contingent rent, renewal or purchase options and escalation clauses and restrictions imposed by lease arrangements.

20.31 In addition, the requirements for disclosure about assets in accordance with Sections 17, 18, 27 and 34 apply to lessors for assets provided under operating leases.

Sale and leaseback transactions

20.32 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 on the type of lease.

Sale and leaseback transaction results in a finance lease

20.33 If a sale and leaseback transaction results in a finance lease, the seller-lessee shall not recognise immediately, as income, any excess of sales proceeds over the carrying amount. Instead, the seller-lessee shall defer such excess and amortise it over the lease term.

Sale and leaseback transaction results in an operating lease

20.34 If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, the seller-lessee shall recognise any profit or loss immediately. If the sale price is below fair value, the seller-lessee shall recognise any profit or loss immediately unless the loss is compensated for by future lease payments at below market price. In that case the seller-lessee shall defer and amortise such loss 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 seller-lessee shall defer the excess over fair value and amortise it over the period for which the asset is expected to be used.

Disclosures

20.35 Disclosure requirements for lessees and lessors apply equally to sale and leaseback transactions. The required description of significant leasing arrangements includes description of unique or unusual provisions of the agreement or terms of the sale and leaseback transactions.

Section 21
Provisions and Contingencies

Paragraphs 21.1–21.2 are amended. New text is underlined and deleted text is struck through.

Scope of this section

21.1 This section applies to all **provisions** (ie liabilities ~~**liabilities**~~ of uncertain timing or amount), **contingent liabilities** and **contingent assets** except those provisions covered by other sections of this Standard. These include provisions relating to:

(a) **leases** (Section 20 *Leases*). However, this section deals with **operating leases** that have become onerous.

(b) ~~**construction contracts** (Section 23 *Revenue*)~~ **revenue** from **contracts** with **customers** (Section 23 *Revenue from Contracts with Customers*). However this section deals with ~~construction~~ contracts with customers that have become onerous.

(c) **employee benefit** obligations (Section 28 *Employee Benefits*).

(d) **income tax** (Section 29 *Income Tax*).

(e) **contingent consideration** of an **acquirer** in a **business combination** (Section 19 *Business Combinations and Goodwill*).

21.2 The requirements in this section do not apply to **executory contracts** ~~executory contracts~~ unless they are **onerous contracts**. Executory contracts are contracts under which neither party has fulfilled ~~performed~~ any of its obligations or both parties have partially fulfilled ~~performed~~ their obligations to an equal extent.

21.3 The word ‘provision’ is sometimes used in the context of such items as **depreciation**, impairment of **assets** and uncollectable receivables. Those are adjustments of the **carrying amounts** of assets, instead of **recognition** of liabilities, and therefore are not covered by this section.

A footnote to paragraph 21.4 and paragraph 21.6A are added (paragraph 21.6A was previously presented as paragraph 21A.3). New text is underlined.

Initial recognition

21.4 An entity shall recognise a provision only when:

(a) the entity has an obligation at the **reporting date** as a result of a past event;

(b) it is **probable** (ie more likely than not) that the entity will be required to transfer economic benefits in settlement; and

(c) the amount of the obligation can be estimated reliably.[4]

21.5 The entity shall recognise the provision as a liability in the **statement of financial position** and shall recognise the amount of the provision as an **expense**, unless another section of this Standard requires the cost to be recognised as part of the cost of an asset such as **inventories** or **property, plant and equipment**.

21.6 The condition in paragraph 21.4(a) (obligation at the reporting date as a result of a past event) means that the entity has no realistic alternative to settling the obligation. This can happen when the entity has a legal obligation that can be enforced by law or when the entity has a **constructive obligation** because the past event (which may be an action of the entity) has created valid expectations in other parties that the entity will discharge the obligation. Obligations that will arise from the entity's future actions (ie the future conduct of its business) do not satisfy the condition in paragraph 21.4(a), no matter how likely they are to occur and even if they are contractual. To illustrate, because of commercial pressures or legal requirements, an entity may intend or need to carry out expenditure to operate in a particular way in the future (for example, by fitting smoke filters in a particular type of factory). Because the entity can avoid the future expenditure by its future actions, for example by changing its method of operation or selling the factory, it has no present obligation for that future expenditure and no provision is recognised.

21.6A A restructuring is a programme that is planned and controlled by management and materially changes either the scope of a business undertaken by an entity or the manner in which that business is conducted. A constructive obligation to restructure arises only when an entity:

(a) has a detailed formal plan for the restructuring identifying at least:

(i) the business or part of a business concerned;

(ii) the principal locations affected;

(iii) the location, function and approximate number of employees who will be compensated for terminating their services;

(iv) the expenditures that will be undertaken; and

(v) when the plan will be implemented.

(b) has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

4 This section uses the term provision in a way that differs in some respects from the definition of a liability in paragraph 2.49 and the Glossary. For the purpose of this section, a liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

Paragraph 21.8 is amended. New text is underlined and deleted text is struck through.

Initial measurement

21.7 An entity shall measure a provision at the best estimate of the amount required to settle the obligation at the reporting date. The best estimate is the amount an entity would rationally pay to settle the obligation at the end of the **reporting period** or to transfer it to a third party at that time:

(a) when the provision involves a large population of items, the estimate of the amount reflects the weighting of all possible outcomes by their associated probabilities. Where there is a continuous range of possible outcomes, and each point in that range is as likely as any other, the mid-point of the range is used.

(b) when the provision arises from a single obligation, the individual most likely outcome may be the best estimate of the amount required to settle the obligation. However, even in such a case, the entity considers other possible outcomes. When other possible outcomes are either mostly higher or mostly lower than the most likely outcome, the best estimate will be a higher or lower amount than the most likely outcome.

When the effect of the time value of money is **material**, the amount of a provision shall be the **present value** of the amount expected to be required to settle the obligation. The discount rate (or rates) shall be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money. The risks specific to the liability shall be reflected either in the discount rate or in the estimation of the amounts required to settle the obligation, but not both.

21.8 An entity shall exclude gains ~~**gains**~~ from the expected disposal of assets from the measurement ~~**measurement**~~ of a provision.

21.9 When some or all of the amount required to settle a provision may be reimbursed by another party (for example, through an insurance claim), the entity shall recognise the reimbursement as a separate asset only when it is virtually certain that the entity will receive the reimbursement on settlement of the obligation. The amount recognised for the reimbursement shall not exceed the amount of the provision. The reimbursement receivable shall be presented in the statement of financial position as an asset and shall not be offset against the provision. In the **statement of comprehensive income**, the entity may offset any reimbursement from another party against the expense relating to the provision.

Subsequent measurement

21.10 An entity shall charge against a provision only those expenditures for which the provision was originally recognised.

21.11 An entity shall review provisions at each reporting date and adjust them to reflect the current best estimate of the amount that would be required to settle the obligation at that reporting date. Any adjustments to the amounts previously recognised shall be recognised in **profit or loss** unless the provision was originally recognised as part of the cost of an asset (see paragraph 21.5). When a provision is measured at the present value of the amount expected to be required to settle the obligation, the unwinding of the discount shall be recognised as a finance cost in profit or loss in the period it arises.

Paragraph 21.12 is amended. New text is underlined and deleted text is struck through.

Contingent liabilities

21.12 A contingent liability is either a possible but uncertain obligation or a present obligation that is not recognised because it fails to meet one or both of the conditions (b) and (c) in paragraph 21.4. An entity shall not recognise a contingent liability as a liability, except ~~for provisions~~ for contingent liabilities assumed ~~of an acquiree~~ in a business combination ~~**business combination**~~ (see paragraph 19.10J ~~paragraphs 19.20 and 19.21~~). Disclosure of a contingent liability is required by paragraph 21.15 unless the possibility of an outflow of resources is remote. When an entity is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability.

Contingent assets

21.13 An entity shall not recognise a contingent asset as an asset. Disclosure of a contingent asset is required by paragraph 21.16 when an inflow of economic benefits is probable. However, when the flow of future economic benefits to the entity is virtually certain, then the related asset is not a contingent asset, and its recognition is appropriate.

Disclosures

Disclosures about provisions

21.14 For each class of provision, an entity shall disclose all of the following:

(a) a reconciliation showing:

(i) the carrying amount at the beginning and end of the period;

(ii) additions during the period, including adjustments that result from changes in measuring the discounted amount;

(iii) amounts charged against the provision during the period; and

(iv) unused amounts reversed during the period.

(b) a brief description of the nature of the obligation and the expected amount and timing of any resulting payments;

(c) an indication of the uncertainties about the amount or timing of those outflows; and

(d) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

Comparative information for prior periods is not required.

Disclosures about contingent liabilities

21.15 Unless the possibility of any outflow of resources in settlement is remote, an entity shall disclose, for each class of contingent liability at the reporting date, a brief description of the nature of the contingent liability and, when practicable:

(a) an estimate of its financial effect, measured in accordance with paragraphs 21.7–21.11;

(b) an indication of the uncertainties relating to the amount or timing of any outflow; and

(c) the possibility of any reimbursement.

If it is **impracticable** to make one or more of these disclosures, that fact shall be stated.

Disclosures about contingent assets

21.16 If an inflow of economic benefits is probable (more likely than not) but not virtually certain, an entity shall disclose a description of the nature of the contingent assets at the end of the reporting period and, unless it would involve undue cost or effort, an estimate of their financial effect, measured using the principles set out in paragraphs 21.7–21.11. If such an estimate would involve undue cost or effort, the entity shall disclose that fact and the reasons why estimating the financial effect would involve undue cost or effort.

Prejudicial disclosures

21.17 In extremely rare cases, disclosure of some or all of the information required by paragraphs 21.14–21.16 can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, an entity need not disclose the information, but shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.

The title of the appendix to Section 21 and paragraphs 21A.7 and 21A.9 are amended. Paragraphs 21A.3, 21A.5 and the headings above paragraphs 21A.3 and 21A.5 are deleted (paragraph 21A.3 is now presented as paragraph 21.6A). New text is underlined and deleted text is struck through.

Appendix to Section 21
Illustrative examples ~~Guidance on recognising and measuring provisions~~

This appendix ~~Appendix~~ accompanies, but is not part of, Section 21. It illustrates application of ~~provides guidance for applying~~ the requirements of Section 21 in recognising and measuring provisions.

All of the entities in the examples in this appendix ~~Appendix~~ have 31 December as their reporting date. In all cases, it is assumed that a reliable estimate can be made of any outflows expected. In some examples the circumstances described may have resulted in impairment of the assets; this aspect is not dealt with in the examples. References to 'best estimate' are to the present value amount, when the effect of the time value of money is material.

Example 1 Future operating losses

21A.1 An entity determines that it is probable that a segment of its operations will incur future operating losses for several years.

Present obligation as a result of a past obligating event—there is no past event that obliges the entity to pay out resources.

Conclusion—the entity does not recognise a provision for future operating losses. Expected future losses do not meet the definition of a liability. The expectation of future operating losses may be an indicator that one or more assets are impaired—see Section 27 *Impairment of Assets*.

Example 2 Onerous contracts

21A.2 An onerous contract is one in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. For example, an entity may be contractually required under an operating lease to make payments to lease an asset for which it no longer has any use.

Present obligation as a result of a past obligating event—the entity is contractually required to pay out resources for which it will not receive commensurate benefits.

Conclusion—if an entity has a contract that is onerous, the entity recognises and measures the present obligation under the contract as a provision.

~~Example 3 Restructurings~~

~~21A.3~~ ~~A restructuring is a programme that is planned and controlled by management and materially changes either the scope of a business undertaken by an entity or the manner in which that business is conducted.~~

~~Present obligation as a result of a past obligating event—a constructive obligation to restructure arises only when an entity:~~

~~(a)~~ ~~has a detailed formal plan for the restructuring identifying at least:~~

~~(i)~~ ~~the business or part of a business concerned;~~

~~(ii)~~ ~~the principal locations affected;~~

~~(iii)~~ ~~the location, function and approximate number of employees who will be compensated for terminating their services;~~

~~(iv)~~ ~~the expenditures that will be undertaken; and~~

~~(v)~~ ~~when the plan will be implemented; and~~

~~(b)~~ ~~has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.~~

~~Conclusion—an entity recognises a provision for restructuring costs only when it has a legal or constructive obligation at the reporting date to carry out the restructuring.~~

Example 4 Warranties

21A.4 A manufacturer gives warranties at the time of sale to purchasers of its product. Under the terms of the contract for sale, the manufacturer undertakes to make good, by repair or replacement, manufacturing defects that become apparent within three years from the date of sale. On the basis of experience, it is probable (ie more likely than not) that there will be some claims under the warranties.

Present obligation as a result of a past obligating event—the obligating event is the sale of the product with a warranty, which gives rise to a legal obligation.

An outflow of resources embodying economic benefits in settlement—probable for the warranties as a whole.

Conclusion—the entity recognises a provision for the best estimate of the costs of making good under the warranty products sold before the reporting date.

Illustration of calculations:

In 20X0, goods are sold for CU1,000,000. Experience indicates that 90 per cent of products sold require no warranty repairs; 6 per cent of products sold require minor repairs costing 30 per cent of the sale price; and 4 per cent of products sold require major repairs or replacement costing 70 per cent of sale price. Consequently, estimated warranty costs are:

CU1,000,000 × 90% × 0	= CU0
CU1,000,000 × 6% × 30%	= CU18,000
CU1,000,000 × 4% × 70%	= CU28,000
Total	= CU46,000

The expenditures for warranty repairs and replacements for products sold in 20X0 are expected to be made 60 per cent in 20X1, 30 per cent in 20X2 and 10 per cent in 20X3, in each case at the end of the period. Because the estimated cash flows already reflect the probabilities of the cash outflows, and assuming there are no other risks or uncertainties that must be reflected, to determine the present value of those cash flows the entity uses a 'risk-free' discount rate based on government bonds with the same term as the expected cash outflows (6 per cent for one-year bonds and 7 per cent for two-year and three-year bonds). Calculation of the present value, at the end of 20X0, of the estimated cash flows related to the warranties for products sold in 20X0 is as follows:

Year		Expected cash payments (CU)	Discount rate	Discount factor	Present value (CU)
1	60% × CU46,000	27,600	6%	0.9434 (at 6% for 1 year)	26,038
2	30% × CU46,000	13,800	7%	0.8734 (at 7% for 2 years)	12,053
3	10% × CU46,000	4,600	7%	0.8163 (at 7% for 3 years)	3,755
Total					41,846

The entity will recognise a warranty obligation of CU41,846 at the end of 20X0 for products sold in 20X0.

~~Example 5 Refunds policy~~

~~21A.5~~ ~~A retail store has a policy of refunding purchases by dissatisfied customers, even though it is under no legal obligation to do so. Its policy of making refunds is generally known.~~

~~Present obligation as a result of a past obligating event—the obligating event is the sale of the product, which gives rise to a constructive obligation because the conduct of the store has created a valid expectation on the part of its customers that the store will refund purchases.~~

~~An outflow of resources embodying economic benefits in settlement—probable that a proportion of goods will be returned for refund.~~

~~Conclusion—the entity recognises a provision for the best estimate of the amount required to settle the refunds.~~

Example 6 Closure of a division—no implementation before end of reporting period

21A.6 On 12 December 20X0 the board of an entity decided to close down a division. Before the end of the reporting period (31 December 20X0) the decision was not communicated to any of those affected and no other steps were taken to implement the decision.

Present obligation as a result of a past obligating event—there has been no obligating event, and so there is no obligation.

Conclusion—the entity does not recognise a provision.

Example 7 Closure of a division—communication and implementation before end of reporting period

21A.7 On 12 December 20X0 the board of an entity decided to close a division making a particular product. On 20 December 20X0 a detailed plan for closing the division was agreed by the board, letters were sent to customers warning them to seek an alternative source of supply and redundancy notices were sent to the staff of the division.

Present obligation as a result of a past obligating event—the obligating event is the communication of the decision to the customers and employees, which gives rise to a constructive obligation from that date, because it creates a valid expectation that the division will be closed.

An outflow of resources embodying economic benefits in settlement—probable.

Conclusion—the entity recognises a provision at 31 December 20X0 for the best estimate of the costs that would be incurred to close the division~~ at the reporting date~~.

Example 8 Staff retraining as a result of changes in the income tax system

21A.8 The government introduces changes to the income tax system. As a result of those changes, an entity in the financial services sector will need to retrain a large proportion of its administrative and sales workforce in order to ensure continued compliance with tax regulations. At the end of the reporting period, no retraining of staff has taken place.

Present obligation as a result of a past obligating event—the tax law change does not impose an obligation on an entity to do any retraining. An obligating event for recognising a provision (the retraining itself) has not taken place.

Conclusion—the entity does not recognise a provision.

Example 9 A court case

21A.9 A customer has sued Entity X, seeking damages for injury the customer allegedly sustained from using a product sold by Entity X. Entity X disputes liability on grounds that the customer did not follow directions in using the product. Up to the date the board authorised the financial statements for the year to 31 December 20X1 for issue, the entity's lawyers advise that it is probable that the entity will not be found liable. However, when the entity prepares the financial statements for the year to 31 December 20X2, its lawyers advise that, owing to developments in the case, it is now probable that the entity will be found liable:

(a) at 31 December 20X1

Present obligation as a result of a past obligating event—on the basis of the evidence available when the financial statements were approved, there is no obligation as a result of past events.

Conclusion—no provision is recognised. The matter is disclosed as a contingent liability unless the probability of any outflow is regarded as remote.

(b) at 31 December 20X2

Present obligation as a result of a past obligating event—on the basis of the evidence available, there is a present obligation. The obligating event is the sale of the product to the customer.

An outflow of resources embodying economic benefits in settlement—probable.

Conclusion—a provision is recognised at the best estimate of the amount to settle the obligation ~~at 31 December 20X2~~, and the expense is recognised in profit or loss. It is not a correction of an error in 20X1 because, on the basis of the evidence available when the 20X1 financial statements were approved, a provision should not have been recognised at that time.

Section 22
Liabilities and Equity

Paragraphs 22.1–22.3, 22.8, 22.15 and 22.16 are amended. Paragraph 22.19 and the heading above paragraph 22.19 are deleted (the requirements in paragraph 22.19 are now presented in paragraph 9.20A). New text is underlined and deleted text is struck through.

Scope of this section

22.1 This section establishes principles for classifying **financial instruments** as either liabilities ~~**liabilities**~~ or **equity** and addresses accounting for equity instruments issued to individuals or other parties acting in their capacity as investors in equity instruments (ie in their capacity as **owners**). Section 26 *Share-based Payment* addresses accounting for a transaction in which the entity receives goods or services (including employee services) as consideration for its equity instruments (including shares or share options) from employees and other vendors acting in their capacity as vendors of goods and services.

22.2 This section shall be applied when classifying all types of financial instruments except:

(a) those interests in **subsidiaries**, **associates** and **joint arrangements** ~~**ventures**~~ that are accounted for in accordance with Section 9 *Consolidated and Separate Financial Statements*, Section 14 *Investments in Associates* or Section 15 ~~*Interests in*~~ *Joint Arrangements*~~*Ventures*~~.

(b) employers' rights and obligations under **employee benefit** plans, to which Section 28 *Employee Benefits* applies.

~~(c)~~ ~~contracts for contingent consideration in a **business combination** (see Section 19 *Business Combinations and Goodwill*). This exemption applies only to the acquirer.~~

(d) financial instruments, contracts and obligations under **share-based payment transactions** to which Section 26 applies, except that paragraphs 22.3–22.6 shall be applied to **treasury shares** purchased, sold, issued or cancelled in connection with employee share option plans, employee share purchase plans and all other **share-based payment arrangements**.

Classification of a financial instrument as liability or equity

22.3 Equity is the residual interest in the **assets** of an entity after deducting all its liabilities. For the purpose of this section, a ~~A~~ liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits. Equity includes investments by the owners of the entity, plus additions to those investments earned through profitable operations and retained for use in the entity's operations, minus reductions to owners' investments as a result of unprofitable operations and distributions to owners.

22.3A An entity shall classify a financial instrument as a **financial liability** or as equity in accordance with the substance of the contractual arrangement, not merely its legal form, and in accordance with the definitions of a financial liability and an equity instrument. Unless an entity has an unconditional right to avoid delivering **cash** or another **financial asset** to settle a contractual obligation, the obligation meets the definition of a financial liability, and is classified as such, except for those instruments classified as equity instruments in accordance with paragraph 22.4.

22.4 Some financial instruments that meet the definition of a liability are classified as equity because they represent the residual interest in the net assets of the entity:

(a) a puttable instrument is a financial instrument that gives the holder the right to sell that instrument back to the issuer for cash or another financial asset or is automatically redeemed or repurchased by the issuer on the occurrence of an uncertain future event or the death or retirement of the instrument holder. A puttable instrument that has all of the following features is classified as an equity instrument:

(i) it entitles the holder to a pro rata share of the entity's net assets in the event of the entity's liquidation. The entity's net assets are those assets that remain after deducting all other claims on its assets.

(ii) the instrument is in the class of instruments that is subordinate to all other classes of instruments.

(iii) all financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features.

(iv) apart from the contractual obligation for the issuer to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity, and it is not a contract that will or may be settled in the entity's own equity instruments.

(v) the total expected cash flows attributable to the instrument over the life of the instrument are based substantially on the **profit or loss**, the change in the recognised net assets or the change in the **fair value** of the recognised and unrecognised net assets of the entity over the life of the instrument (excluding any effects of the instrument).

(b) instruments, or components of instruments, that are subordinate to all other classes of instruments are classified as equity if they impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation.

22.5 The following are examples of instruments that are classified as liabilities instead of equity:

(a) an instrument is classified as a liability if the distribution of net assets on liquidation is subject to a maximum amount (a ceiling). For example, if on liquidation the holders of the instrument receive a pro rata share of the net assets, but this amount is limited to a ceiling and the excess net assets are distributed to a charity organisation or the government, the instrument is not classified as equity.

(b) a puttable instrument is classified as equity if, when the put option is exercised, the holder receives a pro rata share of the net assets of the entity measured in accordance with this Standard. However, if the holder is entitled to an amount measured on some other basis (such as local GAAP), the instrument is classified as a liability.

(c) an instrument is classified as a liability if it obliges the entity to make payments to the holder before liquidation, such as a mandatory dividend.

(d) a puttable instrument that is classified as equity in a subsidiary's **financial statements** is classified as a liability in its parent entity's consolidated financial statements.

(e) a preference share that provides for mandatory redemption by the issuer for a fixed or determinable amount at a fixed or determinable future date, or gives the holder the right to require the issuer to redeem the instrument at or after a particular date for a fixed or determinable amount, is a financial liability.

22.6 Members' shares in co-operative entities and similar instruments are equity if:

(a) the entity has an unconditional right to refuse redemption of the members' shares; or

(b) redemption is unconditionally prohibited by local law, regulation or the entity's governing charter.

Original issue of shares or other equity instruments

22.7 An entity shall recognise the issue of shares or other equity instruments as equity when it issues those instruments and another party is obliged to provide cash or other resources to the entity in exchange for the instruments:

(a) if the equity instruments are issued before the entity receives the cash or other resources, the entity shall present the amount receivable as an offset to equity in its **statement of financial position**, not as an asset;

(b) if the entity receives the cash or other resources before the equity instruments are issued, and the entity cannot be required to repay the cash or other resources received, the entity shall recognise the corresponding increase in equity to the extent of consideration received; and

(c) to the extent that the equity instruments have been subscribed for but not issued, and the entity has not yet received the cash or other resources, the entity shall not recognise an increase in equity.

22.8 An entity shall measure equity instruments, other than those issued as part of a business combination or those accounted for in accordance with paragraphs 22.13~~22.15A~~–22.15B, at the fair value of the cash or other resources received or receivable, net of **transaction costs**. If payment is deferred and the time value of money is **material**, the initial measurement ~~**measurement**~~ shall be on a **present value** basis.

22.9 An entity shall account for the transaction costs of an equity transaction as a deduction from equity. **Income tax** relating to the transaction costs shall be accounted for in accordance with Section 29 *Income Tax*.

22.10 How the increase in equity arising on the issue of shares or other equity instruments is presented in the statement of financial position is determined by applicable laws. For example, the par value (or other nominal value) of shares and the amount paid in excess of par value may be required to be presented separately.

Sale of options, rights and warrants

22.11 An entity shall apply the principles in paragraphs 22.7–22.10 to equity issued by means of sales of options, rights, warrants and similar equity instruments.

Capitalisation or bonus issues of shares and share splits

22.12 A capitalisation or bonus issue (sometimes referred to as a stock dividend) is the issue of new shares to shareholders in proportion to their existing holdings. For example, an entity may give its shareholders one dividend or bonus share for every five shares held. A share split (sometimes referred to as a stock split) is the dividing of an entity's existing shares into multiple shares. For example, in a share split, each shareholder may receive one additional share for each share held. In some cases, the previously outstanding shares are cancelled and replaced by new shares. Capitalisation and bonus issues and share splits do not change total equity. An entity shall reclassify amounts within equity as required by applicable laws.

Convertible debt or similar compound financial instruments

22.13 On issuing convertible debt or similar **compound financial instruments** that contain both a liability and an equity component, an entity shall allocate the proceeds between the liability component and the equity component. To make the allocation, the entity shall first determine the amount of the liability component as the fair value of a similar liability that does not have a conversion feature or similar associated equity component. The entity shall allocate the residual amount as the equity component. Transaction costs shall be allocated between the debt component and the equity component on the basis of their relative fair values.

22.14 The entity shall not revise the allocation in a subsequent period.

22.15 In periods after the instruments were issued, the entity shall account for the liability component as follows:

(a) in accordance with Part I of Section 11 *Basic Financial Instruments* if the liability component meets the conditions in paragraph 11.9. In these cases, the entity shall systematically recognise any difference between the liability component and the principal amount payable at maturity as additional interest **expense** using the **effective interest method** (see paragraphs 11.15–11.20).

(b) in accordance with Part II of Section 11 ~~12~~ *Other Financial Instrument Issues* if the liability component does not meet the conditions in paragraph 11.9.

Extinguishing financial liabilities with equity instruments

22.15A An entity may renegotiate the terms of a financial liability with a creditor of the entity with the result that the entity extinguishes the liability fully or partially by issuing equity instruments to the creditor. Issuing equity instruments constitutes consideration paid in accordance with paragraph 11.38. An entity shall measure the equity instruments issued at their fair value. However, if the fair value of the equity instruments issued cannot be measured reliably without undue cost or effort, the equity instruments shall be measured at the fair value of the financial liability extinguished. An entity shall derecognise the financial liability, or part of the financial liability, in accordance with paragraphs 11.36–11.38.

22.15B If part of the consideration paid relates to a modification of the terms of the remaining part of the liability, the entity shall allocate the consideration paid between the part of the liability extinguished and the part that remains outstanding. This allocation should be made on a reasonable basis. If the remaining liability has been substantially modified, the entity shall account for the modification as the extinguishment of the original liability and the **recognition** of a new liability as required by paragraph 11.37.

22.15C An entity shall not apply paragraphs 22.15A–22.15B to transactions in situations in which:

(a) the creditor is also a direct or indirect shareholder and is acting in its capacity as a direct or indirect existing shareholder;

(b) the creditor and the entity are controlled by the same party or parties before and after the transaction and the substance of the transaction includes an equity distribution by, or contribution to, the entity; or

(c) extinguishing the financial liability by issuing equity instruments is in accordance with the original terms of the financial liability (see paragraphs 22.13–22.15).

Treasury shares

22.16 Treasury shares are the equity instruments of an entity that have been issued and subsequently reacquired by the entity. An entity shall deduct from equity the fair value of the consideration given for the treasury shares. The entity shall not recognise a gain ~~**gain**~~ or loss in profit or loss on the purchase, sale, issue or cancellation of treasury shares.

Distributions to owners

22.17 An entity shall reduce equity for the amount of distributions to its owners (holders of its equity instruments). Income tax relating to distributions to owners shall be accounted for in accordance with Section 29.

22.18 Sometimes an entity distributes assets other than cash to its owners ('non-cash distributions'). When an entity declares such a distribution and has an obligation to distribute non-cash assets to its owners, it shall recognise a liability. It shall measure the liability at the fair value of the assets to be distributed unless it meets the conditions in paragraph 22.18A. At the end of each **reporting period** and at the date of settlement, the entity shall review and adjust the **carrying amount** of the dividend payable to reflect changes in the fair value of the assets to be distributed, with any changes recognised in equity as adjustments to the amount of the distribution. When an entity settles the dividend payable, it shall recognise in profit or loss any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable.

22.18A If the fair value of the assets to be distributed cannot be measured reliably without undue cost or effort, the liability shall be measured at the carrying amount of the assets to be distributed. If prior to settlement the fair value of the assets to be distributed can be measured reliably without undue cost or effort, the liability is remeasured at fair value with a corresponding adjustment made to the amount of the distribution and accounted for in accordance with paragraph 22.18.

22.18B Paragraphs 22.18–22.18A do not apply to the distribution of a non-cash asset that is ultimately controlled by the same party or parties before and after the distribution. This exclusion applies to the separate, individual and **consolidated financial statements** of an entity that makes the distribution.

~~Non-controlling interest and transactions in shares of a consolidated subsidiary~~

~~22.19~~ ~~In consolidated financial statements, a **non-controlling interest** in the net assets of a subsidiary is included in equity. An entity shall treat changes in a **parent**'s controlling interest in a subsidiary that do not result in a loss of **control** as transactions with owners in their capacity as owners. Accordingly, the carrying amount of the non-controlling interest shall be adjusted to reflect the change in the parent's interest in the subsidiary's net assets. Any difference between the amount by which the non-controlling interest is so~~

~~adjusted and the fair value of the consideration paid or received, if any, shall be recognised directly in equity and attributed to owners of the parent. An entity shall not recognise gain or loss on these changes. Also, an entity shall not recognise any change in the carrying amounts of assets (including **goodwill**) or liabilities as a result of such transactions.~~

Disclosures

22.20 If the fair value of the assets to be distributed as described in paragraphs 22.18–22.18A cannot be measured reliably without undue cost or effort, the entity shall disclose that fact and the reasons why a reliable fair value measurement would involve undue cost or effort.

Appendix to Section 22
Example of the issuer's accounting for convertible debt

The introduction to appendix to Section 22 is amended. New text is underlined and deleted text is struck through.

<u>This appendix</u> ~~The Appendix~~ accompanies, but is not part of, Section 22. It provides guidance for applying the requirements of paragraphs 22.13–22.15.

On 1 January 20X5 an entity issues 500 convertible bonds. The bonds are issued at par with a face value of CU100 per bond and are for a five-year term, with no transaction costs. The total proceeds from the issue are CU50,000. Interest is payable annually in arrears at an annual interest rate of 4 per cent. Each bond is convertible, at the holder's discretion, into 25 <u>**ordinary shares**</u> ~~ordinary shares~~ at any time up to maturity. At the time the bonds are issued, the market interest rate for similar debt that does not have the conversion option is 6 per cent.

When the instrument is issued, the liability component must be valued first, and the difference between the total proceeds on issue (which is the fair value of the instrument in its entirety) and the fair value of the liability component is assigned to the equity component. The fair value of the liability component is calculated by determining its present value using the discount rate of 6 per cent. These calculations and journal entries are illustrated:

	CU
Proceeds from the bond issue (A)	50,000
Present value of principal at the end of five years (see calculations)	37,363
Present value of interest payable annually in arrears for five years	8,425
Present value of liability, which is the fair value of liability component (B)	45,788
Residual, which is the fair value of the equity component (A) – (B)	4,212

The issuer of the bonds makes the following journal entry at issue on 1 January 20X5:

Dr Cash	CU50,000	
Cr Financial Liability – Convertible bond		CU45,788
Cr Equity		CU4,212

The CU4,212 represents a discount on issue of the bonds, so the entry could also be shown 'gross':

Dr Cash	CU50,000	
Dr Bond discount	CU4,212	
Cr Financial Liability – Convertible bond		CU50,000
Cr Equity		CU4,212

After issue, the issuer will amortise the bond discount according to the following table:

	(a) Interest payment (CU)	(b) Total interest expense (CU) = 6% × (e)	(c) Amortisation of bond discount (CU) = (b) – (a)	(d) Bond discount (CU) = (d) – (c)	(e) Net liability (CU) = 50,000 – (d)
1/1/20X5				4,212	45,788
31/12/20X5	2,000	2,747	747	3,465	46,535
31/12/20X6	2,000	2,792	792	2,673	47,327
31/12/20X7	2,000	2,840	840	1,833	48,167
31/12/20X8	2,000	2,890	890	943	49,057
31/12/20X9	2,000	2,943	943	0	50,000
Totals	10,000	14,212	4,212		

At the end of 20X5, the issuer would make the following journal entry:

Dr Interest expense	CU2,747	
Cr Bond discount		CU747
Cr Cash		CU2,000

Calculations

Present value of principal of CU50,000 at 6 per cent

CU50,000/(1.06)^5 = CU37,363

Present value of the interest annuity of CU2,000 (= CU50,000 × 4 per cent) payable at the end of each of five years

The CU2,000 annual interest payments are an annuity—a cash flow stream with a limited number (n) of periodic payments (C), receivable at dates 1 to n. To calculate the present value of this annuity, future payments are discounted by the periodic rate of interest (i) using the following formula:

$$PV = \frac{C}{i} \times [1 - \frac{1}{(1+i)^{\wedge}n}]$$

Therefore, the present value of the CU2,000 interest payments is

(2,000/.06) × [1 – [(1/1.06)^5] = CU8,425

This is equivalent to the sum of the present values of the five individual CU2,000 payments, as follows:

	CU
Present value of interest payment at 31 December 20X5 = 2,000/1.06	1,887
Present value of interest payment at 31 December 20X6 = 2,000/1.06^2	1,780
Present value of interest payment at 31 December 20X7 = 2,000/1.06^3	1,679
Present value of interest payment at 31 December 20X8 = 2,000/1.06^4	1,584
Present value of interest payment at 31 December 20X9 = 2,000/1.06^5	1,495
Total	8,425

Yet another way to calculate this is to use a table of present value of an ordinary annuity in arrears, five periods, interest rate of 6 per cent per period. (Such tables are easily found on the Internet.) The present value factor is 4.2124. Multiplying this by the annuity payment of CU2,000 determines the present value of CU8,425.

The title of Section 23 is amended. New text is underlined.

Section 23
Revenue from Contracts with Customers

Section 23 is revised. For ease of reading, revised text is not underlined.

Scope of this section

23.1 This section applies to all **contracts** with **customers**, except:

(a) **lease** agreements within the scope of Section 20 *Leases*;

(b) **insurance contracts**;

(c) **financial instruments** and other contractual rights or obligations within the scope of Section 9 *Consolidated and Separate Financial Statements*, Section 11 *Financial Instruments*, Section 14 *Investments in Associates* and Section 15 *Joint Arrangements*; and

(d) non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.

23.2 A contract with a customer may be partially within the scope of this section and partially within the scope of other sections in paragraph 23.1 (for example, a lease agreement that includes the provision of services). If the other section specifies how to separate or initially measure any parts of the contract, then an entity shall first apply the separation or measurement requirements in that section. Otherwise, the entity shall apply this section to separate or initially measure those parts of the contract.

Revenue recognition model

23.3 This section establishes a **revenue** recognition model for accounting for revenue from contracts with customers. The objective of the model is for an entity to recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To apply the model, an entity shall take the following steps:

(a) Step 1—Identify the contract(s) with a customer (see paragraphs 23.6–23.15);

(b) Step 2—Identify the promises in the contract (see paragraphs 23.16–23.40);

(c) Step 3—Determine the transaction price (see paragraphs 23.41–23.60);

(d) Step 4—Allocate the transaction price to the promises in the contract (see paragraphs 23.61–23.74); and

(e) Step 5—Recognise revenue when (or as) the entity satisfies a **promise** (see paragraphs 23.75–23.101).

23.4 An entity shall apply this section consistently to contracts with similar characteristics and in similar circumstances.

23.5 This section specifies the accounting for an individual contract with a customer. An entity may apply this section to a portfolio of similar contracts (or promises) if the entity reasonably expects that the result of doing so would not differ materially from the result of applying this section to the individual contracts (or promises) within that portfolio.

Step 1—Identify the contract(s) with a customer

23.6 An entity shall apply the revenue recognition model to account for a contract with a customer that is within the scope of this section only when all of the following criteria are met:

(a) the parties to the contract have approved the contract and are committed to perform their respective obligations;

(b) the entity can identify each party's rights regarding the goods or services to be transferred;

(c) the entity can identify the payment terms for the goods or services to be transferred;

(d) the contract has commercial substance; and

(e) it is **probable** that the entity will collect the consideration to which it will be entitled in exchange for the goods or services to be transferred to the customer.

23.7 The criterion in paragraph 23.6(e) is met when the customer has the ability and intention to pay the consideration when due.

23.8 If a contract with a customer meets the criteria in paragraph 23.6 at inception, reassessment is only required if there is an indication of a significant change in relevant facts and circumstances.

23.9 If a contract with a customer does not meet the criteria in paragraph 23.6, an entity shall initially recognise any consideration received from the customer as a **liability**, and continue to reassess the contract until the criteria are met.

23.10 An entity shall recognise the consideration initially recognised as a liability in accordance with paragraph 23.9 as revenue when either:

(a) the contract is complete and all, or substantially all, of the consideration promised by the customer has been received and is non-refundable; or

(b) the contract is terminated and the consideration received is non-refundable.

23.11 Some contracts with customers may have no fixed duration or may automatically renew periodically. An entity shall apply this section to the duration of the contract (that is, the contractual period) in which the parties to the contract have present enforceable rights and obligations, except for contract renewal options within the scope of paragraph 23.36.

Combination of contracts

23.12 An entity shall combine two or more contracts entered into at or near the same time with the same customer (or **related parties** of the customer) and account for the contracts as a single contract if one or more of the following criteria are met:

(a) the contracts are negotiated as a package with a single commercial objective;

(b) the amount of consideration to be paid in one contract depends on the price or performance of the other contract; or

(c) the goods or services promised in the contracts (or some goods or services promised in each of the contracts) are a single promise in accordance with paragraphs 23.16–23.24.

Contract modifications

23.13 A contract modification is a change in the scope or price (or both) of a contract that is approved by the parties to the contract. A contract modification either creates new enforceable rights and obligations, or changes such rights and obligations that already exist.

23.14 An entity shall account for contract modifications as follows:

(a) if the remaining goods or services are distinct from the goods or services transferred on or before the date of the contract modification, an entity shall account for the contract modification as if it were a termination of the existing contract and the creation of a new contract. The transaction price for the new contract is the sum of:

   (i) the consideration included in the estimate of the transaction price for the existing contract that had not been recognised as revenue; and

   (ii) any additional consideration promised as part of the contract modification.

(b) if the remaining goods or services are not distinct from the goods or services transferred on or before the date of the contract modification, an entity shall account for the contract modification as if it were part of the existing contract. The effect that the contract modification has on the transaction price, and on the entity's measure of progress towards complete satisfaction of the promise, shall be recognised as an adjustment to revenue at the date of the contract modification (that is, on a cumulative catch-up basis).

23.15 As an alternative to the treatment set out in paragraph 23.14(a) and instead of terminating the existing contract, an entity may choose to account for a contract modification as a separate contract if:

(a) the modification increases the scope of the existing contract because of additional goods or services promised that are distinct from those in the existing contract; and

(b) the modification increases the price of the existing contract by an amount of consideration that reflects the entity's stand-alone selling price of the additional goods or services and any appropriate adjustments to that price to reflect the circumstances of that contract.

Step 2—Identify the promises in the contract

23.16 At contract inception, an entity shall assess the goods and services promised in a contract with a customer and shall identify each promise to transfer a distinct good or service (or a distinct bundle of goods or services).

23.17 If an entity is to transfer a series of distinct goods or services that are substantially the same, the series shall be accounted for as a single promise if both of the following criteria are met:

(a) each distinct good or service in the series that the entity promises to transfer to the customer would meet the criteria in paragraph 23.78 to be satisfied over time; and

(b) in accordance with paragraphs 23.88–23.93, the same method would be used to measure the entity's progress towards complete satisfaction of the promise to transfer each distinct good or service in the series to the customer.

23.18 A contract with a customer generally explicitly states the goods or services that an entity promises to transfer. However, promises may be implied by an entity's customary business practices, published policies or specific statements if these create a valid expectation of the customer that the entity will transfer a good or service to the customer.

23.19 Promises do not include activities that an entity must undertake to fulfil a contract unless those activities directly transfer a good or service to the customer (for example, set-up activities and administrative tasks that do not transfer a good or service to the customer).

Distinct goods or services

23.20 A good or service that is promised by an entity to a customer is distinct if both of the following criteria are met:

(a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (that is, the good or service is capable of being distinct); and

(b) the entity's obligation to transfer the good or service is separate from other obligations in the contract (see paragraph 23.23).

23.21 The criterion in paragraph 23.20(a) is satisfied for goods or services that the entity regularly sells separately.

23.22 For the purpose of applying the criterion in paragraph 23.20(a), readily available resources are:

(a) goods or services sold separately (by the entity or another entity); or

(b) goods or services that the customer has already obtained from the entity (including goods or services transferred to the customer under the contract) or from other transactions or events.

23.23 The purpose of the criterion in paragraph 23.20(b) is to determine if the nature of the entity's obligation, within the context of the contract, is to transfer the good or service individually, rather than to transfer a combined item or items to which the good or service is an input. Factors that indicate that two or more goods or services promised in a contract are inputs to a combined item or items and are therefore not distinct include, but are not limited to, the following:

(a) the entity provides a significant service of integrating the goods or services with other goods or services promised in the contract into a bundle of goods or services that represent the combined output or outputs for which the customer has contracted. In other words, the entity is using the goods or services as inputs to produce or deliver the combined output or outputs specified by the customer. A combined output or outputs might include more than one phase, element or unit. An example is a construction contract when an entity provides an integration (or contract management) service to manage and co-ordinate the various construction tasks necessary for the construction of an **asset**.

(b) one or more of the goods or services significantly modifies or customises, or is significantly modified or customised by, one or more of the other goods or services promised in the contract. An example is a software contract when an entity promises to provide existing software and to customise that software, if the customisation service significantly modifies the software.

(c) the goods or services are highly interdependent or highly interrelated. In other words, each of the goods or services is significantly affected by one or more of the other goods or services in the contract. For example, in some cases, two or more goods or services are significantly affected by each other because an entity would not be able to fulfil its promise by transferring each of the goods or services independently.

23.24 If a good or service promised to a customer is not distinct, an entity shall combine that good or service with other goods or services in the contract until it identifies a bundle of goods or services that is distinct. In some cases, this will result in the entity accounting for all the goods or services in a contract as a single promise.

Warranties

23.25 An entity might provide a warranty in connection with the sale of a product (whether a good or service).

23.26 If a customer has the option to purchase a warranty separately (that is, there is a choice of purchasing the product either with or without a warranty), the warranty is distinct because the entity promises to provide a service to the customer in addition to the product that has the functionality described in the contract. In those circumstances, an entity shall account for the warranty as a separate promise in accordance with paragraphs 23.16–23.24.

23.27 If a customer does not have the option to purchase a warranty separately, an entity shall account for the warranty in accordance with Section 21 *Provisions and Contingencies* unless:

(a) the warranty is significant to the contract; and

(b) the warranty, or part of the warranty, provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications.

23.28 If the conditions in paragraph 23.27 are met, the service that the warranty provides to the customer is a separate promise. Therefore, the entity shall allocate the transaction price to the product and the service. If a warranty provides the customer with both a service and the assurance that the product complies with agreed-upon specifications, but an entity cannot reasonably account for these components separately, the entity shall account for both the components together as a single promise.

Non-refundable upfront fees

23.29 In some contracts, an entity charges a customer a non-refundable upfront fee at or near contract inception. Examples include joining fees in health club membership contracts, set-up fees in some service contracts and initial fees in some supply contracts.

23.30 Often a non-refundable upfront fee relates to an activity that the entity is required to undertake to fulfil the contract but that activity does not directly transfer a good or service to the customer. If a non-refundable upfront fee relates to the transfer of a good or service, an entity shall evaluate whether to account for the good or service as a separate promise in accordance with paragraphs 23.16–23.24. Otherwise, the non-refundable upfront fee is included in the transaction price and allocated to the promises in the contract.

23.31 An entity may charge a non-refundable fee that gives customers an option to renew the contract on similar terms. Such options that provide a customer with a material right identified in accordance with paragraph 23.32 are accounted for in accordance with paragraph 23.36, instead of as separate promises in accordance with paragraphs 23.16–23.24.

Customer options for additional goods or services

23.32 In some contracts, customers are granted the option to acquire additional goods or services for free or at a discount. If the option provides the customer with a material right that it would not receive without entering into that contract, the option gives rise to a separate promise in addition to the other promises in the contract. If customers are granted the option to acquire additional goods or services at a price that would reflect the stand-alone selling prices for that good or service, the option does not provide the customer with a material right and does not give rise to a separate promise.

23.33 Options that may provide a material right to customers include sales incentives, customer award credits (or points), contract renewal options or other discounts on future goods or services.

23.34 If an option provides a material right to a customer, the customer is in effect paying the entity in advance for future goods or services. As a consequence, the entity recognises revenue when those future goods or services are transferred or when the option expires.

23.35 An entity shall account for an option that provides a material right to a customer as a separate promise only when the effect of doing so is significant to the accounting for the individual contract.

23.36 If a customer is granted an option to renew a contract on similar terms (that is, provide goods or services that are similar to the original goods or services in the contract) and the option provides the customer with a material right, an entity shall not account for the option as a separate promise. Instead, an entity shall account for a contract that includes such an option based on:

(a) the expected contract term (that is, including expected renewal periods); and

(b) the corresponding expected consideration (that is, the consideration that the entity expects to receive in exchange for the goods or services that the entity expects to provide).

Principal versus agent considerations

23.37 When another party is involved in providing goods or services to a customer, an entity shall determine whether the nature of its promise is to provide the specified goods or services itself (that is, the entity is a principal) or to arrange for those goods or services to be provided by the other party (that is, the entity is an agent). An entity shall determine whether it is a principal or an agent for each promise in a contract. A specified good or service is a distinct good or service (or a distinct bundle of goods or services) to be provided to the customer (see paragraphs 23.20–23.24).

23.38 An entity is a principal if:

(a) it is primarily responsible for fulfilling the promise to provide the specified good or service, including responsibility for the acceptability of the specified good or service (for example, the entity has primary responsibility for the good or service meeting the customer's specifications);

(b) it obtains control of the specified good as **inventory** before it transfers to the customer (for example, the entity has inventory risk before the specified good is transferred to the customer); or

(c) it obtains control of the specified service or right to the specified good or service before:

(i) it transfers to the customer; or

(ii) it directs another party who is acting on the entity's behalf to provide the service to the customer.

If none of the circumstances in (a)–(c) apply, the entity is an agent.

23.39 An entity that is a principal shall recognise revenue in the gross amount of consideration to which the entity expects to be entitled in exchange for the specified good or service transferred as it satisfies its promise.

23.40 An entity that is an agent shall recognise revenue in the amount of any fee or commission to which the entity expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party as it satisfies its promise. An entity's fee or commission might be the net amount of consideration that the entity retains after paying the other party the consideration received in exchange for the goods or services to be provided by that party.

Step 3—Determine the transaction price

23.41 An entity shall consider the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which the entity expects to be entitled in exchange for transferring goods or services promised to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes).

23.42 For the purpose of determining the transaction price, an entity shall assume that the goods or services will be transferred to the customer in accordance with the existing contract and that the contract will not be cancelled, modified or renewed, except for contract renewal options within the scope of paragraph 23.36.

Variable consideration

23.43 If the consideration promised in a contract includes a variable amount (for example, because of some discounts, rebates, refunds, penalties or performance bonuses), an entity shall estimate the variable amount in the transaction price that reflects the amount that is expected to become due, determined in accordance with paragraphs 23.44–23.50.

23.44 An entity shall first estimate an amount of variable consideration by using either of the following methods:

(a) the expected value—the expected value is the sum of probability-weighted amounts in a range of possible consideration amounts. An expected value may be an appropriate estimate of the amount of variable consideration if an entity has a large number of contracts with similar characteristics.

(b) the most likely amount—the most likely amount is the single most likely amount in a range of possible consideration amounts (that is, the single most likely outcome of the contract). The most likely amount may be an appropriate estimate of the amount of variable consideration if the contract has only two possible outcomes (for example, an entity either achieves a performance bonus or does not).

23.45 An entity shall apply one method consistently throughout the contract when estimating the amount of variable consideration. The information that an entity uses to estimate the amount of variable consideration would typically be similar to the information that the entity's management uses during the bid-and-proposal process and in establishing prices for the goods or services promised to the customer.

23.46 An entity shall include in the transaction price some or all of an amount of variable consideration estimated in accordance with paragraph 23.44 only to the extent that it is **highly probable** that this amount will become due when the uncertainty associated with the variable consideration is subsequently resolved.

23.47 At the end of each **reporting period**, an entity shall update the estimate of variable consideration included in the transaction price to reflect any relevant changes in circumstances. An entity shall account for changes in the estimate of the transaction price in accordance with paragraphs 23.72–23.73.

Sales-based or usage-based royalties

23.48 An entity shall not apply paragraphs 23.44–23.47 to a sale-based or usage-based royalty provided in exchange for a licence of intellectual property when the licence of intellectual property is the sole or predominant item to which the royalty relates. Instead, an entity shall recognise revenue for such royalties when (or as) the later of the following events occurs:

(a) the subsequent sale or usage takes place; and

(b) when (or as) the promise to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied).

Refund liabilities

23.49 If an entity receives consideration from a customer and expects to refund some or all of that consideration to the customer, the entity shall recognise as a refund liability the amount of consideration that the entity reasonably expects to refund to the customer. For example, the terms of a fixed-price service contract may require a customer to pay upfront and provide the customer with a full refund of the amount paid if the customer is dissatisfied with the service at any time. At the end of each reporting period, an entity shall update the estimate of the refund liability (and transaction price) to reflect any relevant changes in circumstances. An entity shall account for changes in the estimate of the transaction price in accordance with paragraphs 23.72–23.73.

23.50 To account for a refund liability relating to a sale with a right of return, an entity shall apply paragraphs 23.51–23.56.

Sale with a right of return

23.51 In some contracts, an entity transfers control of a product to a customer and also grants the customer the right to return the product for various reasons (such as dissatisfaction with the product) and receive any combination of the following:

(a) a full or partial refund of any consideration paid;

(b) a credit that can be applied against amounts owed, or that will be owed, to the entity; and

(c) another product in exchange.

23.52 Exchanges by customers of one product for another of the same type, quality, condition and price (for example, one colour or size for another) are not considered returns for the purposes of applying the requirements in paragraphs 23.53–23.56.

23.53 To account for revenue for the transfer of products with a right of return (and for some services that are provided subject to a refund), an entity shall recognise the following:

(a) revenue only for products expected not to be returned;

(b) a refund liability for consideration received (or receivable) for products expected to be returned; and

(c) a refund asset, classified as inventory, for products expected to be returned (and corresponding adjustment to cost of sales).

23.54 To determine the amount of consideration that should be recognised in accordance with paragraph 23.53(a), an entity shall recognise revenue only to the extent that it is highly probable that the products will not be returned. The amount of consideration received (or receivable) that is not recognised as revenue shall be recognised as a refund liability in accordance with paragraph 23.53(b).

23.55 A refund asset recognised by an entity in accordance with paragraph 23.53(c) shall initially be measured at the former **carrying amount** of the product (for example, inventory), less:

(a) any expected costs to recover those products; and

(b) allowances for potential decreases in the value to the entity of those products (for example, because of damage, obsolescence or declining selling prices).

23.56 At the end of each reporting period, an entity shall update its assessment of products expected to be returned. The entity shall:

(a) recognise changes in the amount of revenue recognised as adjustments to the refund liability, and vice versa; and

(b) recognise adjustments to the asset recognised for products expected to be returned in cost of sales.

23.57 Contracts in which a customer may return a defective product in exchange for a functioning product shall be evaluated in accordance with the guidance on warranties in paragraphs 23.25–23.28.

Time value of money

23.58 If payment is deferred beyond normal business terms, the arrangement constitutes a financing transaction (see paragraph 11.13). An entity shall adjust the promised amount of consideration for the effects of the time value of money and recognise the interest revenue in accordance with Section 11. The entity shall present interest revenue separately from revenue from contracts with customers.

23.59 An entity need not adjust the promised amount of consideration for the effects of the time value of money if the entity expects, at contract inception, that the period between when the entity transfers the good or service promised to a customer and when the customer pays for that good or service will be one year or less.

Non-cash consideration

23.60 To determine the transaction price for contracts in which a customer promises consideration in a form other than **cash**, an entity shall measure the non-cash consideration (or promise of non-cash consideration) at **fair value**. If an entity cannot reasonably estimate the fair value of the non-cash consideration, the entity shall measure the consideration indirectly by reference to the stand-alone selling price of the goods or services promised to the customer (or class of customer) in exchange for the consideration.

Step 4—Allocate the transaction price to the promises in the contract

23.61 An entity shall allocate the transaction price to each promise identified in the contract on a relative stand-alone selling price basis in accordance with paragraphs 23.63–23.67, unless allocating discounts or variable amounts on an alternative basis in accordance with paragraphs 23.68–23.71.

23.62 Paragraphs 23.63–23.71 do not apply if:

(a) a contract contains a single promise; or

(b) all promises in a contract are satisfied at the same point in time in accordance with paragraph 23.83.

However, paragraph 23.71 applies if an entity accounts for a series of distinct goods or services as a single promise in accordance with paragraph 23.17 and the consideration promised in the contract includes a variable amount.

Allocation based on stand-alone selling prices

23.63 An entity shall determine the stand-alone selling price at contract inception of the distinct good or service underlying each promise in the contract and allocate the transaction price in proportion to those stand-alone selling prices.

23.64 The stand-alone selling price is the price at which an entity would sell a good or service promised in a contract separately to a customer. The best evidence of a stand-alone selling price is the observable price of a good or service when the entity sells that good or service separately in similar circumstances and to similar customers.

23.65 If a stand-alone selling price is not directly observable, an entity shall estimate it. When estimating a stand-alone selling price, an entity shall take into account all information that is reasonably available to the entity, including market conditions, entity-specific factors and information about the customer or class of customer. An entity shall apply estimation methods consistently in similar circumstances.

23.66 Suitable estimation methods include, but are not limited to, the following:

(a) adjusted market assessment approach—an entity could evaluate the market in which it sells goods or services and estimate the price that a customer in that market would be willing to pay for those goods or services. That approach might also include referring to prices from the entity’s competitors for similar goods or services and adjusting those prices as necessary to reflect the entity’s costs and margins.

(b) expected cost plus a margin approach—an entity could forecast its expected costs of transferring the good or service promised to a customer and then add an appropriate margin for that good or service.

(c) residual approach—only if the stand-alone selling price of a good or service is highly variable or uncertain, then an entity may estimate the stand-alone selling price by reference to the total transaction price less the sum of the observable or estimated stand-alone selling prices of other goods or services promised in the contract.

23.67 When estimating the stand-alone selling price for a customer's option to acquire additional goods or services identified in accordance with paragraphs 23.32–23.36, an entity shall reflect the discount that the customer would obtain when exercising the option, adjusted for both:

(a) any discount that the customer could receive without exercising the option; and

(b) the likelihood that the option will be exercised.

Allocation of a discount

23.68 A customer receives a discount if the sum of the stand-alone selling prices of the goods or services promised in the contract exceeds the promised consideration.

23.69 An entity shall allocate a discount to the entire contract on a relative stand-alone selling price basis, unless this basis does not depict the amount of consideration to which the entity expects to be entitled in exchange for transferring the goods or services promised to the customer. In that case, the entity shall allocate the discount using a method that reflects such an amount.

Allocation of variable consideration

23.70 An entity shall allocate variable consideration in a transaction price to the entire contract on a relative stand-alone selling price basis, unless this basis does not depict the amount of consideration to which the entity expects to be entitled in exchange for transferring the goods or services promised to the customer. In that case, the entity shall allocate the variable consideration using a method that reflects such an amount.

23.71 An entity shall allocate variable consideration in a transaction price to all the distinct goods or services promised in a series of distinct goods or services that forms part of a single promise in accordance with paragraph 23.17, unless this basis does not depict the amount of consideration to which the entity expects to be entitled in exchange for transferring the goods or services promised to the customer. In that case, the entity shall allocate the variable consideration using a method that reflects such an amount.

Changes in the transaction price

23.72 After contract inception, an entity's estimate of the amount of consideration to which it expects to be entitled in exchange for transferring goods or services may change. For example, an entity updates its estimate of variable consideration included in the transaction price to reflect any relevant changes in circumstances.

23.73 To account for changes in the estimate of the transaction price, an entity shall allocate any changes to promises in the contract on the same basis as at contract inception. Consequently, an entity shall not reallocate the transaction price to reflect changes in stand-alone selling prices after contract inception. Amounts allocated to a promise that has been satisfied shall be recognised as revenue, or as a reduction of revenue, in the period in which the estimate of the transaction price changes.

23.74 A change in transaction price as a result of a contract modification arises from separate and subsequent negotiation between the parties to the contract that changes the enforceable rights and obligations of those parties. Such a change shall be accounted for in accordance with paragraphs 23.13–23.15.

Step 5—Recognise revenue when (or as) the entity satisfies a promise

23.75 An entity shall recognise revenue when (or as) the entity satisfies a promise to transfer a good or service or bundle of goods or services to a customer. A good or service is transferred when (or as) the customer obtains control of that good or service.

23.76 For each promise identified in accordance with paragraphs 23.16–23.24, an entity shall determine at contract inception whether the promise is satisfied over time (in accordance with paragraphs 23.78–23.82) or satisfied at a point in time (in accordance with paragraphs 23.83–23.87).

23.77 Goods and services are assets, even if only momentarily, when they are received and used (as in the case of many services). Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining economic benefits that may flow from, the asset.

Promises satisfied over time

23.78 An entity transfers control of a good or service over time, and therefore satisfies a promise over time, if one of the following criteria is met:

(a) the customer receives and consumes the benefits of the entity's performance as the entity performs (for example, routine or recurring services such as a cleaning service);

(b) the entity's work carried out to date would not need to be substantially reperformed if another entity were to fulfil the remainder of the promise to the customer (for example, a freight logistics contract);

(c) the entity's performance creates or enhances an asset that the customer obtains control of as the asset is created or enhanced (for example, in the case of a construction contract in which the customer controls the work in progress); or

(d) the entity's performance creates an asset that cannot be readily redirected to another customer and the customer is obliged to compensate the entity for work carried out to date (see paragraphs 23.79–23.82).

23.79 An asset created by an entity's performance cannot be readily redirected to another customer if:

(a) to sell the asset in its completed state, the entity would either recognise a significant loss or incur significant costs to rework the asset (for example, if an asset was highly customised for a particular customer); or

(b) substantial contractual restrictions exist that preclude the entity from selling the asset to another customer during the creation or enhancement of that asset (for example, if the entity is legally obliged to sell the asset to the customer).

23.80 An assessment of whether an asset can be readily redirected to a customer is made at contract inception. Reassessment of whether an asset can be readily redirected to a customer shall occur only if there is a contract modification that substantially changes the promise.

23.81 An obligation for a customer to compensate an entity for work carried out to date may arise from specific terms in the contract or laws that apply to that contract. An obligation for a customer to compensate the entity exists if the entity has either:

(a) a present unconditional right to payment for work carried out to date; or

(b) an enforceable right to demand or retain payment for work carried out to date if the contract were to be terminated before completion for reasons other than the entity's failure to perform as promised.

23.82 An amount that would compensate an entity for work carried out to date would be an amount that approximates the selling price of the goods or services transferred to date (for example, recovery of the cost incurred by the entity in satisfying the promise plus a reasonable profit margin).

Promises satisfied at a point in time

23.83 If a promise is not satisfied over time, an entity satisfies the promise at a point in time. To determine the point in time at which a customer obtains control of a promised asset, an entity shall consider indicators of the transfer of control, which include but are not limited to the following:

(a) the entity has a present right to payment for the asset;

(b) the customer has legal title to the asset;

(c) the customer has physical possession of the asset;

(d) the customer has the significant risks and rewards of ownership of the asset; and

(e) the customer has accepted the asset (see paragraphs 23.86–23.87).

23.84 The existence or absence of an indicator in paragraph 23.83 does not determine whether control of a promised asset has transferred. For example, an entity may retain legal title of an asset that a customer controls as protection against the customer's failure to pay. Conversely, in a consignment arrangement, the other party (for example a dealer or distributor) has physical possession of a product that an entity controls. An entity shall not recognise revenue upon delivery of a product to another party if the delivered product is held on consignment.

23.85 Indicators that an arrangement is a consignment arrangement include, but are not limited to, the following:

(a) the product is controlled by the entity until a specified event occurs, such as the sale of the product to a customer of the distributor or until a specified period expires;

(b) the entity is able to require the return of the product or transfer the product to a third party (such as another distributor); and

(c) the distributor does not have an unconditional obligation to pay for the product (although it might be required to pay a deposit).

Customer acceptance

23.86 Customer acceptance clauses allow a customer to cancel a contract or require an entity to take remedial action if a good or service does not meet agreed-upon specifications. If a contract includes a customer acceptance clause, an entity shall consider the effect of the clause when evaluating when a customer obtains control of the asset.

23.87 If an entity can objectively determine (that is, determine based on information available to the entity) that control of a good or service has been transferred to the customer in accordance with the agreed-upon specifications in the contract, then customer acceptance is a formality that would not affect the entity's determination of when the customer has obtained control of the good or service. However, if an entity cannot objectively determine that the good or service provided to the customer is in accordance with the agreed-upon specifications in the contract, then the entity would not be able to conclude that the customer has obtained control until the entity receives the customer's acceptance.

Measuring progress towards complete satisfaction of a promise

23.88 For each promise satisfied over time in accordance with paragraphs 23.78–23.82, an entity shall recognise revenue over time by measuring its progress towards complete satisfaction of that promise.

23.89 An entity shall select a method of measuring progress that depicts the entity's performance in transferring control of goods or services promised to a customer (that is, the satisfaction of the promise). An entity shall apply a single method of measuring progress for each promise satisfied over time and shall apply that method consistently to similar promises and in similar circumstances.

23.90 At the end of each reporting period, an entity shall remeasure its progress towards complete satisfaction of a promise satisfied over time and update its measure of progress. Such changes to an entity's measure of progress shall be accounted for as a change in **accounting estimate** in accordance with paragraphs 10.14C–10.18.

23.91 In determining a method of measuring progress, an entity shall consider the nature of the good or service that the entity will transfer to the customer. Appropriate methods of measuring progress include methods that recognise revenue based on:

(a) measurements of the value to the customer of the goods or services transferred to date relative to the remaining goods or services to be transferred under the contract (referred to as output methods); and

(b) the entity's efforts or inputs to the satisfaction of a promise relative to the total expected inputs to satisfy the promise (referred to as input methods).

23.92 Common methods, and circumstances when they may be appropriate, include:

(a) an output method based on surveys of work completed, when the surveys provide an objective measure of an entity's performance to date;

(b) an output method based on units delivered, when each item transfers an equal amount of value to the customer on delivery;

(c) an output method based on time elapsed, when control of the goods or services is transferred evenly over time;

(d) an input method based on time elapsed, when an entity's efforts or inputs are expended evenly throughout the performance period; and

(e) an input method based on costs incurred, when there is a relationship between costs incurred and the transfer of control of goods or services to a customer.

23.93 If an entity has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the entity's work to date (for example, a service contract in which an entity bills a fixed amount for each hour of service provided), the entity may recognise revenue in the amount to which the entity has a right to invoice.

Licensing

23.94 A licence establishes a customer's rights to the intellectual property of an entity (such as software, technology, trademarks, patents, franchises, music and motion picture films).

23.95 If a contract with a customer includes a promise to grant a licence (or licences) in addition to other goods or services, an entity shall apply paragraphs 23.16–23.24 to identify each of the promises in the contract. If the promise to grant a licence is not distinct from the other goods or services in the contract, an entity shall apply paragraphs 23.75–23.87 to determine whether the promise (which includes the licence) is satisfied either over time or at a point in time. If the promise to grant a licence is distinct from the other goods or services in the contract, an entity shall apply paragraphs 23.96–23.101 to determine whether the promise is satisfied over time or satisfied at a point in time.

23.96 To determine if the promise to grant a licence is satisfied over time or satisfied at a point in time, an entity shall consider whether the nature of the entity's promise in granting the licence provides the customer with either:

(a) a right to access the entity's intellectual property as it exists throughout the licence period; or

(b) a right to use the entity's intellectual property as it exists at the point in time at which the licence is granted.

23.97 A licence provides a customer with a right to access an entity's intellectual property if the entity expects to undertake activities that either:

(a) will significantly affect the benefit the customer obtains from the intellectual property by changing the substance of the intellectual property; or

(b) could significantly affect the benefit the customer obtains from the intellectual property by directly exposing the customer to any positive or negative effects of those activities.

23.98 An entity's expected activities may be included in the terms of a contract or arise from those activities that the customer reasonably expects the entity will undertake. The assessment of whether a licence provides a customer with a right to access an entity's intellectual property shall not include activities that result in the transfer of a good or service to the customer as those activities occur.

23.99 Activities that change the substance of the intellectual property include activities that change the intellectual property's design, content or ability to perform a function or task (for example, development activities that change the content to which the customer has rights). Activities that expose the customer to positive or negative effects of those activities include activities that support or maintain the value of intellectual property (for example, ongoing activities that maintain the value of the brand to which the customer has rights).

23.100 If the criteria in paragraph 23.97 are met, the promise to grant a licence is satisfied over time because a customer receives and consumes the benefits of an entity's performance of providing access to its intellectual property as the entity performs. An entity shall apply paragraphs 23.88–23.93 to select an appropriate method to measure its progress towards complete satisfaction of that promise.

23.101 If the criteria in paragraph 23.97 are not met, the licence provides the customer with a right to use the entity's intellectual property as it exists at the point in time at which the licence is granted. Types of licences that often provide customers with a right to use an entity's intellectual property include licences relating to software, biological compounds or drug formulas, and completed media content (for example, motion picture films, television shows and music recordings). An entity shall apply paragraphs 23.83–23.87 to determine the point in time at which the licence transfers to the customer. Revenue cannot be recognised for a licence that provides a right to use the entity's intellectual property before the beginning of the period during which the customer is able to use and benefit from the licence.

Contract costs

Costs to obtain a contract

23.102 An entity may incur costs in its effort to obtain a contract with a customer. An entity shall recognise such costs as an asset if:

(a) the costs would not have been incurred by the entity if the contract had not been obtained (for example, a sales commission payable on obtaining a contract); and

(b) the costs are expected to be recovered.

23.103 If an entity is unable to identify whether costs to obtain a contract meet the criteria in paragraph 23.102 without undue cost or effort, the entity shall recognise such costs as an **expense** when incurred.

23.104 Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained shall be recognised as an expense when incurred, unless those costs are explicitly chargeable to the customer regardless of whether the contract is obtained.

23.105 An entity may recognise the costs to obtain a contract that meet the criteria in paragraph 23.102 as an expense when incurred if the amortisation period of the assets that the entity otherwise would have recognised is one year or less.

Costs of fulfilling a contract

23.106 An entity shall account for the costs incurred in fulfilling a contract with a customer in accordance with the relevant section of this Standard for those costs (for example, Section 13 *Inventories*, Section 17 *Property, Plant and Equipment*, Section 18 *Intangible Assets other than Goodwill*).

23.107 If the costs incurred in fulfilling a contract are not within the scope of another section of this Standard, an entity shall recognise those costs as an asset if:

(a) the costs relate directly to a contract or to an anticipated contract that the entity can specifically identify (for example, direct costs of a specific anticipated contract);

(b) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) promises in the future; and

(c) the costs are expected to be recovered.

23.108 An asset recognised in accordance with paragraph 23.107 gives rise to resources that the entity will use to satisfy future promises in the contract. Conversely, costs that relate to promises that are satisfied (or partially satisfied) shall be recognised as expenses when incurred, as those costs relate to past performance.

Measurement after recognition

23.109 After initial **recognition**, an entity shall measure assets recognised in accordance with paragraph 23.102 or 23.107 at cost less accumulated **amortisation** and any accumulated **impairment losses**.

23.110 An asset recognised in accordance with paragraph 23.102 or 23.107 shall be amortised in accordance with the pattern of transfer and revenue recognition of the goods or services to which the asset relates.

23.111 If an asset has been recognised in accordance with paragraph 23.102 or 23.107, an entity shall follow Section 27 *Impairment of Assets* for recognising and measuring the impairment of the asset. However, an entity shall apply paragraph 23.112 instead of paragraphs 27.11–27.20 to estimate the **recoverable amount** of such an asset.

23.112 The recoverable amount of an asset recognised in accordance with paragraph 23.102 or 23.107 is:

(a) the remaining amount of consideration that the entity expects to receive in exchange for the goods or services to which the asset relates; less

(b) the costs that relate directly to providing those goods or services and that have not been recognised as expenses.

23.113 In applying paragraph 23.112(a), an entity shall determine the amount of consideration that the entity expects to receive by adjusting the transaction price for any consideration received to date and the effects of the customer's credit risk.

Contract balances

23.114 When either party to a contract has performed, an entity shall present the contract in the **statement of financial position** as a **contract asset** or a **contract liability**, depending on the relationship between:

(a) the entity's performance in transferring goods or services to the customer; and

(b) the customer's payment.

23.115 If an entity has received consideration (or consideration is due) from the customer before the entity transfers a good or service to the customer, the entity shall recognise a contract liability when the payment is made or the payment is due (whichever is earlier). A contract liability is an entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or the amount is due) from the customer. When (or as) the entity transfers those goods or services to the customer, the entity shall derecognise the contract liability (or part of a contract liability) and recognise revenue, in accordance with paragraphs 23.75–23.93.

23.116 If an entity transfers a good or service to a customer before the customer pays consideration (or before payment is due), the entity shall recognise a contract asset, excluding any amounts presented as a receivable. A contract asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time (for example, the entity transferring other goods or services promised in the contract). When the customer pays the consideration (or the consideration becomes due), the entity shall derecognise the contract asset. An entity shall assess a contract asset for impairment, and recognise any impairment loss, in accordance with Section 11.

23.117 A receivable is an entity's right to consideration that is unconditional. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due. For example, an entity would recognise a receivable if it has a present right to payment even though that amount may be subject to refund in the future.

23.118 An entity shall present contract assets and receivables separately.

Customers' unexercised rights

23.119 When an entity receives an upfront non-refundable payment that gives the customer a right to receive a good or service in the future (for example, a gift card), this gives rise to a contract liability. However, customers might not exercise all of their contractual rights. Those unexercised rights are often referred to as breakage.

23.120 If an entity expects to be entitled to a breakage amount in a contract liability, the entity shall recognise the expected breakage amount as revenue in proportion to the pattern of rights exercised by the customer when those future goods or services are transferred. If an entity does not expect to be entitled to a breakage amount, the entity shall recognise the expected breakage amount as revenue when the likelihood of the customer exercising its remaining rights becomes remote.

Disclosures

23.121 An entity shall disclose the revenue it recognised from contracts with customers disaggregated into categories, showing separately, at a minimum, revenue arising from:

(a) the sale of goods;

(b) the rendering of services;

(c) royalties;

(d) commissions; and

(e) any other significant types of revenue from contracts with customers.

23.122 Unless the amounts are presented separately in the **statement of comprehensive income** by applying other sections of this Standard, an entity shall disclose the amount of impairment losses recognised (by applying Section 11) for the reporting period on any receivables or contract assets arising from an entity's contracts with customers, which the entity shall disclose separately from impairment losses from other contracts for the reporting period.

23.123 An entity shall disclose:

(a) the opening and closing balances of receivables, contract assets and contract liabilities from contracts with customers, if not otherwise separately presented or disclosed;

(b) revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period; and

(c) revenue recognised in the reporting period from promises satisfied or partially satisfied in previous periods (for example, changes in estimates of variable consideration).

23.124 An entity shall disclose information about its promises in contracts with customers, including a description of:

(a) when the entity typically satisfies its promises (for example, upon shipment, upon delivery, as services are rendered or upon completion of service);

(b) the significant payment terms (for example, when payment is typically due, whether the contract includes a financing transaction, and whether the consideration amount is variable);

(c) obligations for returns, refunds and other similar obligations; and

(d) types of warranties and related obligations.

23.125 For promises that an entity satisfies over time, the entity shall disclose the methods it used to recognise revenue—for example, a description of the output methods or input methods used and how those methods are applied.

23.126 An entity shall provide a quantitative or qualitative explanation of the significance of unsatisfied promises and when they are expected to be satisfied. However, an entity need not disclose such information for a promise if either of the following conditions is met:

(a) the promise is part of a contract that has an original expected duration of one year or less; or

(b) the entity recognises revenue from the satisfaction of the promise in accordance with paragraph 23.93.

23.127 An entity shall disclose:

(a) the closing balances of assets recognised from the costs incurred to obtain or fulfil a contract with a customer (in accordance with paragraphs 23.102 and 23.107), by main category of asset (for example, costs to obtain contracts with customers, pre-contract costs and set-up costs); and

(b) the amount of amortisation and any impairment losses recognised in the reporting period.

23.128 If an entity elects to use the options in paragraph 23.59 (making no adjustment for the time value of money) or paragraph 23.105 (costs of obtaining a contract), the entity shall disclose that fact.

23.129 If an entity recognises the costs to obtain a contract as expenses when incurred because it is unable to identify whether those costs meet the criteria in paragraph 23.102 without undue cost or effort, the entity shall disclose that fact and the reasons why identifying the costs that meet the criteria in paragraph 23.102 would involve undue cost or effort.

Section 24
Government Grants

Paragraph 24.7 is amended. New text is underlined and deleted text is struck through.

Scope of this section

24.1 This section specifies the accounting for all **government grants**. A government grant is assistance by government in the form of a transfer of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity.

24.2 Government grants exclude those forms of government assistance that cannot reasonably have a value placed upon them and transactions with government that cannot be distinguished from the normal trading transactions of the entity.

24.3 This section does not cover government assistance that is provided for an entity in the form of benefits that are available in determining **taxable profit** or tax loss, or are determined or limited on the basis of **income tax** liability. Examples of such benefits are income tax holidays, investment tax credits, accelerated **depreciation** allowances and reduced income tax rates. Section 29 *Income Tax* covers accounting for taxes based on **income**.

Recognition and measurement

24.4 An entity shall recognise government grants as follows:

(a) a grant that does not impose specified future performance conditions on the recipient is recognised in income when the grant proceeds are receivable;

(b) a grant that imposes specified future performance conditions on the recipient is recognised in income only when the performance conditions are met; and

(c) grants received before the **revenue recognition** criteria are satisfied are recognised as a **liability**.

24.5 An entity shall measure grants at the **fair value** of the **asset** received or receivable.

Disclosures

24.6 An entity shall disclose the following:

(a) the nature and amounts of government grants recognised in the **financial statements**;

(b) unfulfilled conditions and other contingencies attaching to government grants that have not been recognised in income; and

(c) an indication of other forms of government assistance from which the entity has directly benefited.

24.7 ~~For the purpose of the disclosure required by paragraph 24.6(c),~~ Government ~~government~~ assistance is action by government designed to provide an economic benefit specific to an entity or range of entities qualifying under specified criteria. For the purpose of the disclosure required by paragraph 24.6(c), examples ~~Examples~~ include free technical or marketing advice and ~~,~~the provision of guarantees ~~and loans at nil or low interest rates~~.

Section 25
Borrowing Costs

Paragraph 25.1 is amended. Deleted text is struck through.

Scope of this section

25.1 This section specifies the accounting for **borrowing costs**. Borrowing costs are interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs include:

(a) interest **expense** calculated using the **effective interest method** as described in Section 11 ~~*Basic*~~ *Financial Instruments*;

(b) finance charges in respect of **finance leases** recognised in accordance with Section 20 *Leases*; and

(c) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Recognition

25.2 An entity shall recognise all borrowing costs as an expense in **profit or loss** in the period in which they are incurred.

Disclosures

25.3 Paragraph 5.5(b) requires disclosure of finance costs. Paragraph 11.48(b) requires disclosure of total interest expense (using the effective interest method) for **financial liabilities** that are not at **fair value** through profit or loss. This section does not require any additional disclosure.

Section 26
Share-based Payment

Paragraphs 26.1C–26.1E are added. New text is underlined.

Scope of this section

26.1 This section specifies the accounting for all **share-based payment transactions** including those that are equity- or cash-settled or those in which the terms of the arrangement provide a choice of whether the entity settles the transaction in **cash** (or other **assets**) or by issuing **equity** instruments.

26.1A A share-based payment transaction may be settled by another group entity (or a shareholder of any **group** entity) on behalf of the entity receiving the goods or services. This section also applies to an entity that:

(a) receives goods or services when another entity in the same group (or a shareholder of any group entity) has the obligation to settle the share-based payment transaction; or

(b) has an obligation to settle a share-based payment transaction when another entity in the same group receives the goods or services

unless the transaction is clearly for a purpose other than the payment for goods or services supplied to the entity receiving them.

26.1B In the absence of specifically identifiable goods or services, other circumstances may indicate that goods or services have been (or will be) received, in which case this section applies (see paragraph 26.17).

<u>26.1C</u> <u>This section does not apply to transactions in which an entity acquires goods as part of the net assets acquired in:</u>

<u>(a)</u> <u>a **business combination** as defined in Section 19 *Business Combinations and Goodwill*;</u>

<u>(b)</u> <u>a combination of entities or **businesses** under common **control** as described in paragraph 19.2; or</u>

<u>(c)</u> <u>the contribution of a business on the formation of a **jointly controlled entity** as defined in Section 15 *Joint Arrangements*.</u>

<u>Equity instruments granted to employees of the **acquiree** in their capacity as employees (for example, in return for continued service) are within the scope of this section. Similarly, the cancellation, replacement or other modification of **share-based payment arrangements** because of a business combination or other equity restructuring shall be accounted for in accordance with this section.</u>

<u>26.1D</u> <u>This section uses the term fair value in a way that differs in some respects from the definition of fair value in the Glossary. Therefore, when applying this section, an entity shall apply the definition of fair value in paragraph 26.1E and measure fair value in accordance with this section, not Section 12 *Fair Value Measurement*.</u>

26.1E For the purpose of this section, fair value is the amount for which an asset could be exchanged, a liability settled or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm's length transaction.

26.2 **Cash-settled share-based payment transactions** include share appreciation rights. For example, an entity might grant share appreciation rights to employees as part of their remuneration package, whereby the employees will become entitled to a future cash payment (instead of an equity instrument), based on the increase in the entity's share price from a specified level over a specified period of time. Or an entity might grant to its employees a right to receive a future cash payment by granting to them a right to shares (including shares to be issued upon the exercise of share options) that are redeemable, either mandatorily (for example, upon cessation of employment) or at the employee's option.

Recognition

26.3 An entity shall recognise the goods or services received or acquired in a share-based payment transaction when it obtains the goods or as the services are received. The entity shall recognise a corresponding increase in equity if the goods or services were received in an **equity-settled share-based payment transaction** or a **liability** if the goods or services were acquired in a cash-settled share-based payment transaction.

26.4 When the goods or services received or acquired in a share-based payment transaction do not qualify for **recognition** as assets, the entity shall recognise them as **expenses**.

Paragraph 26.6 is amended and a footnote to the paragraph is added. New text is underlined and deleted text is struck through.

Recognition when there are vesting conditions

26.5 If the share-based payments granted to employees vest immediately, the employee is not required to complete a specified period of service before becoming unconditionally entitled to those share-based payments. In the absence of evidence to the contrary, the entity shall presume that services rendered by the employee as consideration for the share-based payments have been received. In this case, on the **grant date** the entity shall recognise the services received in full, with a corresponding increase in equity or liabilities.

26.6 If the share-based payments do not vest until the employee completes a specified period of service, the entity shall presume that the services to be rendered by the employee ~~counterparty~~ as consideration for those share-based payments will be received in the future, during the **vesting period**. The entity shall account for those services as they are rendered by the employee during the vesting period, with a corresponding increase in equity or liabilities.[5]

5 In the remainder of this section, all references to employees also include others providing similar services.

Paragraphs 26.7–26.9 and 26.12 are amended. New text is underlined and deleted text is struck through.

Measurement of equity-settled share-based payment transactions

Measurement principle

26.7 For equity-settled share-based payment transactions, an entity shall measure the goods or services received, and the corresponding increase in equity, at the <u>fair value</u> ~~**fair value**~~ of the goods or services received, unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goods or services received, the entity shall measure their value, and the corresponding increase in equity, by reference to the fair value of the equity instruments granted. To apply this requirement to transactions with employees and others providing similar services, the entity shall measure the fair value of the services received by reference to the fair value of the equity instruments granted, because typically it is not possible to estimate reliably the fair value of the services received.

26.8 For transactions with employees (including others providing similar services), the fair value of the equity instruments shall be measured at the grant date. For transactions with parties other than employees, the <u>measurement</u> ~~**measurement**~~ date is the date when the entity obtains the goods or the counterparty renders service.

26.9 A grant of equity instruments might be conditional on employees satisfying specified **vesting conditions** related to service or performance. An example of a <u>**service condition**</u> ~~vesting condition relating to service condition~~ is when a grant of shares or share options to an employee is conditional on the employee remaining in the entity's employ for a specified period of time. Examples of <u>**performance conditions**</u> ~~vesting conditions relating to performance~~ are when a grant of shares or share options is conditional on a specified period of service and on the entity achieving a specified growth in profit (a non-market vesting condition) or a specified increase in the entity's share price (a **market vesting condition**). Vesting conditions are accounted for as follows:

(a) all vesting conditions related to employee service or to a non-market performance condition shall be taken into account when estimating the number of equity instruments expected to vest. Subsequently, the entity shall revise that estimate if new information indicates that the number of equity instruments expected to vest differs from previous estimates. On the vesting date, the entity shall revise the estimate to equal the number of equity instruments that ultimately vested. Vesting conditions related to employee service or to a non-market performance condition shall not be taken into account when estimating the fair value of the shares, share options or other equity instruments at the measurement date.

(b) all market vesting conditions and conditions that are not vesting conditions (non-vesting conditions) shall be taken into account when estimating the fair value of the shares, share options or other equity instruments at the measurement date, with no subsequent adjustment to the estimated fair value, irrespective of the outcome of the market vesting or non-vesting condition, provided that all other vesting conditions are satisfied.

Shares

26.10 An entity shall measure the fair value of shares (and the related goods or services received) using the following three-tier measurement hierarchy:

(a) if an observable market price is available for the equity instruments granted, use that price.

(b) if an observable market price is not available, measure the fair value of equity instruments granted using entity-specific observable market data such as:

(i) a recent transaction in the entity's shares; or

(ii) a recent independent fair valuation of the entity or its principal assets.

(c) if an observable market price is not available and obtaining a reliable measurement of fair value under (b) is **impracticable**, indirectly measure the fair value of the shares using a valuation method that uses market data to the greatest extent practicable to estimate what the price of those equity instruments would be on the grant date in an arm's length transaction between knowledgeable, willing parties. The entity's directors should use their judgement to apply the most appropriate valuation method to determine fair value. Any valuation method used shall be consistent with generally accepted valuation methodologies for valuing equity instruments.

Share options and equity-settled share appreciation rights

26.11 An entity shall measure the fair value of share options and equity-settled share appreciation rights (and the related goods or services received) using the following three-tier measurement hierarchy:

(a) if an observable market price is available for the equity instruments granted, use that price.

(b) if an observable market price is not available, measure the fair value of share options and share appreciation rights granted using entity-specific observable market data such as (a) for a recent transaction in the share options.

(c) if an observable market price is not available and obtaining a reliable measurement of fair value under (b) is impracticable, indirectly measure the fair value of share options or share appreciation rights using an option pricing model. The inputs for the model (such as the weighted average share price, exercise price, expected volatility, option life, expected dividends and the risk-free interest rate) shall use market data to the greatest extent possible. Paragraph 26.10 provides guidance on determining the fair value of the shares used in determining the weighted average share price. The entity shall derive an estimate of expected volatility consistent with the valuation methodology used to determine the fair value of the shares.

Modifications to the terms and conditions on which equity instruments were granted

26.12 An entity might modify the terms and conditions on which equity instruments are granted in a manner that is beneficial to the employee, for example, by reducing the exercise price of an option or reducing the vesting period or by modifying or eliminating a performance condition. Alternatively an entity might modify the terms and conditions in a manner that is not beneficial to the employee, for example, by increasing the vesting period or adding a performance condition. The entity shall take the modified vesting conditions into account in accounting for the share-based payment transaction, as follows:

(a) if the modification increases the fair value of the equity instruments granted (or increases the number of equity instruments granted) measured immediately before and after the modification, the entity shall include the incremental fair value granted in the measurement of the amount recognised for services received as consideration for the equity instruments granted. The incremental fair value granted is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification. If the modification occurs during the vesting period, the incremental fair value granted is included in the measurement of the amount recognised for services received over the period from the modification date until the date when the modified equity instruments vest, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognised over the remainder of the original vesting period.

(b) if the modification reduces the total fair value of the share-based payment arrangement ~~**share-based payment arrangement**~~, or apparently is not otherwise beneficial to the employee, the entity shall nevertheless continue to account for the services received as consideration for the equity instruments granted as if that modification had not occurred.

The requirements in this paragraph are expressed in the context of share-based payment transactions with employees. The requirements also apply to share-based payment transactions with parties other than employees if these transactions are measured by reference to the fair value of the equity instruments granted, but reference to the grant date refers to the date that the entity obtains the goods or the counterparty renders service.

Cancellations and settlements

26.13 An entity shall account for a cancellation or settlement of an equity-settled share-based payment award as an acceleration of vesting, and therefore shall recognise immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period.

Paragraph 26.14A is added. Paragraph 26.15 is amended. New text is underlined and deleted text is struck through.

Cash-settled share-based payment transactions

26.14 For cash-settled share-based payment transactions, an entity shall measure the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the entity shall remeasure the fair value of the liability at each **reporting date** and at the date of settlement, with any changes in fair value recognised in **profit or loss** for the period.

26.14A A cash-settled share-based payment transaction might be conditional on satisfying specified vesting conditions. Vesting conditions are accounted for as follows:

(a) all vesting conditions related to employee service or to a non-market performance condition shall be taken into account when estimating the number of awards that are expected to vest and subsequently adjusting the number of awards included in the measurement of the liability arising from the transaction. The entity shall initially recognise an amount for the goods or services received during the vesting period based on the number of awards that are expected to vest. Subsequently, the entity shall revise that estimate if new information indicates that the number of awards expected to vest differs from previous estimates. On the vesting date, the entity shall revise the estimate to equal the number of awards that ultimately vested. Vesting conditions related to employee service and a non-market performance condition shall not be taken into account when estimating the fair value of the cash-settled share-based payment at the measurement date.

(b) all market conditions and non-vesting conditions shall be taken into account when estimating the fair value of the cash-settled share-based payment granted and when remeasuring the fair value of the liability at the end of each reporting period and at the date of settlement.

Share-based payment transactions with cash alternatives

26.15 Some share-based payment transactions give either the entity or the counterparty a choice of settling the transaction in cash (or other assets) or by transfer of equity instruments. In such a case, the entity shall account for the transaction as a cash-settled share-based payment transaction unless:

(a) the entity has a past practice of settling by issuing equity instruments; ~~or~~

(b) the option has no commercial substance because the cash settlement amount bears no relationship to, and is likely to be lower in value than, the fair value of the equity instrument; or~~.~~

(c) the choice of settlement relates only to a net settlement feature (see paragraphs 26.15A–26.15C).

In circumstances (a) and (b), the entity shall account for the transaction as an equity-settled share-based payment transaction in accordance with paragraphs 26.7–26.13.

Paragraphs 26.15A–26.15C and the heading above paragraph 26.15A are added. New text is underlined.

Share-based payment transactions with a net settlement feature for withholding tax obligations

26.15A Tax laws or regulations may oblige an entity to withhold an amount for an employee's tax obligation associated with a share-based payment and transfer that amount, normally in cash, to the tax authority on the employee's behalf. A share-based payment arrangement has a net settlement feature when the terms of the arrangement permit or require an entity to withhold the number of equity instruments equal to the monetary value of the employee's tax obligation from the total number of equity instruments that otherwise would have been issued to the employee upon exercise (or vesting) of the share-based payment.

26.15B As an exception to the requirements in paragraph 26.15, the transaction described in paragraph 26.15A shall be classified in its entirety as an equity-settled share-based payment transaction if:

(a) it would have been so classified in the absence of the net settlement feature; and

(b) there is an obligation on the entity under tax laws or regulations to withhold an amount for an employee's tax obligation associated with that share-based payment.

An entity applying this paragraph shall account for the withholding of shares to fund payment to the tax authority in respect of the employee's tax obligation associated with the share-based payment as a deduction from equity except to the extent that the payment exceeds the fair value at the net settlement date of the equity instruments withheld.

26.15C Paragraph 26.15B does not apply to any equity instruments that the entity withholds in excess of the monetary value of the employee's tax obligation associated with the share-based payment. Such excess shares withheld shall be accounted for as a cash-settled share-based payment when this amount is paid in cash (or other assets) to the employee.

Paragraph 26.16 is amended. New text is underlined and deleted text is struck through.

Group plans

26.16 If a share-based payment award is granted by an entity to the employees of one or more group entities, and the group presents **consolidated financial statements** using either the *IFRS for SMEs* Accounting Standard or **full IFRS Accounting Standards**, the group entities are permitted, as an alternative to the treatment set out in paragraphs 26.3–26.15C~~26.15~~, to measure the share-based payment expense on the basis of a reasonable allocation of the expense for the group.

Unidentifiable goods or services

26.17 If the identifiable consideration received appears to be less than the fair value of the equity instruments granted or the liability incurred, this situation typically indicates that other consideration (ie unidentifiable goods or services) has been (or will be) received. For example, some jurisdictions have programmes by which **owners** (such as employees) are able to acquire equity without providing goods or services that can be specifically identified (or by providing goods or services that are clearly less than the fair value of the equity instruments granted). This indicates that other consideration has been or will be received (such as past or future employee services). The entity shall measure the unidentifiable goods or services received (or to be received) as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received) measured at the grant date. For cash-settled transactions, the liability shall be remeasured at the end of each **reporting period** until it is settled in accordance with paragraph 26.14.

Disclosures

26.18 An entity shall disclose the following information about the nature and extent of share-based payment arrangements that existed during the period:

(a) a description of each type of share-based payment arrangement that existed at any time during the period, including the general terms and conditions of each arrangement, such as vesting requirements, the maximum term of options granted, and the method of settlement (for example, whether in cash or equity). An entity with substantially similar types of share-based payment arrangements may aggregate this information.

(b) the number and weighted average exercise prices of share options for each of the following groups of options:

(i) outstanding at the beginning of the period;

(ii) granted during the period;

(iii) forfeited during the period;

(iv) exercised during the period;

(v) expired during the period;

(vi) outstanding at the end of the period; and

(vii) exercisable at the end of the period.

26.19 For equity-settled share-based payment arrangements, an entity shall disclose information about how it measured the fair value of goods or services received or the value of the equity instruments granted. If a valuation methodology was used, the entity shall disclose the method and its reason for choosing it.

26.20 For cash-settled share-based payment arrangements, an entity shall disclose information about how the liability was measured.

26.21 For share-based payment arrangements that were modified during the period, an entity shall disclose an explanation of those modifications.

26.22 If the entity is part of a group share-based payment plan, and it measures its share-based payment expense on the basis of a reasonable allocation of the expense recognised for the group, it shall disclose that fact and the basis for the allocation (see paragraph 26.16).

26.23 An entity shall disclose the following information about the effect of share-based payment transactions on the entity's profit or loss for the period and on its **financial position**:

(a) the total expense recognised in profit or loss for the period; and

(b) the total **carrying amount** at the end of the period for liabilities arising from share-based payment transactions.

Section 27
Impairment of Assets

Paragraphs 27.1, 27.9, 27.14, 27.25, 27.27 and 27.33 are amended. New text is underlined and deleted text is struck through.

Objective and scope

27.1 An **impairment loss** occurs when the **carrying amount** of an **asset** exceeds its **recoverable amount**. This section shall be applied in accounting for the impairment of all assets other than the following, for which other sections of this Standard establish impairment requirements:

(a) **deferred tax assets** (see Section 29 *Income Tax*);

(b) assets arising from **employee benefits** (see Section 28 *Employee Benefits*);

(c) **financial assets** within the scope of Section 11 ~~*Basic*~~ *Financial Instruments* ~~or Section 12 *Other Financial Instrument Issues*~~;

(d) **investment property** measured at **fair value** (see Section 16 *Investment Property*);

(e) **biological assets** related to **agricultural activity** measured at fair value less estimated costs to sell (see Section 34 *Specialised Activities*); and

(f) **contract assets** and assets arising from costs to obtain or fulfil a contract ~~**construction contracts**~~ (see Section 23 *Revenue from Contracts with Customers*).

Impairment of inventories

Selling price less costs to complete and sell

27.2 An entity shall assess at each **reporting date** whether any **inventories** are impaired. The entity shall make the assessment by comparing the carrying amount of each item of inventory (or group of similar items—see paragraph 27.3) with its selling price less costs to complete and sell. If an item of inventory (or group of similar items) is impaired, the entity shall reduce the carrying amount of the inventory (or the group) to its selling price less costs to complete and sell. That reduction is an impairment loss and it is recognised immediately in **profit or loss**.

27.3 If it is **impracticable** to determine the selling price less costs to complete and sell for inventories item by item, the entity may group items of inventory relating to the same product line that have similar purposes or end uses and are produced and marketed in the same geographical area for the purpose of assessing impairment.

Reversal of impairment

27.4 An entity shall make a new assessment of selling price less costs to complete and sell at each subsequent reporting date. When the circumstances that previously caused inventories to be impaired no longer exist or when there is clear evidence of an increase in selling price less costs to complete and sell because of changed economic circumstances, the entity shall reverse the amount of the impairment (ie the reversal is limited to the amount of the original impairment loss) so that the new carrying amount is the lower of the cost and the revised selling price less costs to complete and sell.

Impairment of assets other than inventories

General principles

27.5 If, and only if, the recoverable amount of an asset is less than its carrying amount, the entity shall reduce the carrying amount of the asset to its recoverable amount. That reduction is an impairment loss. Paragraphs 27.11–27.20 provide guidance on measuring recoverable amount.

27.6 An entity shall recognise an impairment loss immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with the revaluation model in Section 17 *Property, Plant and Equipment*. Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with paragraph 17.15D.

Indicators of impairment

27.7 An entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset. If there is no indication of impairment, it is not necessary to estimate the recoverable amount.

27.8 If it is not possible to estimate the recoverable amount of the individual asset, an entity shall estimate the recoverable amount of the **cash-generating unit** to which the asset belongs. This may be the case because measuring recoverable amount requires forecasting cash flows and sometimes individual assets do not generate cash flows by themselves. An asset's cash-generating unit is the smallest identifiable group of assets that includes the asset and generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

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

External sources of information

(a) during the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.

(b) significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.

(c) market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect **materially** the discount rate used in calculating an asset's **value in use** and decrease the asset's fair value less costs to sell ~~**fair value less costs to sell**~~.

(d) the carrying amount of the net assets of the entity is more than the estimated fair value of the entity as a whole (such an estimate may have been made, for example, in relation to the potential sale of part or all of the entity).

Internal sources of information

(e) evidence is available of obsolescence or physical damage of an asset.

(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.

(g) evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected. In this context economic performance includes operating results and cash flows.

27.10 If there is an indication that an asset may be impaired, this may indicate that the entity should review the remaining **useful life**, the **depreciation** (**amortisation**) method or the **residual value** for the asset and adjust it in accordance with the section of this Standard applicable to the asset (for example, Section 17 and Section 18 *Intangible Assets other than Goodwill)*, even if no impairment loss is recognised for the asset.

Measuring recoverable amount

27.11 The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. If it is not possible to estimate the recoverable amount of an individual asset, references in paragraphs 27.12–27.20 to an asset should be read as references also to an asset's cash-generating unit.

27.12 It is not always necessary to determine both an asset's fair value less costs to sell and its value in use. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount.

27.13 If there is no reason to believe that an asset's value in use materially exceeds its fair value less costs to sell, the asset's fair value less costs to sell may be used as its recoverable amount. This will often be the case for an asset that is held for disposal.

Fair value less costs to sell

27.14 ~~Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal (~~Section 12 *Fair Value Measurement* provides ~~paragraphs 11.27–11.32 provide~~ guidance on fair value measurement~~)~~.

Value in use

27.15 Value in use is the **present value** of the future cash flows expected to be derived from an asset. This present value calculation involves the following steps:

(a) estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal; and

(b) applying the appropriate discount rate to those future cash flows.

27.16 The following elements shall be reflected in the calculation of an asset's value in use:

(a) an estimate of the future cash flows the entity expects to derive from the asset;

(b) expectations about possible variations in the amount or timing of those future cash flows;

(c) the time value of money, represented by the current market risk-free rate of interest;

(d) the price for bearing the uncertainty inherent in the asset; and

(e) other factors, such as illiquidity, that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset.

27.17 In measuring value in use, estimates of future cash flows shall include:

(a) projections of cash inflows from the continuing use of the asset;

(b) projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and

(c) net cash flows, if any, expected to be received (or paid) for the disposal of the asset at the end of its useful life in an arm's length transaction between knowledgeable, willing parties.

The entity may wish to use any recent financial budgets or forecasts to estimate the cash flows, if available. To estimate cash flow projections beyond the period covered by the most recent budgets or forecasts an entity may wish to extrapolate the projections based on the budgets or forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified.

27.18 Estimates of future cash flows shall not include:

(a) cash inflows or outflows from financing activities; or

(b) **income tax** receipts or payments.

27.19 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:

(a) a future restructuring to which an entity is not yet committed; or

(b) improving or enhancing the asset's performance.

27.20 The discount rate (rates) used in the present value calculation shall be a pre-tax rate (rates) that reflect(s) current market assessments of:

(a) the time value of money; and

(b) the risks specific to the asset for which the future cash flow estimates have not been adjusted.

The discount rate (rates) used to measure an asset's value in use shall not reflect risks for which the future cash flow estimates have been adjusted, to avoid double-counting.

Recognising and measuring an impairment loss for a cash-generating unit

27.21 An impairment loss shall be recognised for a cash-generating unit if, and only if, the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss shall be allocated to reduce the carrying amount of the assets of the unit in the following order:

(a) first, to reduce the carrying amount of any **goodwill** allocated to the cash-generating unit; and

(b) then, to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the cash-generating unit.

27.22 However, an entity shall not reduce the carrying amount of any asset in the cash-generating unit below the highest of:

(a) its fair value less costs to sell (if determinable);

(b) its value in use (if determinable); and

(c) zero.

27.23 Any excess amount of the impairment loss that cannot be allocated to an asset because of the restriction in paragraph 27.22 shall be allocated to the other assets of the unit pro rata on the basis of the carrying amount of those other assets.

Additional requirements for impairment of goodwill

27.24 Goodwill, by itself, cannot be sold. Nor does it generate cash flows to an entity that are independent of the cash flows of other assets. As a consequence, the fair value of goodwill cannot be measured directly. Consequently, the fair value of goodwill must be derived from measurement of the fair value of the cash-generating unit(s) of which the goodwill is a part.

27.25 For the purpose of impairment testing, goodwill acquired in a **business combination** shall, from the acquisition date, be allocated to each of the **acquirer's** ~~acquirer's~~ cash-generating units that is expected to benefit from the synergies of the combination, irrespective of whether other assets or **liabilities** of the **acquiree** ~~acquiree~~ are assigned to those units.

27.26 Part of the recoverable amount of a cash-generating unit is attributable to the **non-controlling interest** in goodwill. For the purpose of impairment testing a non-wholly-owned cash-generating unit with goodwill, the carrying amount of that unit is notionally adjusted, before being compared with its recoverable amount, by grossing up the carrying amount of goodwill allocated to the unit to include the goodwill attributable to the non-controlling interest. This notionally adjusted carrying amount is then compared with the recoverable amount of the unit to determine whether the cash-generating unit is impaired.

27.27 If goodwill cannot be allocated to individual cash-generating units (or groups of cash-generating units) on a non-arbitrary basis, then for the purposes of testing goodwill the entity shall test the impairment of goodwill by determining the recoverable amount of either:

(a) the acquired entity in its entirety, if the goodwill relates to an acquired entity that has not been integrated (integrated means the acquired business has been restructured or dissolved into the **reporting entity** ~~reporting entity~~ or other **subsidiaries**); or

(b) the entire group of entities, excluding any entities that have not been integrated, if the goodwill relates to an entity that has been integrated.

In applying this paragraph, an entity will need to separate goodwill into goodwill relating to entities that have been integrated and goodwill relating to entities that have not been integrated. Also the entity shall follow the requirements for cash-generating units in this section when calculating the recoverable amount of, and allocating impairment losses and reversals to assets belonging to, the acquired entity or group of entities.

Reversal of an impairment loss

27.28 An impairment loss recognised for goodwill shall not be reversed in a subsequent period.

27.29 For all assets other than goodwill, an entity shall assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased. Indications that an impairment loss may have decreased or may no longer exist are generally the opposite of those set out in paragraph 27.9. If any such indication exists, the entity shall determine whether all or part of the prior impairment loss should be reversed. The procedure for making that determination will depend on whether the prior impairment loss on the asset was based on:

(a) the recoverable amount of that individual asset (see paragraph 27.30); or

(b) the recoverable amount of the cash-generating unit to which the asset belongs (see paragraph 27.31).

Reversal where recoverable amount was estimated for an individual impaired asset

27.30 When the prior impairment loss was based on the recoverable amount of the individual impaired asset, the following requirements apply:

(a) the entity shall estimate the recoverable amount of the asset at the current reporting date.

(b) if the estimated recoverable amount of the asset exceeds its carrying amount, the entity shall increase the carrying amount to recoverable amount, subject to the limitation described in (c). That increase is a reversal of an impairment loss. The entity shall recognise the reversal immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with the revaluation model in paragraph 17.15B. Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with paragraph 17.15C.

(c) the reversal of an impairment loss shall not increase the carrying amount of the asset above the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

(d) after a reversal of an impairment loss is recognised, the entity shall adjust the depreciation (amortisation) charge for the asset in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal when recoverable amount was estimated for a cash-generating unit

27.31 When the original impairment loss was based on the recoverable amount of the cash-generating unit to which the asset belongs, the following requirements apply:

(a) the entity shall estimate the recoverable amount of that cash-generating unit at the current reporting date.

(b) if the estimated recoverable amount of the cash-generating unit exceeds its carrying amount, that excess is a reversal of an impairment loss. The entity shall allocate the amount of that reversal to the assets of the unit, except for goodwill, pro rata with the carrying amounts of those assets, subject to the limitation described in (c). Those increases in carrying amounts shall be treated as reversals of impairment losses for individual assets and be recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with the revaluation model in paragraph 17.15B. Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with paragraph 17.15C.

(c) in allocating a reversal of an impairment loss for a cash-generating unit, the reversal shall not increase the carrying amount of any asset above the lower of:

(i) its recoverable amount; and

(ii) the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

(d) any excess amount of the reversal of the impairment loss that cannot be allocated to an asset because of the restriction in (c) shall be allocated pro rata to the other assets of the cash-generating unit, except for goodwill.

(e) after a reversal of an impairment loss is recognised, if applicable, the entity shall adjust the depreciation (amortisation) charge for each asset in the cash-generating unit in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Disclosures

27.32 An entity shall disclose the following for each **class of assets** indicated in paragraph 27.33:

(a) the amount of impairment losses recognised in profit or loss during the period and the line item(s) in the **statement of comprehensive income** (and in the **income statement**, if presented) in which those impairment losses are included; and

(b) the amount of reversals of impairment losses recognised in profit or loss during the period and the line item(s) in the statement of comprehensive income (and in the income statement, if presented) in which those impairment losses are reversed.

27.33 An entity shall disclose the information required by paragraph 27.32 for each of the following classes of asset:

~~(a) inventories;~~

(b) **property, plant and equipment** (including investment property accounted for by the cost method);

(c) goodwill;

(d) **intangible assets** other than goodwill;

(e) investments in **associates**; and

(f) investments in **jointly controlled entities** ~~**joint ventures**~~.

Section 28
Employee Benefits

Paragraph 28.1 is amended. New text is underlined and deleted text is struck through.

Scope of this section

28.1 **Employee benefits** are all forms of consideration given by an entity in exchange for service rendered by employees, including directors and management. This section applies to all employee benefits, except for **share-based payment transactions**, which are covered by Section 26 *Share-based Payment*. Employee benefits covered by this section will be one of the following four types:

(a) short-term employee benefits, which are employee benefits (other than **termination benefits**) that are wholly due within twelve months after the end of the period in which the employees render the related service;

(b) **post-employment benefits**, which are employee benefits (other than termination benefits) that are payable after the completion of employment;

(c) other long-term employee benefits, which are employee benefits (other than post-employment benefits and termination benefits) that are not wholly due within twelve months after the end of the period in which the employees render the related service; and

(d) termination benefits, which are employee benefits payable as a result of either:

(i) an entity's decision to terminate an employee's employment before the normal retirement date; or

(ii) an employee's decision to accept an offer of benefits ~~voluntary redundancy~~ in exchange for the termination of employment ~~those benefits~~.

28.2 Employee benefits also include share-based payment transactions by which employees receive **equity** instruments (such as shares or share options) or **cash** or other **assets** of the entity in amounts that are based on the price of the entity's shares or other equity instruments of the entity. An entity shall apply Section 26 in accounting for share-based payment transactions.

General recognition principle for all employee benefits

28.3 An entity shall recognise the cost of all employee benefits to which its employees have become entitled as a result of service rendered to the entity during the **reporting period**:

(a) as a **liability**, after deducting amounts that have been paid either directly to the employees or as a contribution to an employee benefit fund. If the amount paid exceeds the obligation arising from service before the **reporting date**, an entity shall recognise that excess as an asset to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(b) as an **expense**, unless another section of this Standard requires the cost to be recognised as part of the cost of an asset such as **inventories** or **property**, **plant and equipment**.

Paragraph 28.4 and the heading above paragraph 28.5 are amended. Deleted text is struck through.

Short-term employee benefits

Examples

28.4 Short-term employee benefits ~~generally~~ include items such as:

(a) wages, salaries and social security contributions;

(b) short-term compensated absences (such as paid annual leave and paid sick leave) when the absences are expected to occur within twelve months after the end of the period in which the employees render the related employee service;

(c) profit-sharing and bonuses payable within twelve months after the end of the period in which the employees render the related service; and

(d) non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees.

Measurement of short-term benefits ~~generally~~

28.5 When an employee has rendered service to an entity during the reporting period, the entity shall measure the amounts recognised in accordance with paragraph 28.3 at the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

Recognition and measurement—short-term compensated absences

28.6 An entity may compensate employees for absence for various reasons including annual vacation leave and sick leave. Some short-term compensated absences accumulate—they can be carried forward and used in future periods if the employee does not use the current period's entitlement in full. Examples include annual vacation leave and sick leave. An entity shall recognise the expected cost of **accumulating compensated absences** when the employees render service that increases their entitlement to future compensated absences. The entity shall measure the expected cost of accumulating compensated absences at the undiscounted additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period. The entity shall present this amount as a current liability at the reporting date.

28.7 An entity shall recognise the cost of other (non-accumulating) compensated absences when the absences occur. The entity shall measure the cost of non-accumulating compensated absences at the undiscounted amount of salaries and wages paid or payable for the period of absence.

Recognition—profit-sharing and bonus plans

28.8 An entity shall recognise the expected cost of profit-sharing and bonus payments only when:

(a) the entity has a present legal or constructive obligation to make such payments as a result of past events (this means that the entity has no realistic alternative but to make the payments); and

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

Paragraph 28.11 is amended. New text is underlined.

Post-employment benefits: distinction between defined contribution plans and defined benefit plans

28.9 Post-employment benefits include, for example:

(a) retirement benefits, such as pensions; and

(b) other post-employment benefits, such as post-employment life insurance and post-employment medical care.

Arrangements whereby an entity provides post-employment benefits are **post-employment benefit plans**. An entity shall apply this section to all such arrangements whether or not they involve the establishment of a separate entity to receive contributions and to pay benefits. In some cases, these arrangements are imposed by law instead of by action of the entity. In some cases, these arrangements arise from actions of the entity even in the absence of a formal, documented plan.

28.10 Post-employment benefit plans are classified as either **defined contribution plans** or **defined benefit plans**, depending on their principal terms and conditions:

(a) defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and has no legal or constructive obligation to pay further contributions or to make direct benefit payments to employees if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an entity (and perhaps also the employee) to a post-employment benefit plan or to an insurer, together with investment returns arising from the contributions.

(b) defined benefit plans are post-employment benefit plans other than defined contribution plans. Under defined benefit plans, the entity's obligation is to provide the agreed benefits to current and former employees, and actuarial risk (that benefits will cost more or less than expected) and investment risk (that returns on assets set aside to fund the benefits will differ from expectations) are borne, in substance, by the entity. If actuarial or investment experience is worse than expected, the entity's obligation may be increased, and vice versa if actuarial or investment experience is better than expected.

Multi-employer plans and state plans

28.11 **Multi-employer plans** and state plans are classified as defined contribution plans or defined benefit plans on the basis of the terms of the plan, including any constructive obligation that goes beyond the formal terms. However, if sufficient information is not available to use defined benefit accounting for a multi-employer plan or a state plan that is a defined benefit plan, an entity shall account for the plan in accordance with paragraph 28.13 as if it was a defined contribution plan and make the disclosures required by paragraph 28.40.

Insured benefits

28.12 An entity may pay insurance premiums to fund a post-employment benefit plan. The entity shall treat such a plan as a defined contribution plan unless the entity has a legal or constructive obligation either:

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

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

A constructive obligation could arise indirectly through the plan, through the mechanism for setting future premiums, or through a **related party** relationship with the insurer. If the entity retains such a legal or constructive obligation, the entity shall treat the plan as a defined benefit plan.

Post-employment benefits: defined contribution plans

Recognition and measurement

28.13 An entity shall recognise the contribution payable for a period:

(a) as a liability, after deducting any amount already paid. If contribution payments exceed the contribution due for service before the reporting date, an entity shall recognise that excess as an asset.

(b) as an expense, unless another section of this Standard requires the cost to be recognised as part of the cost of an asset such as inventories or property, plant and equipment.

Paragraphs 28.14–28.15, 28.17–28.18, 28.21 and 28.26 are amended. Paragraph 28.19 is deleted. New text is underlined and deleted text is struck through.

Post-employment benefits: defined benefit plans

Recognition

28.14 In applying the general **recognition** principle in paragraph 28.3 to defined benefit plans, an entity shall recognise:

(a) a liability for its obligations under defined benefit plans net of **plan assets**—its '**defined benefit liability**' (see paragraphs 28.15–28.23); and

(b) ~~recognises~~ the net change in that liability during the period as the cost of its defined benefit plans during the period (see paragraphs 28.24–28.27).

Measurement of the defined benefit liability

28.15 An entity shall measure a defined benefit liability for its obligations under defined benefit plans at the net total of the following amounts:

(a) the **present value** of its obligations under defined benefit plans (its **defined benefit obligation**) at the reporting date (paragraphs 28.16–28.22 provide guidance for measuring this obligation).

(b) minus the **fair value** at the reporting date of plan assets (if any) out of which the obligations are to be settled directly. <u>Section 12 *Fair Value Measurement* provides</u> ~~Paragraphs 11.27–11.32 provide~~ guidance for determining the fair values of those plan assets.

Inclusion of both vested and unvested benefits

28.16 The present value of an entity's obligations under defined benefit plans at the reporting date shall reflect the estimated amount of benefit that employees have earned in return for their service in the current and prior periods, including benefits that are not yet **vested** (see paragraph 28.26) and including the effects of benefit formulas that give employees greater benefits for later years of service. This requires the entity to determine how much benefit is attributable to the current and prior periods on the basis of the plan's benefit formula and to make estimates (actuarial assumptions) about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries and medical costs) that influence the cost of the benefit. The actuarial assumptions shall be unbiased (neither imprudent nor excessively conservative), mutually compatible and selected to lead to the best estimate of the future cash flows that will arise under the plan.

Discounting

28.17 ~~An entity shall measure its defined benefit obligation on a discounted present value basis.~~ The entity shall determine the rate used to discount the future payments by reference to market yields at the reporting date on high quality corporate bonds. In jurisdictions ~~countries~~ with no deep market in such bonds, the entity shall use the market yields (at the reporting date) on government bonds. The currency and term of the corporate bonds or government bonds shall be consistent with the currency and estimated period of the future payments.

Actuarial valuation method

28.18 An ~~If an~~ entity shall ~~is able, without undue cost or effort, to~~ use the **projected unit credit method** to measure its defined benefit obligation and the related expense~~, it shall do so~~. If defined benefits are based on future salaries, the projected unit credit method requires an entity to measure its defined benefit obligations on a basis that reflects estimated future salary increases. Additionally, the projected unit credit method requires an entity to make various actuarial assumptions in measuring the defined benefit obligation, including discount rates, the expected rates of return on plan assets, expected rates of salary increases, employee turnover, mortality, and (for defined benefit medical plans) medical cost trend rates.

~~28.19~~ ~~If an entity is not able, without undue cost or effort, to use the projected unit credit method to measure its obligation and cost under defined benefit plans, the entity is permitted to make the following simplifications in measuring its defined benefit obligation with respect to current employees:~~

~~(a)~~ ~~ignore estimated future salary increases (ie assume current salaries continue until current employees are expected to begin receiving post-employment benefits).~~

~~(b)~~ ~~ignore future service of current employees (ie assume closure of the plan for existing as well as any new employees).~~

~~(c)~~ ~~ignore possible in-service mortality of current employees between the reporting date and the date employees are expected to begin receiving post-employment benefits (ie assume all current employees will receive the post-employment benefits). However, mortality after service (ie life expectancy) will still need to be considered.~~

~~An entity that takes advantage of the foregoing **measurement** simplifications must nonetheless include both **vested benefits** and unvested benefits in measuring its defined benefit obligation.~~

28.20 This Standard does not require an entity to engage an independent actuary to perform the comprehensive actuarial valuation needed to calculate its defined benefit obligation. Nor does it require that a comprehensive actuarial valuation must be done annually. In the periods between comprehensive actuarial valuations, if the principal actuarial assumptions have not changed significantly the defined benefit obligation can be measured by adjusting the prior period measurement for changes in employee demographics such as number of employees and salary levels.

Plan introductions, changes, curtailments and settlements

28.21 If a defined benefit plan has been introduced or changed in the current period, the entity shall increase or decrease its defined benefit liability to reflect the change, and shall recognise the increase (decrease) as an expense (**income**) in measuring **profit or loss** in the current period. Conversely, if a plan has been curtailed (ie benefits or group of covered employees are reduced) or settled (the employer's obligation is completely discharged) in the current period, the defined benefit obligation shall be decreased or eliminated and the entity shall recognise the resulting gain ~~**gain**~~ or loss in profit or loss in the current period.

Defined benefit plan asset

28.22 If the present value of the defined benefit obligation at the reporting date is less than the fair value of plan assets at that date, the plan has a surplus. An entity shall recognise a plan surplus as a defined benefit plan asset only to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

Cost of a defined benefit plan

28.23 An entity shall recognise the net change in its defined benefit liability during the period, other than a change attributable to benefits paid to employees during the period or to contributions from the employer, as the cost of its defined benefit plans during the period. That cost is recognised either entirely in profit or loss as an expense or partly in profit or loss and partly as an item of **other comprehensive income** (see paragraph 28.24) unless another section of this Standard requires the cost to be recognised as part of the cost of an asset such as inventories or property, plant and equipment.

Recognition–accounting policy election

28.24 An entity is required to recognise all actuarial gains and losses in the period in which they occur. An entity shall:

(a) recognise all actuarial gains and losses in profit or loss; or

(b) recognise all actuarial gains and losses in other comprehensive income.

as an accounting policy election. The entity shall apply its chosen accounting policy consistently to all of its defined benefit plans and all of its actuarial gains and losses. Actuarial gains and losses recognised in other comprehensive income shall be presented in the **statement of comprehensive income**.

28.25 The net change in the defined benefit liability that is recognised as the cost of a defined benefit plan includes:

(a) the change in the defined benefit liability arising from employee service rendered during the reporting period;

(b) interest on the defined benefit obligation during the reporting period;

(c) the returns on any plan assets and the net change in the fair value of recognised reimbursement rights (see paragraph 28.28) during the reporting period;

(d) actuarial gains and losses arising in the reporting period;

(e) increases or decreases in the defined benefit liability resulting from introducing a new plan or changing an existing plan in the reporting period (see paragraph 28.21); and

(f) decreases in the defined benefit liability resulting from curtailing or settling an existing plan in the reporting period (see paragraph 28.21).

28.26 Employee service gives rise to an obligation under a defined benefit plan even if the benefits are conditional on future employment (in other words, they are not yet vested). ~~Employee service before the vesting date gives rise to a constructive obligation because, at each successive reporting date, the amount of future service that an employee will have to render before becoming entitled to the benefit is reduced.~~ In measuring its defined benefit obligation, an entity considers the probability that some employees may not satisfy vesting requirements. Similarly, although some post-employment benefits (such as post-employment medical benefits) become payable only if a specified event occurs when an employee is no longer employed (such as an illness), an obligation is created when the employee renders service that will provide entitlement to the benefit if the specified event occurs. The probability that the specified event will occur affects the measurement of the obligation, but does not determine whether the obligation exists.

28.27 If defined benefits are reduced for amounts that will be paid to employees under government-sponsored plans, an entity shall measure its defined benefit obligations on a basis that reflects the benefits payable under the government plans, but only if:

(a) those plans were enacted before the reporting date; or

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

Reimbursements

28.28 If an entity is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the entity shall recognise its right to reimbursement as a separate asset. The entity shall measure the asset at fair value. In the statement of comprehensive income (or in the **income statement**, if presented), the expense relating to a defined benefit plan may be presented net of the amount recognised for a reimbursement.

Paragraph 28.29 is amended. Deleted text is struck through.

Other long-term employee benefits

28.29 Other long-term employee benefits ~~generally~~ include, for example:

(a) long-term compensated absences such as long-service or sabbatical leave;

(b) long-service benefits;

(c) long-term disability benefits;

(d) profit-sharing and bonuses payable twelve months or more after the end of the period in which the employees render the related service; and

(e) deferred compensation paid twelve months or more after the end of the period in which it is earned.

28.30 An entity shall recognise a liability for other long-term employee benefits measured at the net total of the following amounts:

(a) the present value of the benefit obligation at the reporting date; minus

(b) the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

An entity shall recognise the net change in the liability during the period, other than a change attributable to benefits paid to employees during the period or to contributions from the employer, as the cost of its other long-term employee benefits during the period. That cost is recognised entirely in profit or loss as an expense unless another section of this Standard requires it to be recognised as part of the cost of an asset, such as inventories or property, plant and equipment.

Paragraphs 28.34 and 28.37 are amended. Paragraphs 28.34A–28.34B are added. Paragraph 28.35 is deleted. New text is underlined and deleted text is struck through.

Termination benefits

28.31 An entity may be committed, by legislation, by contractual or other agreements with employees or their representatives or by a constructive obligation based on business practice, custom or a desire to act equitably, to make payments (or provide other benefits) to employees when it terminates their employment. Such payments are termination benefits.

Recognition

28.32 Because termination benefits do not provide an entity with future economic benefits, an entity shall recognise them as an expense in profit or loss immediately.

28.33 When an entity recognises termination benefits, the entity may also have to account for a curtailment of retirement benefits or other employee benefits.

28.34 An entity shall recognise ~~termination benefits as~~ a liability and an expense for termination benefits at the earlier of the following dates ~~only when the entity is demonstrably committed either~~:

(a) when the entity can no longer withdraw the offer of those benefits; and ~~to terminate the employment of an employee or group of employees before the normal retirement date; or~~

(b) when the entity recognises costs for a restructuring that is within the scope of Section 21 *Provisions and Contingencies* and involves the payment of termination benefits ~~to provide termination benefits as a result of an offer made in order to encourage voluntary redundancy~~.

28.34A For termination benefits payable as a result of an employee's decision to accept an offer of benefits in exchange for the termination of employment, the time when an entity can no longer withdraw the offer of termination benefits is the earlier of:

(a) when the employee accepts the offer.

(b) when a restriction (for example, a legal, regulatory or contractual requirement or other restriction) on the entity's ability to withdraw the offer takes effect. This would be when the offer is made, if the restriction existed at the time of the offer.

28.34B For termination benefits payable as a result of an entity's decision to terminate an employee's employment, the entity can no longer withdraw the offer when the entity has communicated to the affected employees a plan of termination meeting all of the following criteria:

(a) actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made;

(b) the plan identifies the number of employees whose employment is to be terminated, their job classifications or functions and their locations (but the plan need not identify each individual employee) and the expected completion date; and

(c) the plan establishes the termination benefits that employees will receive in sufficient detail that employees can determine the type and amount of benefits they will receive when their employment is terminated.

~~28.35~~ ~~An entity is demonstrably committed to a termination only when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal from the plan.~~

Measurement

28.36 An entity shall measure termination benefits at the best estimate of the expenditure that would be required to settle the obligation at the reporting date. In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

28.37 When termination benefits are due more than twelve months after the end of the reporting period, they shall be measured at their ~~discounted~~ present value.

Paragraph 28.38 is amended. New text is underlined.

Group plans

28.38 If a **parent** entity provides benefits to the employees of one or more **subsidiaries** in the **group**, and the parent presents **consolidated financial statements** using either the *IFRS for SMEs* Accounting Standard or **full IFRS Accounting Standards**, such subsidiaries are permitted to recognise and measure employee benefit expense on the basis of a reasonable allocation of the expense recognised for the group.

Paragraphs 28.40–28.41 and 28.42 and the heading above paragraph 28.42 are amended. Paragraphs 28.41A–28.41E are added. Paragraph 28.44 is deleted. New text is underlined and deleted text is struck through.

Disclosures

Disclosures about short-term employee benefits

28.39 This section does not require specific disclosures about short-term employee benefits.

Disclosures about defined contribution plans

28.40 An entity shall disclose the amount recognised in profit or loss as an expense for defined contribution plans. If an entity treats a defined benefit multi-employer or state plan as a defined contribution plan because sufficient information for defined benefit accounting is not available ~~to use defined benefit accounting~~ (see paragraph 28.11) it shall disclose the fact that the plan ~~it~~ is a defined benefit plan and the reason why it is being accounted for as a defined contribution plan, along with any available information about the plan's surplus or deficit and the implications, if any, for the entity.

Disclosures about defined benefit plans

28.41 Except for any defined benefit multi-employer or state plan that is accounted for as a defined contribution plan in accordance with paragraph 28.11, and in relation to which paragraph 28.40 requires different disclosures, an ~~An~~ entity shall disclose the following information about defined benefit plans ~~(except for any defined multi-employer benefit plans that are accounted for as a defined contribution plans in accordance with paragraph 28.11, for which the disclosures in paragraph 28.40 apply instead). If an entity has more than one defined benefit plan, these disclosures may be made in total, separately for each plan, or in such groupings as are considered to be the most useful~~:

(a) a general description of the type of plan, including **funding** policy;

(b) the entity's accounting policy for recognising actuarial gains and losses (either in profit or loss or as an item of other comprehensive income) and the amount of actuarial gains and losses recognised during the period;

~~(c)~~ ~~if the entity uses any of the simplifications in paragraph 28.19 in measuring its defined benefit obligation, it shall disclose that fact and the reasons why using the projected unit credit method to measure its obligation and cost under defined benefit plans would involve undue cost or effort;~~

(d) the date of the most recent comprehensive actuarial valuation and, if it was not as of the reporting date, a description of the adjustments that were made to measure the defined benefit obligation at the reporting date;

(e) a reconciliation of opening and closing balances of the defined benefit obligation showing separately:~~ benefits paid and all other changes;~~

(i) change in the defined benefit liability arising from employee service rendered during the reporting period;

(ii) interest on the defined benefit obligation during the reporting period;

(iii) actuarial gains and losses arising in the reporting period;

(iv) changes resulting from introducing a new plan or changing an existing plan in the reporting period;

(v) benefits paid; and

(vi) all other changes.

(f) a reconciliation of the opening and closing balances of the ~~fair value of~~ plan assets and of the opening and closing balances of any reimbursement right recognised as an asset, showing separately~~, if applicable~~:

(i) contributions;

(ii) benefits paid;~~ and~~

(iia) the return on plan assets and the net change in the fair value of recognised reimbursement rights (see paragraph 28.28) during the reporting period; and

(iii) other changes in plan assets.

~~(g)~~ ~~the total cost relating to defined benefit plans for the period, disclosing separately the amounts:~~

~~(i)~~ ~~recognised in profit or loss as an expense; and~~

~~(ii)~~ ~~included in the cost of an asset.~~

(h) for each major class of plan assets, which shall include, but is not limited to, equity instruments, debt instruments, property, and all other assets, the percentage or amount that each major class of plan assets constitutes of the fair value of the total plan assets at the reporting date;

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

   (i) each class of the entity's own **financial instruments**; and

   (ii) any property occupied by, or other assets used by, the entity.

~~(j) the actual return on plan assets; and~~

(k) the principal actuarial assumptions used, including~~, when applicable~~:

   (i) the discount rates;

   (ii) the expected rates of return on any plan assets for the periods presented in the **financial statements**;

   (iii) the expected rates of salary increases;

   (iv) medical cost trend rates; and

   (v) any other **material** actuarial assumptions used.

~~The reconciliations in (e) and (f) need not be presented for prior periods. A subsidiary that recognises and measures employee benefit expense on the basis of a reasonable allocation of the expense recognised for the group (see paragraph 28.38) shall, in its separate financial statements, describe its policy for making the allocation and shall make the disclosures in (a)–(k) for the plan as a whole.~~

28.41A The reconciliations in 28.41(e) and 28.41(f) need not be presented for prior periods.

28.41B If an entity has more than one defined benefit plan, the disclosures required by paragraph 28.41 may be made in total, separately for each plan, or in such groupings the entity considers to be the most useful.

28.41C If an entity participates in a defined benefit plan that is a group plan, it shall disclose:

(a) the contractual agreement or stated policy for charging the net defined benefit cost or the fact that there is no such policy;

(b) the policy for determining the contribution to be paid by the entity; and

(c) if the entity accounts for an allocation of the net defined benefit cost as noted in paragraph 28.38, all the information about the plan as a whole required by paragraph 28.41.

28.41D The information required by paragraph 28.41C(c) can be disclosed by cross-reference to disclosures required by these subparagraphs in another group entity's financial statements if:

(a) that group entity's financial statements separately identify and disclose the information required about the plan; and

(b) that group entity's financial statements are available to users of the financial statements on the same terms as the financial statements of the entity and at the same time as, or earlier than, the financial statements of the entity.

28.41E When required by Section 21, an entity discloses information about contingent liabilities arising from post-employment benefit obligations.

Disclosures about other long-term employee benefits

28.42 For each category of other long-term employee benefits that an entity provides to its employees, the entity shall disclose the nature of the benefit, the amount of its obligation and the extent of funding at the reporting date.

Disclosures about termination benefits

28.43 For each category of termination benefits that an entity provides to its employees, the entity shall disclose the nature of the benefit, the amount of its obligation and the extent of funding at the reporting date.

~~28.44~~ ~~When there is uncertainty about the number of employees who will accept an offer of termination benefits, a **contingent liability** exists. Section 21 *Provisions and Contingencies* requires an entity to disclose information about its contingent liabilities unless the possibility of an outflow in settlement is remote.~~

Section 29
Income Tax

Paragraph 29.1 is amended. New text is underlined and deleted text is struck through.

Scope of this section

29.1 For the purpose of this Standard, **income tax** includes all domestic and foreign taxes that are based on **taxable profit**. Income tax also includes taxes, such as withholding taxes, that are payable by a **subsidiary**, **associate** or **joint arrangement** ~~**venture**~~ on distributions to the **reporting entity** ~~reporting entity~~.

29.2 This section covers accounting for income tax. It requires an entity to recognise the current and future tax consequences of transactions and other events that have been recognised in the **financial statements**. These recognised tax amounts comprise **current tax** and **deferred tax**. Current tax is income tax payable (recoverable) in respect of the taxable profit (tax loss) for the current period or past periods. Deferred tax is income tax payable or recoverable in future periods, generally as a result of the entity recovering or settling its **assets** and **liabilities** for their current **carrying amount**, and the tax effect of the carryforward of currently unused tax losses and tax credits.

29.3 This section does not deal with the methods of accounting for **government grants** (see Section 24 *Government Grants*). However, this section does deal with the accounting for **temporary differences** that may arise from such grants.

Paragraph 29.6 is amended. New text is underlined and deleted text is struck through.

Recognition and measurement of current tax

29.4 An entity shall recognise a current tax liability for tax payable on taxable profit for the current and past periods. If the amount paid for the current and past periods exceeds the amount payable for those periods, the entity shall recognise the excess as a current tax asset.

29.5 An entity shall recognise a current tax asset for the benefit of a tax loss that can be carried back to recover tax paid in a previous period.

29.6 An entity shall measure a current tax liability (asset) at the amount it expects to pay (recover) using the tax rates and laws that have been enacted or **substantively enacted** by the **reporting date**. An entity shall regard tax rates and tax laws as substantively enacted when the remaining steps in the enactment process have not affected the outcome in the past and are unlikely to do so. Paragraphs 29.32–29.33 provide additional measurement ~~**measurement**~~ guidance.

Paragraphs 29.13–29.14, 29.16, 29.19, 29.24–29.26 and the heading above paragraph 29.24 are amended. Paragraphs 29.16A and 29.19A are added. New text is underlined and deleted text is struck through.

Recognition of deferred tax

General recognition principle

29.7 It is inherent in the **recognition** of an asset or a liability that the reporting entity expects to recover or settle the carrying amount of that asset or liability. If it is **probable** that recovery or settlement of that carrying amount will make future tax payments larger (smaller) than they would be if such recovery or settlement were to have no tax consequences, this section requires an entity to recognise a **deferred tax liability** (**deferred tax asset**) with certain limited exceptions. If the entity expects to recover the carrying amount of an asset or settle the carrying amount of a liability without affecting taxable profit, no deferred tax arises in respect of the asset or liability.

29.8 An entity shall recognise a deferred tax asset or liability for tax recoverable or payable in future periods as a result of past transactions or events. Such tax arises from the differences between the carrying amounts of the entity's assets and liabilities in the **statement of financial position** and the amounts attributed to those assets and liabilities by the tax authorities (such differences are called 'temporary differences'), and the carryforward of currently unused tax losses and tax credits.

Tax bases and temporary differences

29.9 The **tax base** of an asset is the amount that will be deductible for tax purposes against any taxable economic benefits that will flow to an entity when it recovers the carrying amount of the asset. If those economic benefits will not be taxable, the tax base of the asset is equal to its carrying amount.

29.10 The tax base of a liability is its carrying amount less any amount that will be deductible for tax purposes in respect of that liability in future periods. In the case of **revenue** that is received in advance, the tax base of the resulting liability is its carrying amount less any amount of the revenue that will not be taxable in future periods.

29.11 Some items have a tax base but are not recognised as assets and liabilities in the statement of financial position. For example, **research** and **development** costs are recognised as an **expense** when determining **accounting profit** in the period in which they are incurred but may not be permitted as a deduction when determining taxable profit (tax loss) until a later period. The difference between the tax base of the research and development costs, being the amount that the taxation authorities will permit as a deduction in future periods, and the carrying amount of nil is a **deductible temporary difference** that results in a deferred tax asset.

29.12 Temporary differences are differences between the carrying amount of an asset or liability in the statement of financial position and its tax base. In **consolidated financial statements**, temporary differences are determined by comparing the carrying amounts of assets and liabilities in the consolidated financial statements with the appropriate tax base. The tax base is determined by reference to a consolidated tax return in those jurisdictions in which such a return is filed. In other jurisdictions, the tax base is determined by reference to the tax returns of each entity in the **group**.

29.13 Examples of situations in which temporary differences arise include:

(a) the identifiable assets acquired and liabilities assumed in a **business combination** are recognised at their **fair values** in accordance with Section 19 *Business Combinations and Goodwill*, but no equivalent adjustment is made for tax purposes (for example, the tax base of an asset may remain at cost to the previous owner). The resulting deferred tax asset or liability affects the amount of **goodwill** that an entity recognises.

(b) assets are remeasured but no equivalent adjustment is made for tax purposes. For example, this Standard permits or requires certain assets to be remeasured at fair value or to be revalued (for example, Section 16 *Investment Property* and Section 17 *Property, Plant and Equipment*).

(c) goodwill arises in a business combination, for example, the tax base of goodwill will be nil if taxation authorities do not allow the **amortisation** or the **impairment** of goodwill as a deductible expense when taxable profit is determined and do not permit the cost of goodwill to be treated as a deductible expense on disposal of the subsidiary.

(d) the tax base of an asset or a liability on initial recognition differs from its initial carrying amount.

(e) the carrying amount of investments in subsidiaries, branches and associates or interests in joint arrangements ~~ventures~~ becomes different from the tax base of the investment or interest.

Not all of these temporary differences will give rise to deferred tax assets and liabilities (see paragraphs 29.14 and 29.16).

Taxable temporary differences

29.14 A deferred tax liability shall be recognised for all **taxable temporary differences**, except to the extent that the deferred tax liability arises from:

(a) the initial recognition of goodwill; or

(b) the initial recognition of an asset or a liability in a transaction that:

(i) is not a business combination; and

(ii) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

However, for taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements ~~ventures~~, a deferred tax liability shall be recognised in accordance with paragraph 29.25.

29.15 Some temporary differences arise when **income** or expense is included in accounting profit in one period but is included in taxable profit in a different period. Such temporary differences are often described as **timing differences**. The following are examples of temporary differences of this kind that are taxable temporary differences and that therefore result in deferred tax liabilities:

(a) interest revenue is included in accounting profit on a time-proportion basis but may, in some jurisdictions, be included in taxable profit when cash is collected. The tax base of any receivable with respect to such revenues is nil, because the revenues do not affect taxable profit until cash is collected.

(b) **depreciation** used when determining taxable profit (tax loss) may differ from that used when determining accounting profit. The temporary difference is the difference between the carrying amount of the asset and its tax base, which is the original cost of the asset less all deductions in respect of that asset permitted by the taxation authorities when determining taxable profit of the current and prior periods. A taxable temporary difference arises, and results in a deferred tax liability, when tax depreciation is accelerated. If the tax depreciation is less rapid than the accounting depreciation, a deductible temporary difference arises resulting in a deferred tax asset (see paragraph 29.16).

Deductible temporary differences

29.16 A deferred tax asset shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or a liability in a transaction that:

(a) is not a business combination; and

(b) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

However, for deductible temporary differences associated with investments in subsidiaries, branches and associates and for interests in joint arrangements ~~ventures~~, a deferred tax asset shall be recognised in accordance with paragraph 29.26.

29.16A An entity considers:

(a) the extent that it is probable that taxable profit will be available; and

(b) whether tax law restricts the sources of taxable profits against which the deductible temporary difference can be utilised.

29.17 The following are examples of deductible temporary differences that result in deferred tax assets:

(a) retirement benefit costs may be deducted when determining accounting profit at the time that the service is provided by the employee, but deducted when determining taxable profit either when contributions are paid to a fund by the entity or when retirement benefits are paid by the entity. A temporary difference exists between the carrying amount of the liability and its tax base; the tax base of the liability is usually nil. Such a deductible temporary difference results in a deferred tax asset because economic benefits will flow to the entity in the form of a deduction from taxable profits when contributions or retirement benefits are paid.

(b) certain assets may be carried at fair value, without an equivalent adjustment being made for tax purposes. A deductible temporary difference arises if the tax base of the asset exceeds its carrying amount.

29.18 The reversal of deductible temporary differences results in deductions when taxable profits of future periods are determined. It is probable that taxable profit will be available against which a deductible temporary difference can be utilised when there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity that are expected to reverse:

(a) in the same period as the expected reversal of the deductible temporary difference; or

(b) in periods into which a tax loss arising from the deferred tax asset can be carried back or forward.

In such circumstances, the deferred tax asset is recognised in the period in which the deductible temporary differences arise.

29.19 When there are insufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, the deferred tax asset is recognised to the extent that:

(a) it is probable that the entity will have sufficient taxable profit relating to the same taxation authority and the same taxable entity in the same period as the reversal of the deductible temporary difference (or in the periods into which a tax loss arising from the deferred tax asset can be carried back or forward). When evaluating whether it will have sufficient taxable profit in future periods, an entity:

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

(ii) ignores taxable amounts arising from deductible temporary differences that are expected to originate in future periods, because the deferred tax asset arising from those deductible temporary differences will itself require future taxable profit in order to be utilised.

(b) tax planning opportunities are available to the entity that will create taxable profit in appropriate periods.

29.19A The estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this.

29.20 When an entity has a history of recent losses, the entity considers the guidance in paragraphs 29.21–29.22.

Unused tax losses and unused tax credits

29.21 A deferred tax asset shall be recognised for the carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. When assessing the probability that taxable profit will be available against which the unused tax losses or unused tax credits can be utilised, an entity considers the following criteria:

(a) whether the entity has sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, which will result in taxable amounts against which the unused tax losses or unused tax credits can be utilised before they expire;

(b) whether it is probable that the entity will have taxable profits before the unused tax losses or unused tax credits expire;

(c) whether the unused tax losses result from identifiable causes which are unlikely to recur; and

(d) whether tax planning opportunities are available to the entity that will create taxable profit in the period in which the unused tax losses or unused tax credits can be utilised.

To the extent that it is not probable that taxable profit will be available against which the unused tax losses or unused tax credits can be utilised, the deferred tax asset is not recognised.

29.22 The existence of unused tax losses is strong evidence that future taxable profit may not be available. Consequently, when an entity has a history of recent losses, the entity recognises a deferred tax asset arising from unused tax losses or tax credits only to the extent that the entity has sufficient taxable temporary differences or to the extent that there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilised by the entity.

Reassessment of unrecognised deferred tax assets

29.23 At the end of each **reporting period**, an entity reassesses any unrecognised deferred tax assets. The entity recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

29.24 Temporary differences arise when the carrying amount of investments in subsidiaries, branches and associates and interests in joint arrangements ~~ventures~~ (for example, in the **parent**'s consolidated financial statements the carrying amount of a subsidiary is the net consolidated assets of that subsidiary, including the carrying amount of any related goodwill) becomes different from the tax base (which is often cost) of the investment or interest. Such differences may arise in a number of different circumstances, for example:

(a) the existence of undistributed profits of subsidiaries, branches, associates and joint arrangements ~~ventures~~;

(b) changes in foreign exchange rates when a parent and its subsidiary are based in different countries; and

(c) a reduction in the carrying amount of an investment in an associate to its **recoverable amount**.

Investments may be accounted for differently in the parent's **separate financial statements** compared to the consolidated financial statements, in which case the temporary difference associated with that investment may also differ. For example, in the parent's separate financial statement the carrying amount of a subsidiary will depend on the accounting policy chosen in paragraph 9.26.

29.25 An entity shall recognise a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements ~~ventures~~, except to the extent that both of the following conditions are satisfied:

(a) the parent, investor or party to the joint arrangement **~~venturer~~** is able to control the timing of the reversal of the temporary difference; and

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

29.26 An entity shall recognise a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries, branches and associates and interests in joint arrangements ~~ventures~~, only to the extent that it is probable that:

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

(b) taxable profit will be available against which the temporary difference can be utilised.

Paragraph 29.29 is amended. New text is underlined and deleted text is struck through.

Measurement of deferred tax

29.27 An entity shall measure a deferred tax liability (asset) using the tax rates and tax laws that have been enacted or substantively enacted by the reporting date. An entity shall regard tax rates and tax laws as substantively enacted when the remaining steps in the enactment process have not affected the outcome in the past and are unlikely to do so.

29.28 When different tax rates apply to different levels of taxable profit, an entity shall measure deferred tax liabilities (assets) using the average enacted or substantively enacted rates that it expects to be applicable to the taxable profit (tax loss) of the periods in which it expects the deferred tax liability to be settled (deferred tax asset to be realised).

29.29 The measurement of deferred tax liabilities and deferred tax assets shall reflect the tax consequences that would follow from the manner in which the entity expects, at the reporting date, to recover or settle the carrying amount of the related assets and liabilities. Consequently, an entity measures deferred tax liabilities and deferred tax assets using the tax rate and the tax base that are consistent with the expected manner of recovery or settlement. For example, if the temporary difference arises from an item of income that is expected to be taxable as a capital gain ~~**gain**~~ in a future period, the deferred **tax expense** is measured using the capital gain tax rate and the tax base that is consistent with recovering the carrying amount through sale.

29.30 If a deferred tax liability or deferred tax asset arises from a non-depreciable asset measured using the revaluation model in Section 17, the measurement of the deferred tax liability or deferred tax asset shall reflect the tax consequences of recovering the carrying amount of the non-depreciable asset through sale. If a deferred tax liability or asset arises from **investment property** that is measured at fair value, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale. Accordingly, unless the presumption is rebutted, the measurement of the deferred tax liability or the deferred tax asset shall reflect the tax consequences of recovering the carrying amount of the investment property entirely through sale. This presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, instead of through sale. If the presumption is rebutted, the requirements of paragraph 29.29 shall be followed.

29.31 The carrying amount of a deferred tax asset shall be reviewed at the end of each reporting period. An entity shall reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that recognised deferred tax asset to be utilised. Any such reduction shall be reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Measurement of both current and deferred tax

29.32 An entity shall not discount current or deferred tax assets and liabilities.

29.33 In some jurisdictions, income tax is payable at a higher or lower rate if part or all of the profit or retained earnings is paid out as a dividend to shareholders of the entity. In other jurisdictions, income tax may be refundable or payable if part or all of the profit or retained earnings is paid out as a dividend to shareholders of the entity. In both of those circumstances, an entity shall measure current and deferred tax at the tax rate applicable to undistributed profits until the entity recognises a liability to pay a dividend. When the entity recognises a liability to pay a dividend, it shall recognise the resulting current or deferred tax liability (asset) and the related tax expense (income).

Withholding tax on dividends

29.34 When an entity pays dividends to its shareholders, it may be required to pay a portion of the dividends to taxation authorities on behalf of shareholders. Such an amount paid or payable to taxation authorities is charged to **equity** as a part of the dividends.

Paragraphs 29.34A–29.34D and the heading above paragraph 29.34A are added. New text is underlined.

Uncertainty over income tax treatments

29.34A It may be unclear how tax law applies to a particular transaction or circumstance. An uncertain tax treatment is a tax treatment whose acceptability by the relevant taxation authority under tax law is uncertain.

29.34B An entity shall determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty.

29.34C An entity shall assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes either:

(a) it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings; or

(b) it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates by using either of the following methods, depending on which better predicts the resolution of the uncertainty:

(i) the most likely amount—the single most likely amount in a range of possible outcomes; or

(ii) the expected value—the sum of the probability-weighted amounts in a range of possible outcomes.

29.34D An entity shall reflect the effect of a change in relevant facts and circumstances, or of new information, on its judgements or estimates about uncertain tax treatments as a change in **accounting estimate** by applying Section 10 *Accounting Policies, Estimates and Errors*.

Paragraphs 29.36–29.37 are amended. Paragraph 29.37A is added. New text is underlined and deleted text is struck through.

Presentation

Allocation in comprehensive income and equity

29.35 An entity shall recognise tax expense in the same component of **total comprehensive income** (ie continuing operations, **discontinued operations** or **other comprehensive income**) or equity as the transaction or other event that resulted in the tax expense.

Current/non-current distinction

29.36 When an entity presents current and non-current assets, and current and non-current liabilities, as separate **classifications** ~~classifications~~ in its statement of financial position, it shall not classify any deferred tax assets (liabilities) as current assets (liabilities).

Offsetting

29.37 An entity shall offset current tax assets and current tax liabilities, ~~or offset deferred tax assets and deferred tax liabilities~~ if, and only if, it has a legally enforceable right to set off the amounts and the entity can demonstrate ~~without undue cost or effort~~ that it plans either to settle on a net basis or to realise the asset and settle the liability simultaneously.

29.37A An entity shall offset deferred tax assets and deferred tax liabilities if, and only if:

(a) it has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the entity can demonstrate that, in each future period in which significant amounts of deferred tax liabilities or deferred tax assets are expected to be settled or recovered, it plans either to settle current tax liabilities and assets on a net basis or to realise the current tax assets and settle the current tax liabilities simultaneously.

If (b) involves undue cost or effort, then an entity shall not offset deferred tax assets and deferred tax liabilities.

Paragraphs 29.39 and 29.41 are amended. New text is underlined and deleted text is struck through.

Disclosures

29.38 An entity shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of the current and deferred tax consequences of recognised transactions and other events.

29.39 An entity shall disclose separately the major components of tax expense (income). Such components of tax expense (income) may include:

(a) current tax expense (income);

(b) any adjustments recognised in the period for current tax of prior periods;

(c) the amount of deferred tax expense (income) relating to the origination and reversal of temporary differences;

(d) the amount of deferred tax expense (income) relating to changes in tax rates or the imposition of new taxes;

(e) the amount of the benefit arising from a previously unrecognised tax loss, tax credit or temporary difference of a prior period that is used to reduce tax expense;

(f) adjustments to deferred tax expense (income) arising from a change in the tax status of the entity or its shareholders;

(g) deferred tax expense (income) arising from the write-down, or reversal of a previous write-down, of a deferred tax asset in accordance with paragraph 29.31; and

(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 Section 10~~ *Accounting Policies, Estimates and Errors*~~, because they cannot be accounted for retrospectively.

29.40 An entity shall disclose the following separately:

(a) the aggregate current and deferred tax relating to items that are recognised as items of other comprehensive income.

(b) the aggregate current and deferred tax relating to items that are charged or credited directly to equity.

(c) an explanation of any significant differences between the tax expense (income) and accounting profit multiplied by the applicable tax rate. For example such differences may arise from transactions such as revenue that are exempt from taxation or expenses that are not deductible in determining taxable profit (tax loss).

(d) an explanation of changes in the applicable tax rate(s) compared with the previous reporting period.

(e) for each type of temporary difference and for each type of unused tax losses and tax credits:

  (i) the amount of deferred tax liabilities and deferred tax assets at the end of the reporting period; and

  (ii) an analysis of the change in deferred tax liabilities and deferred tax assets during the period.

(f) the amount (and expiry date, if any) of deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax asset is recognised in the statement of financial position.

(g) in the circumstances described in paragraph 29.33, an explanation of the nature of the potential income tax consequences that would result from the payment of dividends to its shareholders.

29.41 If an entity does not offset tax assets and liabilities in accordance with paragraph 29.37A ~~29.37~~ because it is unable to demonstrate without undue cost or effort that it plans to settle them on a net basis or realise them simultaneously, the entity shall disclose the amounts that have not been offset and the reasons why applying the requirement would involve undue cost or effort.

Section 30
Foreign Currency Translation

Paragraphs 30.1, 30.5, 30.9, 30.11 and 30.25 are amended. Paragraph 30.8A is added. New text is underlined and deleted text is struck through.

Scope of this section

30.1 An entity can conduct 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. This section prescribes 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**. Accounting for **financial instruments** that derive their value from the change in a specified foreign exchange rate (for example, foreign currency forward exchange contracts) and hedge accounting of foreign currency items are dealt with in Part II of Section 11 ~~12~~ *Other Financial Instrument Issues*.

Functional currency

30.2 Each entity shall identify its **functional currency**. An entity's functional currency is the currency of the primary economic environment in which the entity operates.

30.3 The primary economic environment in which an entity operates is normally the one in which it primarily generates and expends cash. Consequently, the following are the most important factors an entity considers 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).

30.4 The following factors may also provide evidence of an entity's functional currency:

(a) the currency in which funds from financing activities (issuing debt and **equity** instruments) are generated; and

(b) the currency in which receipts from operating activities are usually retained.

30.5 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** **arrangement** ~~**venture**~~):

(a) whether the activities of the foreign operation are carried out as an extension of the reporting entity, instead of 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.

Reporting foreign currency transactions in the functional currency

Initial recognition

30.6 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.

30.7 An entity shall record a foreign currency transaction, 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.

30.8 The date of a transaction is the date on which the transaction first qualifies for recognition in accordance with this Standard. 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.

30.8A When an entity pays or receives consideration in advance in a foreign currency, it recognises a non-monetary asset or non-monetary liability. The exchange rate to be used on the initial recognition of the related asset, expense or income (or part of it) is the exchange rate at the date on which the entity initially recognised the non-monetary asset or the non-monetary liability arising from the payment or receipt of advance consideration.

Reporting at the end of the subsequent reporting periods

30.9 At the end of each **reporting period**, an entity shall:

(a) translate foreign currency monetary items using the **closing rate** ~~closing rate~~;

(b) translate non-monetary items that are measured in terms of historical cost in a foreign currency using the exchange rate at the date of the transaction; and

(c) translate non-monetary items that are measured at **fair value** in a foreign currency using the exchange rates at the date when the fair value was determined.

30.10 An entity shall recognise, in **profit or loss** in the period in which they arise, 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 periods, except as described in paragraph 30.13.

30.11 When another section of this Standard requires a gain ~~**gain**~~ or loss on a non-monetary item to be recognised in **other comprehensive income**, an entity shall recognise any exchange component of that gain or loss in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, an entity shall recognise any exchange component of that gain or loss in profit or loss.

Net investment in a foreign operation

30.12 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 paragraph 30.13. Such monetary items may include long-term receivables or loans. They do not include trade receivables or trade payables.

30.13 Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation 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 (for example, **consolidated financial statements** when the foreign operation is a subsidiary), such exchange differences shall be recognised in other comprehensive income and reported as a component of equity. They shall not be recognised in profit or loss on disposal of the net investment.

Change in functional currency

30.14 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.

30.15 As noted in paragraphs 30.2–30.5, 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.

30.16 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.

Use of a presentation currency other than the functional currency

Translation to the presentation currency

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

30.18 An entity whose functional currency is not the currency of a hyperinflationary economy shall translate its results and financial position into a different presentation currency using the following procedures:

(a) assets and liabilities for each **statement of financial position** presented (ie including comparatives) shall be translated at the closing rate at the date of that statement of financial position;

(b) income and expenses for each **statement of comprehensive income** (ie including comparatives) shall be translated at exchange rates at the dates of the transactions; and

(c) all resulting exchange differences shall be recognised in other comprehensive income and reported as a component of equity. They shall not subsequently be reclassified to profit or loss.

30.19 For practical reasons, an entity may use a rate that approximates the exchange rates at the dates of the transactions, for example an average rate for the period, to translate income and expense items. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.

30.20 The exchange differences referred to in paragraph 30.18(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; and

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

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 the **non-controlling interest** are allocated to, and recognised as part of, non-controlling interest in the consolidated statement of financial position.

30.21 An entity whose functional currency is the currency of a hyperinflationary economy shall translate its results and financial position into a different presentation currency using the procedures specified in Section 31 *Hyperinflation*.

Translation of a foreign operation into the investor's presentation currency

30.22 In incorporating the assets, liabilities, income and expenses of a foreign operation with those of the reporting entity, the entity shall follow normal consolidation procedures, such as the elimination of intragroup balances and intragroup transactions of a subsidiary (see Section 9 *Consolidated and Separate Financial Statements*) and the translation procedures set out in paragraphs 30.17–30.21. 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, a reporting entity continues to recognise such an exchange difference in profit or loss or, if it arises from the circumstances described in paragraph 30.13, the entity shall recognise it as other comprehensive income.

30.23 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 paragraph 30.18.

Disclosures

30.24 In paragraphs 30.26 and 30.27, references to 'functional currency' apply, in the case of a group, to the functional currency of the **parent**.

30.25 An entity shall disclose the following:

(a) the amount of exchange differences recognised in profit or loss during the period, except for those arising on financial instruments measured at fair value through profit or loss in accordance with Section 11 ~~*Basic*~~ *Financial Instruments* ~~and Section 12~~; and

(b) the amount of exchange differences arising during the period and classified in a separate component of equity at the end of the period.

30.26 An entity shall disclose the currency in which the financial statements are presented. When the presentation currency is different from the functional currency, an entity shall state that fact and shall disclose the functional currency and the reason for using a different presentation currency.

30.27 When there is a change in the functional currency of either the reporting entity or a significant foreign operation, the entity shall disclose that fact and the reason for the change in functional currency.

Section 31
Hyperinflation

Paragraph 31.13 is amended. New text is underlined and deleted text is struck through.

Scope of this section

31.1 This section applies to an entity whose **functional currency** is the currency of a hyperinflationary economy. It requires such an entity to prepare **financial statements** that have been adjusted for the effects of hyperinflation.

Hyperinflationary economy

31.2 This section does not establish an absolute rate at which an economy is deemed hyperinflationary. An entity shall make that judgement by considering all available information including, but not limited to, the following possible indicators of hyperinflation:

(a) the general population prefers to keep its wealth in non-monetary **assets** or in a relatively stable foreign currency. Amounts of local currency held are immediately invested to maintain purchasing power.

(b) the general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency. Prices may be quoted in that currency.

(c) sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short.

(d) interest rates, wages and prices are linked to a price index.

(e) the cumulative inflation rate over three years is approaching, or exceeds, 100 per cent.

Measuring unit in the financial statements

31.3 All amounts in the financial statements of an entity whose functional currency is the currency of a hyperinflationary economy shall be stated in terms of the measuring unit current at the end of the **reporting period**. The comparative information for the previous period required by paragraph 3.14, and any information presented in respect of earlier periods, shall also be stated in terms of the measuring unit current at the **reporting date**.

31.4 The restatement of financial statements in accordance with this section requires the use of a general price index that reflects changes in general purchasing power. In most economies there is a recognised general price index, normally produced by the government, that entities will follow.

Procedures for restating historical cost financial statements

Statement of financial position

31.5 **Statement of financial position** amounts not expressed in terms of the measuring unit current at the end of the reporting period are restated by applying a general price index.

31.6 **Monetary items** are not restated because they are expressed in terms of the measuring unit current at the end of the reporting period. Monetary items are money held and items to be received or paid in money.

31.7 Assets and **liabilities** linked by agreement to changes in prices, such as index-linked bonds and loans, are adjusted in accordance with the agreement and presented at this adjusted amount in the restated statement of financial position.

31.8 All other assets and liabilities are non-monetary:

(a) some non-monetary items are carried at amounts current at the end of the reporting period, such as net realisable value and **fair value**, so they are not restated. All other non-monetary assets and liabilities are restated.

(b) most non-monetary items are carried at cost or cost less **depreciation**; hence they are expressed at amounts current at their date of acquisition. The restated cost, or cost less depreciation, of each item is determined by applying to its historical cost and accumulated depreciation the change in a general price index from the date of acquisition to the end of the reporting period.

(ba) some non-monetary items are carried at amounts current at dates other than that of acquisition or the reporting date, for example, **property, plant and equipment** that has been revalued at some earlier date. In these cases, the **carrying amounts** are restated from the date of the revaluation.

(c) the restated amount of a non-monetary item is reduced, in accordance with Section 27 *Impairment of Assets*, when it exceeds its **recoverable amount**.

31.9 At the beginning of the first period of application of this section, the components of **equity**, except retained earnings and any revaluation surplus, are restated by applying a general price index from the dates the components were contributed or otherwise arose. Any revaluation surplus that arose in previous periods is eliminated. Restated retained earnings are derived from all the other amounts in the restated statement of financial position.

31.10 At the end of the first period and in subsequent periods, all components of **owners'** equity are restated by applying a general price index from the beginning of the period or the date of contribution, if later. The changes for the period in owners' equity are disclosed in accordance with

Section 6 *Statement of Changes in Equity and Statement of Income and Retained Earnings*.

Statement of comprehensive income and income statement

31.11 All items in the **statement of comprehensive income** (and in the **income statement**, if presented) shall be expressed in terms of the measuring unit current at the end of the reporting period. Consequently, all amounts need to be restated by applying the change in the general price index from the dates when the items of **income** and **expenses** were initially recognised in the financial statements. If general inflation is approximately even throughout the period, and the items of income and expense arose approximately evenly throughout the period, an average rate of inflation may be appropriate.

Statement of cash flows

31.12 An entity shall express all items in the **statement of cash flows** in terms of the measuring unit current at the end of the reporting period.

Gain or loss on net monetary position

31.13 In a period of inflation, an entity holding an excess of monetary assets over monetary liabilities loses purchasing power, and an entity with an excess of monetary liabilities over monetary assets gains ~~**gains**~~ purchasing power, to the extent the assets and liabilities are not linked to a price level. An entity shall include in **profit or loss** the gain or loss on the net monetary position. An entity shall offset the adjustment to those assets and liabilities linked by agreement to changes in prices made in accordance with paragraph 31.7 against the gain or loss on net monetary position.

Economies ceasing to be hyperinflationary

31.14 When an economy ceases to be hyperinflationary and an entity discontinues the preparation and presentation of financial statements prepared in accordance with this section, it shall treat the amounts expressed in the **presentation currency** at the end of the previous reporting period as the basis for the carrying amounts in its subsequent financial statements.

Disclosures

31.15 An entity to which this section applies shall disclose the following:

(a) the fact that financial statements and other prior period data have been restated for changes in the general purchasing power of the functional currency;

(b) the identity and level of the price index at the reporting date and changes during the current reporting period and the previous reporting period; and

(c) amount of gain or loss on monetary items.

Section 32
Events after the End of the Reporting Period

Section 32 is not amended. It is included for ease of reading.

Scope of this section

32.1 This section defines events after the end of the **reporting period** and sets out principles for recognising, measuring and disclosing those events.

Events after the end of the reporting period defined

32.2 Events after the end of the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the **financial statements** are authorised for issue. There are two types of events:

(a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the end of the reporting period); and

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

32.3 Events after the end of the reporting period 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 loss** or other selected financial information.

Recognition and measurement

Adjusting events after the end of the reporting period

32.4 An entity shall adjust the amounts recognised in its financial statements, including related disclosures, to reflect adjusting events after the end of the reporting period.

32.5 The following are examples of adjusting events after the end of the reporting period 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 end of the reporting period of a court case that confirms that the entity had a present obligation at the end of the reporting period. The entity adjusts any previously recognised **provision** related to this court case in accordance with Section 21 *Provisions and Contingencies* or recognises a new provision. The entity does not merely disclose a **contingent liability**. Instead, the settlement provides additional evidence to be considered in determining the provision that should be recognised at the end of the reporting period in accordance with Section 21.

(b) the receipt of information after the end of the reporting period indicating that an **asset** was impaired at the end of the reporting period 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 end of the reporting period usually confirms that a loss existed at the end of the reporting period 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 end of the reporting period may give evidence about their selling price at the end of the reporting period for the purpose of assessing impairment at that date.

(c) the determination after the end of the reporting period of the cost of assets purchased, or the proceeds from assets sold, before the end of the reporting period.

(d) the determination after the end of the reporting period of the amount of profit-sharing or bonus payments, if the entity had a legal or **constructive obligation** at the end of the reporting period to make such payments as a result of events before that date (see Section 28 *Employee Benefits*).

(e) the discovery of fraud or **errors** that show that the financial statements are incorrect.

Non-adjusting events after the end of the reporting period

32.6 An entity shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the end of the reporting period.

32.7 Examples of non-adjusting events after the end of the reporting period include:

(a) a decline in market value of investments between the end of the reporting period 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 end of the reporting period, but reflects circumstances that have arisen subsequently. Consequently, 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 end of the reporting period, although it may need to give additional disclosure in accordance with paragraph 32.10.

(b) an amount that becomes receivable as a result of a favourable judgement or settlement of a court case after the **reporting date** but before the financial statements are authorised for issue. This would be a **contingent asset** at the reporting date (see paragraph 21.13) and disclosure may be required by paragraph 21.16. However, agreement on the amount of damages for a judgement that was reached before the reporting date, but was not previously recognised because the amount could not be measured reliably, may constitute an adjusting event.

Dividends

32.8 If an entity declares dividends to holders of its **equity** instruments after the end of the reporting period, the entity shall not recognise those dividends as a **liability** at the end of the reporting period. The amount of the dividend may be presented as a segregated component of retained earnings at the end of the reporting period.

Disclosure

Date of authorisation for issue

32.9 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.

Non-adjusting events after the end of the reporting period

32.10 An entity shall disclose the following for each category of non-adjusting event after the end of the reporting period:

(a) the nature of the event; and

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

32.11 The following are examples of non-adjusting events after the end of the reporting period that would generally result in disclosure; the disclosures will reflect information that becomes known after the end of the reporting period but before the financial statements are authorised for issue:

(a) a major **business combination** or disposal of a major **subsidiary**;

(b) announcement of a plan to discontinue an operation;

(c) major purchases of assets, disposals or plans to dispose of assets, or expropriation of major assets by government;

(d) the destruction of a major production plant by a fire;

(e) announcement, or commencement of the implementation, of a major restructuring;

(f) issues or repurchases of an entity's debt or equity instruments;

(g) abnormally large changes in asset prices or foreign exchange rates;

(h) changes in tax rates or tax laws enacted or announced that have a significant effect on current and deferred tax assets and liabilities;

(i) entering into significant commitments or contingent liabilities, for example, by issuing significant guarantees; and

(j) commencement of major litigation arising solely out of events that occurred after the end of the reporting period.

Section 33
Related Party Disclosures

Paragraphs 33.2, 33.4, 33.9, 33.11–33.12 and the heading above paragraph 33.5 are amended. Paragraphs 33.7A and 33.15 are added. New text is underlined and deleted text is struck through.

Scope of this section

33.1 This section requires an entity to include in its **financial statements** the disclosures necessary to draw attention to the possibility that its **financial position** and **profit or loss** have been affected by the existence of **related parties** and by transactions and outstanding balances with such parties.

Related party defined

33.2 A **related party** is a person or entity that is related to the **reporting entity** ~~entity that is preparing its financial statements (the reporting entity)~~:

(a) a person or a close member of that person's family is related to a reporting entity if that person:

(i) is a member of the key management personnel of the reporting entity or of a **parent** of the reporting entity;

(ii) has **control** or **joint control** over the reporting entity; or

(iii) has significant influence over the reporting entity.

(b) an entity is related to a reporting entity if any of the following conditions applies:

(i) the entity and the reporting entity are members of the same **group** (which means that each parent, **subsidiary** and fellow subsidiary is related to the others).

(ii) one entity is an **associate** or **jointly controlled entity** ~~**joint venture**~~ of the other entity (or an associate or jointly controlled entity ~~joint venture~~ of a member of a group of which the other entity is a member).

(iii) both entities are jointly controlled entities ~~joint ventures~~ of the same third entity.

(iv) one entity is a jointly controlled entity ~~joint venture~~ of a third entity and the other entity is an associate of the third entity.

(v) the entity is a **post-employment benefit plan** for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

(vi) the entity is controlled or jointly controlled by a person identified in (a).

(vii) the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

(viii) a person identified in (a)(ii) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

33.3 In considering each possible related party relationship, an entity shall assess the substance of the relationship and not merely the legal form.

33.4 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;

(b) two parties ~~**venturers**~~ simply because they share joint control over a jointly controlled entity~~joint venture~~;

(c) any of the following 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):

(i) providers of finance;

(ii) trade unions;

(iii) public utilities; or

(iv) government departments and agencies.

(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.

Disclosures

Disclosure of controlling party ~~parent-subsidiary~~ relationships

33.5 Relationships between a parent and its subsidiaries shall be disclosed irrespective of whether there have been **related party transactions**. An entity shall disclose the name of its 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 (if any) shall also be disclosed.

Disclosure of key management personnel compensation

33.6 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. Compensation includes all employee benefits (as defined in Section 28 *Employee Benefits*) including those in the form of share-based payment (see Section 26 *Share-based Payment*). Employee benefits include all forms of consideration paid, payable or provided by the entity, or on behalf of the entity (for example, by its parent or by a shareholder), 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 goods or services provided to the entity.

33.7 An entity shall disclose key management personnel compensation in total.

33.7A An entity that obtains key management personnel services from another entity (management entity) is not required to make any disclosure that might otherwise be required by paragraph 33.7 in relation to the compensation paid or payable by the management entity to the management entity's employees or directors. However, the amounts incurred by an entity for the provision by a separate management entity of such services shall be disclosed.

Disclosure of related party transactions

33.8 A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged. Examples of related party transactions that are common to SMEs include, but are not limited to:

(a) transactions between an entity and its principal **owner**(s);

(b) transactions between an entity and another entity when both entities are under the common control of a single entity or person; and

(c) transactions in which an entity or person that controls the reporting entity incurs **expenses** directly that otherwise would have been borne by the reporting entity.

33.9 If an entity has related party transactions, it shall disclose the nature of the related party relationship as well as information about the transactions, outstanding balances and commitments necessary for an understanding of the potential effect of the relationship on the financial statements. Those disclosure requirements are in addition to the requirements in paragraph 33.7 to disclose key management personnel compensation. At a minimum, disclosures shall include:

(a) the amount of the transactions;

(b) the amount of outstanding balances, including commitments 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 uncollectable receivables 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.

Such transactions could include purchases, sales or transfers of goods or services; **leases**; guarantees; and settlements by the entity on behalf of the related party or vice versa.

33.10 An entity shall make the disclosures required by paragraph 33.9 separately for each of the following categories:

(a) entities with control, joint control or significant influence over the entity;

(b) entities over which the entity has control, joint control or significant influence;

(c) key management personnel of the entity or its parent (in the aggregate); and

(d) other related parties.

33.11 An entity is exempt from the disclosure requirements of paragraph 33.9 in relation to related party transactions and outstanding balances, including commitments, with:

(a) a **government** ~~**state** (a national, regional or local government)~~ that has control, joint control or significant influence over the reporting entity; and

(b) another entity that is a related party because the same government ~~state~~ has control, joint control or significant influence over both the reporting entity and the other entity.

~~However, the entity must still disclose a parent-subsidiary relationship as required by paragraph 33.5.~~

33.12 The following are examples of transactions that shall be 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;

(ha) commitments to do something if a particular event occurs or does not occur in the future;

(i) settlement of **liabilities** on behalf of the entity or by the entity on behalf of another party; and

(j) participation by a parent or subsidiary in a **defined benefit plan** that shares risks between group entities.

33.13 An entity shall not state that related party transactions were made on terms equivalent to those that prevail in arm's length transactions unless such terms can be substantiated.

33.14 An entity may disclose items of a similar nature in the aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity.

33.15 If a reporting entity applies the exemption in paragraph 33.11, it shall disclose the following about the transactions and related outstanding balances referred to in paragraph 33.11:

(a) the name of the government and the nature of its relationship with the reporting entity (that is, control, joint control or significant influence).

(b) the nature and amount of each individually significant transaction.

(c) for other transactions that are collectively, but not individually, significant, a qualitative or quantitative indication of their extent. Types of transactions include those listed in paragraph 33.12.

Section 34
Specialised Activities

Scope of this section

34.1 This section provides guidance on financial reporting by SMEs involved in three types of specialised activities—agriculture, extractive activities, and service concessions.

Paragraphs 34.2, 34.3–34.7 are amended. Paragraphs 34.2A–34.2B are added. New text is underlined and deleted text is struck through.

Agriculture

34.2 An entity applying ~~using~~ this Standard that is engaged in **agricultural activity** shall determine its accounting policy for each class of its **biological assets**, except for **bearer plants** that can be measured separately from the produce on them without undue cost or effort, as follows:

(a) the entity shall use the **fair value** model in paragraphs 34.4–34.7 for those biological assets for which fair value is readily determinable without undue cost or effort; and

(b) the entity shall use the cost model in paragraphs 34.8–34.10 for all other biological assets.

34.2A This section does not apply to bearer plants that, at initial recognition, can be measured separately from the produce on them without undue cost or effort (see Section 17 *Property, Plant and Equipment*). However, this section applies to the produce on those bearer plants. If, at initial recognition, bearer plants cannot be measured separately from the produce on them without undue cost or effort, this section applies to the entire plant.

34.2B The following are not bearer plants:

(a) plants cultivated to be harvested as **agricultural produce** (for example, trees grown for use as lumber or trees that are cultivated both for their fruit and their lumber); and

(b) annual crops (for example, maize and wheat).

Recognition

34.3 An entity shall recognise a biological asset or agricultural produce ~~**agricultural produce**~~ when, and only when:

(a) the entity controls the **asset** as a result of past events;

(b) it is **probable** that future economic benefits associated with the asset will flow to the entity; and

(c) the fair value or cost of the asset can be measured reliably without undue cost or effort.

Measurement—fair value model

34.4 **An entity shall measure a biological asset on initial recognition and at each reporting date at its fair value less costs to sell ~~fair value less costs to sell~~. Changes in fair value less costs to sell shall be recognised in profit or loss.**

34.5 Agricultural produce harvested from an entity's biological assets shall be measured at its fair value less costs to sell at the point of harvest. Such measurement ~~**measurement**~~ is the cost at that date when applying Section 13 *Inventories* or another applicable section of this Standard.

34.6 Section 12 *Fair Value Measurement* provides guidance on ~~In determining~~ fair value measurement.~~, an entity shall consider the following:~~

~~(a) if an **active market** exists for a biological asset or agricultural produce in its present location and condition, the quoted price in that market is the appropriate basis for determining the fair value of that asset. If an entity has access to different active markets, the entity shall use the price existing in the market that it expects to use.~~

~~(b) if an active market does not exist, an entity uses one or more of the following, when available, in determining fair value:~~

~~(i) the most recent market transaction price, provided that there has not been a significant change in economic circumstances between the date of that transaction and the end of the **reporting period**;~~

~~(ii) market prices for similar assets with adjustment to reflect differences; and~~

~~(iii) sector benchmarks such as the value of an orchard expressed per export tray, bushel or hectare and the value of cattle expressed per kilogram of meat.~~

~~(c) in some cases, the information sources listed in (a) or (b) may suggest different conclusions as to the fair value of a biological asset or agricultural produce. An entity considers the reasons for those differences, to arrive at the most reliable estimate of fair value within a relatively narrow range of reasonable estimates.~~

~~(d) in some circumstances, fair value may be readily determinable without undue cost or effort even though market determined prices or values are not available for a biological asset in its present condition. An entity shall consider whether the **present value** of expected net **cash flows** from the asset discounted at a current market determined rate results in a reliable measure of fair value.~~

Disclosures—fair value model

34.7 An entity shall disclose the following with respect to its biological assets measured at fair value:

(a) a description of each class of its biological assets.

~~(b) the methods and significant assumptions applied in determining the fair value of each category of agricultural produce at the point of harvest and each category of biological assets.~~

(c) 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:

(i) the gain ~~**gain**~~ or loss arising from changes in fair value less costs to sell;

(ii) increases resulting from purchases;

(iii) decreases resulting from harvest;

(iv) increases resulting from **business combinations**;

(v) 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** ~~reporting entity~~; and

(vi) other changes.

This reconciliation need not be presented for prior periods.

Measurement—cost model

34.8 The entity shall measure at cost less any accumulated **depreciation** and any accumulated **impairment** losses those biological assets whose fair value is not readily determinable without undue cost or effort.

34.9 The entity shall measure agricultural produce harvested from its biological assets at fair value less estimated costs to sell at the point of harvest. Such measurement is the cost at that date when applying Section 13 or other sections of this Standard.

Disclosures—cost model

34.10 An entity shall disclose the following with respect to its biological assets measured using the cost model:

(a) a description of each class of its biological assets;

(b) an explanation of why fair value cannot be measured reliably without undue cost or effort;

(c) the depreciation method used;

(d) the useful lives or the depreciation rates used; and

(e) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period.

Paragraph 34.11B is amended. Paragraph 34.11G is added. New text is underlined and deleted text is struck through.

Exploration for and evaluation of mineral resources

34.11 An entity using this Standard that is engaged in the exploration for, or evaluation of, mineral resources shall determine an accounting policy that specifies which expenditures are recognised as exploration and evaluation assets in accordance with paragraph 10.4 and apply the policy consistently. An entity is exempt from applying paragraph 10.5 to its **accounting policies** for the recognition and measurement of exploration and evaluation assets.

34.11A The following are examples of expenditures that might be included in the initial measurement of exploration and evaluation assets (the list is not exhaustive):

(a) acquisition of rights to explore;

(b) topographical, geological, geochemical and geophysical studies;

(c) exploratory drilling;

(d) trenching;

(e) sampling; and

(f) activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

Expenditures related to the development of mineral resources shall not be recognised as exploration and evaluation assets.

34.11B Exploration and evaluation assets shall be measured on initial recognition at cost. After initial recognition, an entity shall apply Section 17 ~~*Property, Plant and Equipment*~~ and Section 18 *Intangible Assets other than Goodwill* to the exploration and evaluation assets according to the nature of the assets acquired subject to paragraphs 34.11D–34.11F. If an entity has an obligation to dismantle or remove an item, or to restore the site, such obligations and costs are accounted for in accordance with Section 17 and Section 21 *Provisions and Contingencies*.

34.11C Exploration and evaluation assets shall be assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its **recoverable amount**. An entity shall measure, present and disclose any resulting impairment loss in accordance with Section 27 *Impairment of Assets*, except as provided by paragraph 34.11F.

34.11D For the purposes of exploration and evaluation assets only, paragraph 34.11E shall be applied instead of paragraphs 27.7–27.10 when identifying an exploration and evaluation asset that may be impaired. Paragraph 34.11E uses the term ‘assets’ but applies equally to separate exploration and evaluation assets or a **cash-generating unit**.

34.11E One or more of the following facts and circumstances indicate that an entity should test exploration and evaluation assets for impairment (the list is not exhaustive):

(a) the period for which the entity has the right to explore in the specific area has expired during the period, or will expire in the near future, and is not expected to be renewed;

(b) substantive expenditure on further exploration for, and evaluation of, mineral resources in the specific area is neither budgeted nor planned;

(c) exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; or

(d) sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

The entity shall perform an impairment test, and recognise any impairment loss, in accordance with Section 27.

34.11F An entity shall determine an accounting policy for allocating exploration and evaluation assets to cash-generating units or groups of cash-generating units for the purpose of assessing such assets for impairment.

<u>34.11G</u> <u>An entity shall treat exploration and evaluation assets as a separate class of assets and make the disclosures required by either Section 17 or Section 18 consistent with how the assets are classified.</u>

Paragraphs 34.14 and 34.16 are amended. New text is underlined and deleted text is struck through.

Service concession arrangements

34.12 A **service concession arrangement** is an arrangement whereby a government or other public sector body (the grantor) contracts with a private operator to develop (or upgrade), operate and maintain the grantor's infrastructure assets such as roads, bridges, tunnels, airports, energy distribution networks, prisons or hospitals. In those arrangements, the grantor controls or regulates what services the operator must provide using the assets, to whom, and at what price, and also controls any significant residual interest in the assets at the end of the term of the arrangement.

34.13 There are two principal categories of service concession arrangements:

(a) in one, the operator receives a **financial asset**—an unconditional contractual right to receive a specified or determinable amount of cash or another financial asset from the government in return for constructing or upgrading a public sector asset, and then operating and maintaining the asset for a specified period of time. This category includes guarantees by the government to pay for any shortfall between amounts received from users of the public service and specified or determinable amounts.

(b) in the other, the operator receives an **intangible asset**—a right to charge for use of a public sector asset that it constructs or upgrades and then operates and maintains for a specified period of time. A right to charge users is not an unconditional right to receive cash because the amounts are contingent on the extent to which the public uses the service.

Sometimes, a single contract may contain both types: to the extent that the government has given an unconditional guarantee of payment for the construction of the public sector asset, the operator has a financial asset; to the extent that the operator has to rely on the public using the service in order to obtain payment, the operator has an intangible asset.

Accounting—financial asset model

34.14 The operator shall recognise a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services. The operator shall measure the financial asset at fair value. Thereafter, it shall follow Section 11 *~~Basic~~ Financial Instruments* ~~and Section 12~~ *~~Other Financial Instrument Issues~~* in accounting for the financial asset.

Accounting—intangible asset model

34.15 The operator shall recognise an intangible asset to the extent that it receives a right (a licence) to charge users of the public service. The operator shall initially measure the intangible asset at fair value. Thereafter, it shall follow Section 18 in accounting for the intangible asset.

Operating revenue

34.16 The operator of a service concession arrangement shall recognise, measure and disclose **revenue** in accordance with Section 23 *Revenue from Contracts with Customers* for the services it performs.

The title of Section 35 is amended. New text is underlined and deleted text is struck through.

Section 35
Transition to the IFRS for SMEs *Accounting Standard* ~~*IFRS for SMEs*~~

Paragraphs 35.1–35.4, 35.6–35.7, 35.9–35.10, 35.12A and the heading above paragraph 35.12 are amended. New text is underlined and deleted text is struck through.

Scope of this section

35.1 This section applies to a **first-time adopter of the** ***IFRS for SMEs*** **Accounting Standard**, regardless of whether its previous accounting framework was **full IFRS** **Accounting Standards** or another set of generally accepted accounting principles (GAAP) such as its national accounting standards or another framework such as the local income tax basis.

35.2 An entity that has applied the *IFRS for SMEs* Accounting Standard in a previous **reporting period**, but whose most recent previous annual **financial statements** did not contain an explicit and unreserved statement of compliance with the *IFRS for SMEs* Accounting Standard, must either apply this section or apply the *IFRS for SMEs* Accounting Standard retrospectively in accordance with Section 10 *Accounting Policies, Estimates and Errors* as if the entity had never stopped applying the *IFRS for SMEs* Accounting Standard. When such an entity does not elect to apply this section, it is still required to apply the disclosure requirements in paragraph 35.12A in addition to the disclosure requirements in Section 10.

First-time adoption

35.3 A first-time adopter of the *IFRS for SMEs* Accounting Standard shall apply this section in its first financial statements that conform to this Standard.

35.4 An entity's first financial statements that conform to this Standard are the first annual financial statements in which the entity makes an explicit and unreserved statement in those financial statements of compliance with the *IFRS for SMEs* Accounting Standard. Financial statements prepared in accordance with this Standard are an entity's first such financial statements if, for example, the entity:

(a) did not present financial statements for previous periods;

(b) presented its most recent previous financial statements under national requirements that are not consistent with this Standard in all respects; or

(c) presented its most recent previous financial statements in conformity with full IFRS Accounting Standards~~**full IFRS**~~.

35.5 Paragraph 3.17 defines a complete set of financial statements.

35.6 Paragraph 3.14 requires an entity to disclose, in a complete set of financial statements, comparative information in respect of the previous comparable period for all monetary amounts presented in the financial statements, as well as specified comparative narrative and descriptive information. An entity may present comparative information in respect of more than one comparable prior period. Consequently, an entity's **date of transition to the *IFRS for SMEs* Accounting Standard** is the beginning of the earliest period for which the entity presents full comparative information in accordance with this Standard in its first financial statements that conform to this Standard.

Procedures for preparing financial statements at the date of transition

35.7 Except as provided in paragraphs 35.9–35.11, an entity shall on its date of transition to the *IFRS for SMEs* Accounting Standard (ie the beginning of the earliest period presented):

(a) recognise all **assets** and **liabilities** whose **recognition** is required by the *IFRS for SMEs* Accounting Standard;

(b) not recognise items as assets or liabilities if this Standard does not permit such recognition;

(c) reclassify items that it recognised under its previous financial reporting framework as one type of asset, liability or component of **equity**, but are a different type of asset, liability or component of equity under this Standard; and

(d) apply this Standard in measuring all recognised assets and liabilities.

35.8 The **accounting policies** that an entity uses on adoption of this Standard may differ from those that it used for the same date using its previous financial reporting framework. The resulting adjustments arise from transactions, other events or conditions before the date of transition to this Standard. Consequently, an entity shall recognise those adjustments directly in retained earnings (or, if appropriate, another category of equity) at the date of transition to this Standard.

35.9 On first-time adoption of this Standard, an entity shall not retrospectively change the accounting that it followed under its previous financial reporting framework for any of the following transactions:

(a) **derecognition** of **financial assets** and **financial liabilities**. Financial assets and liabilities derecognised under an entity's previous accounting framework before the date of transition shall not be recognised upon adoption of the *IFRS for SMEs* Accounting Standard. Conversely, for financial assets and liabilities that would have been derecognised under the *IFRS for SMEs* Accounting Standard in a transaction that took place before the date of transition, but that were not derecognised under an entity's previous accounting framework, an entity may choose (a) to derecognise them on adoption of the *IFRS for*

SMEs Accounting Standard or (b) to continue to recognise them until disposed of or settled.

(b) hedge accounting. An entity shall not change its hedge accounting before the date of transition to the *IFRS for SMEs* Accounting Standard for hedging relationships that no longer exist at the date of transition. For hedging relationships that exist at the date of transition, the entity shall follow the hedge accounting requirements of Part II of Section 11 ~~12~~ *Other Financial Instrument Issues*, including the requirements for discontinuing hedge accounting for hedging relationships that do not meet the conditions of Part II of Section 11~~12~~.

(c) **accounting estimates**~~**accounting estimates**~~.

(d) **discontinued operations**.

(e) measuring **non-controlling interests**. The requirements of paragraph 5.6 to allocate **profit or loss** and **total comprehensive income** between non-controlling interest and **owners** of the **parent** shall be applied prospectively from the date of transition to the *IFRS for SMEs* Accounting Standard (or from such earlier date as this Standard is applied to restate **business combinations**—see paragraph 35.10(a)).

(f) government loans. A first-time adopter shall apply the requirements in Section 11 ~~*Basic*~~ *Financial Instruments*~~, Section 12~~ and Section 24 *Government Grants* prospectively to government loans existing at the date of transition to this Standard. Consequently, if a first-time adopter did not, under its previous GAAP, recognise and measure a government loan on a basis that is consistent with this Standard, it shall use its previous GAAP **carrying amount** of the loan at the date of transition to this Standard as the carrying amount of the loan at that date and shall not recognise the benefit of any government loan at a below-market rate of interest as a **government grant**.

(g) completed **contracts** with **customers**. An entity shall not restate contracts that were completed before the date of transition to the *IFRS for SMEs* Accounting Standard. A completed contract is a contract for which the entity has transferred all of the goods or services identified in accordance with its previous GAAP.

35.10 An entity may use one or more of the following exemptions in preparing its first financial statements that conform to this Standard:

(a) business combinations. A first-time adopter may elect not to apply Section 19 *Business Combinations and Goodwill* to business combinations that were effected before the date of transition to this Standard. However, if a first-time adopter restates any business combination to comply with Section 19, it shall restate all later business combinations.

(b) **share-based payment transactions**. A first-time adopter is not required to apply Section 26 *Share-based Payment* to equity instruments that were granted before the date of transition to this Standard, or to liabilities arising from share-based payment transactions that were settled before the date of transition to this Standard.

(c) **fair value** as deemed cost. A first-time adopter may elect to measure an item of **property**, **plant and equipment**, an **investment property** or an **intangible asset** on the date of transition to this Standard at its fair value and use that fair value as its deemed cost at that date.

(d) revaluation as deemed cost. A first-time adopter may elect to use a previous GAAP revaluation of an item of property, plant and equipment, an investment property or an intangible asset at, or before, the date of transition to this Standard as its deemed cost at the revaluation date.

(da) event-driven fair value <u>measurement</u> ~~**measurement**~~ as deemed cost. A first-time adopter may have established a deemed cost in accordance with its previous GAAP for some or all of its assets and liabilities by measuring them at their fair value at one particular date because of an event, for example, a valuation of the business, or parts of the business, for the purposes of a planned sale. If the measurement date:

  (i) is at or before the date of transition to this Standard, the entity may use such event-driven fair value measurements as deemed cost at the date of that measurement.

  (ii) is after the date of transition to this Standard, but during the periods covered by the first financial statements that conform to this Standard, the event-driven fair value measurements may be used as deemed cost when the event occurs. An entity shall recognise the resulting adjustments directly in retained earnings (or, if appropriate, another category of equity) at the measurement date. At the date of transition to this Standard, the entity shall either establish the deemed cost by applying the criteria in paragraph 35.10(c)–(d) or measure those assets and liabilities in accordance with the other requirements in this section.

(e) cumulative translation differences. Section 30 *Foreign Currency Translation* requires an entity to classify some translation differences as a separate component of equity. A first-time adopter may elect to deem the cumulative translation differences for all **foreign operations** to be zero at the date of transition to the *IFRS for SMEs* <u>Accounting Standard</u> (ie a 'fresh start').

(f) **separate financial statements**. When an entity prepares separate financial statements, paragraph 9.26 requires it to account for its investments in **subsidiaries**, **associates** and jointly controlled entities either:

  (i) at cost less **impairment**;

(ii) at fair value with changes in fair value recognised in profit or loss; or

(iii) using the equity method following the procedures in paragraph 14.8.

If a first-time adopter measures such an investment at cost, it shall measure that investment at one of the following amounts at the date of transition:

(i) cost determined in accordance with Section 9 *Consolidated and Separate Financial Statements*; or

(ii) deemed cost, which shall be either fair value at the date of transition to the *IFRS for SMEs* Accounting Standard or previous GAAP carrying amount on that date.

(g) **compound financial instruments**. Paragraph 22.13 requires an entity to split a compound financial instrument into its liability and equity components at the date of issue. A first-time adopter need not separate those two components if the liability component is not outstanding at the date of transition to this Standard.

(h) deferred income tax. A first-time adopter may apply Section 29 *Income Tax* prospectively from the date of transition to the *IFRS for SMEs* Accounting Standard.

(i) **service concession arrangements**. A first-time adopter is not required to apply paragraphs 34.12–34.16 to service concession arrangements entered into before the date of transition to this Standard.

(j) extractive activities. A first-time adopter using full cost accounting under previous GAAP may elect to measure oil and gas assets (those used in the exploration, evaluation, development or production of oil and gas) on the date of transition to the *IFRS for SMEs* Accounting Standard at the amount determined under the entity's previous GAAP. The entity shall test those assets for impairment at the date of transition to this Standard in accordance with Section 27 *Impairment of Assets*.

(k) arrangements containing a **lease**. A first-time adopter may elect to determine whether an arrangement existing at the date of transition to the *IFRS for SMEs* Accounting Standard contains a lease (see paragraph 20.3) on the basis of facts and circumstances existing at that date, instead of when the arrangement was entered into.

(l) decommissioning liabilities included in the cost of property, plant and equipment. Paragraph 17.10(c) states that the cost of an item of property, plant and equipment includes 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. A first-time adopter may elect to measure this component of the cost of an item of property, plant and equipment at the date of transition to the *IFRS for SMEs* Accounting Standard, instead of on the date(s) when the obligation initially arose.

(m) operations subject to rate regulation. If a first-time adopter holds items of property, plant and equipment or intangible assets that are used, or were previously used, in operations subject to rate regulation (ie to provide goods or services to customers at prices/rates established by an authorised body) it may elect to use the previous GAAP carrying amount of those items at the date of transition to this Standard as their deemed cost. If an entity applies this exemption to an item, it need not apply it to all items. The entity shall test those assets for impairment at the date of transition to this Standard in accordance with Section 27.

(n) **severe hyperinflation**. If a first-time adopter has a **functional currency** that was subject to severe hyperinflation:

(i) if its date of transition to this Standard is on, or after, the **functional currency normalisation date**, the entity may elect to measure all assets and liabilities held before the functional currency normalisation date at fair value on the date of transition to this Standard and use that fair value as the deemed cost of those assets and liabilities at that date; and

(ii) if the functional currency normalisation date falls within a twelve month comparative period, an entity may use a comparative period of less than twelve months, provided that a complete set of financial statements (as required by paragraph 3.17) is provided for that shorter period.

(o) **revenue**. A first-time adopter may apply Section 23 *Revenue from Contracts with Customers* either retrospectively or prospectively in accordance with paragraph A22. References to the date of initial application, in paragraphs A22, A27 and A29, shall be read as the date of transition to this Standard. The first-time adopter need not provide the disclosure in paragraph A26.

35.11 If it is **impracticable** for an entity to make one or more of the adjustments required by paragraph 35.7 at the date of transition, the entity shall apply paragraphs 35.7–35.10 for such adjustments in the earliest period for which it is practicable to do so, and shall identify which amounts in the financial statements have not been restated. If it is impracticable for an entity to provide any of the disclosures required by this Standard, including those for comparative periods, the omission shall be disclosed.

Disclosures

Explanation of transition to the *IFRS for SMEs* Accounting Standard

35.12 An entity shall explain how the transition from its previous financial reporting framework to this Standard affected its reported **financial position**, financial **performance** and **cash flows**.

35.12A An entity that has applied the *IFRS for SMEs* Accounting Standard in a previous period, as described in paragraph 35.2, shall disclose:

(a) the reason it stopped applying the *IFRS for SMEs* Accounting Standard;

(b) the reason it is resuming the application of the *IFRS for SMEs* Accounting Standard; and

(c) whether it has applied this section or has applied the *IFRS for SMEs* Accounting Standard retrospectively in accordance with Section 10.

Reconciliations

35.13 To comply with paragraph 35.12, an entity's first financial statements prepared using this Standard shall include:

(a) a description of the nature of each change in accounting policy;

(b) reconciliations of its equity determined in accordance with its previous financial reporting framework to its equity determined in accordance with this Standard for both of the following dates:

(i) the date of transition to this Standard; and

(ii) the end of the latest period presented in the entity's most recent annual financial statements determined in accordance with its previous financial reporting framework.

(c) a reconciliation of the profit or loss determined in accordance with its previous financial reporting framework for the latest period in the entity's most recent annual financial statements to its profit or loss determined in accordance with this Standard for the same period.

35.14 If an entity becomes aware of **errors** made under its previous financial reporting framework, the reconciliations required by paragraph 35.13(b) and (c) shall, to the extent practicable, distinguish the correction of those errors from changes in accounting policies.

35.15 If an entity did not present financial statements for previous periods, it shall disclose that fact in its first financial statements that conform to this Standard.

Appendix A
Effective date and transition

This appendix is an integral part of the Standard.

Appendix A is revised. For ease of reading, revised text is not underlined.

Effective date

A1 The third edition of the *IFRS for SMEs* Accounting Standard, issued in [date] amended and revised sections of the *IFRS for SMEs* Accounting Standard. An entity shall apply the amended and revised sections for annual periods beginning on or after [date]. Earlier application is permitted. If an entity applies the third edition of the *IFRS for SMEs* Accounting Standard for an earlier period it shall disclose that fact. An entity shall apply amended and revised sections retrospectively in accordance with Section 10 *Accounting Policies, Estimates and Errors* except as stated in paragraphs A2–A39.

Transition

Materiality

A2 An entity shall apply the amended requirements in paragraphs 3.15A–3.16 prospectively from the date the entity first applies the third edition of this Standard (**date of initial application**).

Control model

A3 At the date of initial application an entity is not required to make adjustments for previous accounting periods for its involvement in:

(a) entities that would have been consolidated before the date of initial application of the amended requirements in Section 9 *Consolidated and Separate Financial Statements* and are still consolidated in accordance with the amended requirements in Section 9; and

(b) entities that would not have been consolidated before the date of initial application of the amended requirements in Section 9 and are not consolidated in accordance with the amended requirements in Section 9.

A4 If at the date of initial application applying the amended requirements in Section 9 results in consolidating an investee not previously consolidated, an entity shall:

(a) measure the **assets**, **liabilities** and **non-controlling interests** (including **goodwill**, if the investee is a **business**) as if the investees had been consolidated from the date **control** was obtained; and

(b) if the application of the requirements in paragraph A4(a) is **impracticable**, make adjustments from the earliest period doing such adjustments is practicable, which may be the year of initial application.

A5 If at the date of initial application applying the amended requirements in Section 9 results in no longer consolidating an investee previously consolidated, an entity shall:

(a) apply the applicable requirements of the *IFRS for SMEs* Accounting Standard retrospectively with the difference in **carrying amounts** adjusted in **equity**; and

(b) if the application of the requirements in paragraph A5(a) is impracticable, make such adjustments from the earliest period doing such adjustments is practicable, which may be the year of initial application.

A6 If an entity applies paragraph A5(a) and applies the cost model in accordance with paragraph 14.4 or 15.9 and it is impracticable to determine the cost at the date of purchase, an entity may determine the cost (deemed cost) as either:

(a) **fair value** at the date of initial application of the amended requirements in Section 9; or

(b) aggregate of the carrying amounts at the date of initial application of the amended requirements in Section 9 of the assets and liabilities, including goodwill, that the entity had previously consolidated.

A7 An entity shall disclose the quantitative impact for each financial statement line item affected for the annual period immediately preceding the date of initial application and not the current or earlier comparative periods as required by paragraph 10.13(b).

A8 An entity shall not restate the carrying amount of an investment in a former **subsidiary** if control was lost before it applied the requirements in paragraphs 9.18A–9.19. In addition, an entity shall not remeasure any gain or loss on the loss of control of a former subsidiary that occurred before the date of initial application.

Financial instruments

A9 An entity that previously applied the recognition and measurement requirements of IAS 39 *Financial Instruments: Recognition and Measurement* shall apply the recognition and measurement requirements of Section 11 *Financial Instruments* retrospectively unless to do so is impracticable in accordance with Section 10 and except as follows:

(a) if it is impracticable for an entity to apply retrospectively the **effective interest method**, the entity shall treat:

(i) the fair value of the **financial asset** or the **financial liability** at the end of each comparative period presented as the gross carrying amount of that financial asset or the amortised cost of that financial liability; and

(ii) the fair value of the financial asset or the financial liability at the date of initial application as the new gross carrying amount of that financial asset or the new amortised cost of that financial liability at the date of initial application of Section 11.

(b) an entity shall apply the hedge accounting requirements of Part II of Section 11 prospectively from the date of initial application. An entity shall not change its hedge accounting before the date of initial application for hedging relationships that applying the third edition of this Standard no longer exist at the date of initial application. For hedging relationships that exist at the date of initial application, the entity shall follow the hedge accounting requirements of Section 11, including the requirements for discontinuing hedge accounting for hedging relationships that do not meet the conditions of Section 11.

(c) financial assets and liabilities derecognised in accordance with IAS 39 before the date of initial application shall not be recognised. Conversely, for financial assets and liabilities that would have been derecognised in accordance with Section 11 in a transaction that took place before the date of initial application, but that were not derecognised in accordance with IAS 39, an entity may choose:

(i) to derecognise these financial assets and liabilities on the date of initial application; or

(ii) to continue to recognise these financial assets and liabilities until disposed of or settled.

Fair value measurement

A10 Section 12 *Fair Value Measurement* shall be applied prospectively as of the beginning of the annual period of initial application.

A11 The disclosure requirements in Section 12 need not be applied in comparative information provided for periods before the date of initial application.

Joint arrangements

A12 An entity applying amended requirements in Section 15 *Joint Arrangements* shall disclose the amount of the adjustment for each financial statement line item affected in accordance with paragraph 10.13(b) for the annual period immediately preceding the date of initial application and need not disclose this impact for earlier comparative periods.

Investment property

A13 An entity shall apply the amended requirements in paragraph 16.9 to changes in use that occur on or after the beginning of the annual **reporting period** in which the entity initially applies the third edition of this Standard. At the date of initial application, an entity shall reassess the classification of property held at that date and, if applicable, reclassify property applying paragraphs 16.2–16.4 to reflect the conditions that exist at that date.

A14 If, in accordance with paragraph 16.9, an entity reclassifies property at the date of initial application, the entity shall disclose the amounts reclassified to, or from, **investment property** as part of the reconciliation of the carrying amount of investment property at the beginning and end of the period as required by paragraph 16.10(e).

Depreciation of property, plant and equipment

A15 An entity shall apply the amended requirements in paragraphs 17.21–17.22 prospectively from the date of initial application.

Amortisation of intangible assets

A16 An entity shall apply the requirements in paragraph 18.22A prospectively from the date of initial application.

Business combinations and goodwill

A17 Section 19 *Business Combinations and Goodwill* shall be applied prospectively to **business combinations** for which the acquisition date is on or after the date of initial application and to asset acquisitions that occur on or after the beginning of that period.

A18 Assets and liabilities from business combinations whose acquisition dates preceded the date of initial application shall not be adjusted on the date of initial application.

A19 **Contingent consideration** balances arising from business combinations whose acquisition dates preceded the date of initial application shall not be adjusted on the date of initial application. Paragraphs A20–A21 shall be applied prospectively from the date of initial application. Paragraphs A20–A21 refer exclusively to business combinations whose acquisition date preceded the date of initial application.

A20 If a business combination agreement provides for an adjustment to the cost of the combination contingent on future events, the **acquirer** shall include the amount of that adjustment in the cost of the business combination at the acquisition date if the adjustment is probable and can be measured reliably.

A21 However, when a business combination agreement provides for such an adjustment, that adjustment is not included in the cost of the combination at the time of initially accounting for the combination if it either is not probable or cannot be measured reliably. If that adjustment subsequently becomes probable and can be measured reliably, the additional consideration shall be treated as an adjustment to the cost of the combination.

Revenue from contracts with customers

A22 An entity shall apply the revised Section 23 *Revenue from Contracts with Customers* either:

(a) retrospectively in accordance with Section 10, subject to paragraphs A23–A26; or

(b) prospectively on the date of initial application in accordance with paragraphs A27–A29.

A23 For the purpose of applying the revised Section 23 retrospectively, a completed **contract** is a contract for which the entity has transferred all of the goods or services identified in accordance with previous requirements for accounting for **revenue** from contracts with **customers**, which the revised Section 23 replaced.

A24 An entity may use one or more of the following exemptions when applying the revised Section 23 retrospectively:

(a) for completed contracts, an entity need not restate contracts that:

   (i) begin and end within the same annual reporting period; or

   (ii) are completed contracts at the beginning of the earliest period presented.

(b) for completed contracts that have variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimating variable consideration amounts for the comparative reporting periods.

(c) for contracts that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the contract for those contract modifications in accordance with paragraphs 23.14–23.15. Instead, an entity can reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented when:

   (i) identifying the satisfied and unsatisfied **promises**;

   (ii) determining the transaction price; and

   (iii) allocating the transaction price to the satisfied and unsatisfied promises.

(d) for prior periods presented, an entity need not disclose the information required by paragraph 23.126.

A25 For any of the exemptions in paragraph A24 that an entity uses, the entity shall apply that exemption consistently to all periods presented. If an entity applies any of the exemptions, it shall disclose that fact.

A26 If an entity applies the revised Section 23 retrospectively, it shall disclose the information required by paragraph 10.13(b) only for the most recent prior period presented (that is, the immediately preceding period).

A27 If an entity applies the revised Section 23 prospectively, it shall apply the revised Section 23 to contracts that begin after the date of initial application, and therefore not change its **accounting policy** for any contracts in progress at that date.

A28 An entity applying the revised Section 23 prospectively shall disclose:

(a) the nature of the change in accounting policy; and

(b) the amount of the adjustment to the **profit or loss** for the effect of applying the revised Section 23 for the current period.

A29 An entity applying the revised Section 23 prospectively need not disclose the information required by paragraph 23.126 for contracts in progress at the date of initial application. In the **financial statements** of periods in which contracts in progress at the date of initial application exist, an entity shall disclose:

(a) the accounting policy for the **recognition** of revenue for those contracts, including the methods adopted to determine the stage of completion of transactions involving the rendering of services; and

(b) the revenue recognised in the current period from those contracts.

Share-based payment

A30 An entity shall apply the amended requirements in Section 26 *Share-based Payment* prospectively from the date of initial application.

A31 An entity shall apply paragraph 26.14A to **share-based payment transactions** that are unvested at the date of initial application and to share-based payment transactions with a grant date on or after the date of initial application. For unvested share-based payment transactions granted prior to the date of initial application, an entity shall remeasure the liability at that date and recognise the effect of the remeasurement in opening retained earnings (or other component of equity, as appropriate) of the reporting period in which the amendments are initially applied.

A32 An entity shall apply paragraph 26.14B only to modifications that occur on or after the date of initial application.

A33 An entity shall apply paragraphs 26.15A–26.15C to share-based payment transactions that are unvested (or vested but unexercised), at the date of initial application and to share-based payment transactions with a grant date on or after the date that an entity first applies the amendments. For unvested (or vested but unexercised) share-based payment transactions (or components thereof) that were previously classified as cash-settled share-based payments but now are classified as equity-settled in accordance with the amendments, an entity shall reclassify the carrying value of the share-based payment liability to equity at the date of initial application.

Income tax

A34 An entity shall apply the amended requirements in paragraphs 29.16A and 29.19–29.19A prospectively.

A35 An entity shall apply paragraphs 29.34A–29.34D either:

(a) retrospectively unless to do so is either impracticable or not possible without the use of hindsight; or otherwise

(b) retrospectively with the cumulative effect of initially applying paragraphs 29.34A–29.34D recognised at the date of initial application. If an entity selects this transition approach, it shall not restate comparative information. Instead, the entity shall recognise the cumulative effect of initially applying paragraphs 29.34A–29.34D as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate).

Foreign currency translation

A36 An entity shall apply paragraph 30.8A either:

(a) retrospectively applying Section 10 *Accounting Policies, Estimates and Errors*; or

(b) prospectively to all assets, **expenses** and **income** in the scope of paragraph 30.8A initially recognised on or after:

(i) the beginning of the reporting period in which the entity initially applies the amendment; or

(ii) the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity initially applies the amendment.

A37 An entity that applies paragraph A36 shall, on initial application, apply paragraph 30.8A to assets, expenses and income initially recognised on or after the beginning of the reporting period in paragraph A36(b)(i) or A36(b)(ii) for which the entity has recognised non-monetary assets or non-monetary liabilities arising from advance consideration before that date.

Bearer plants

A38 An entity shall apply the amended requirements in paragraphs 17.3 and 34.2–34.2B retrospectively except as specified in paragraph A39. In the reporting period in which these amended requirements are initially applied an entity need not disclose the amount of the adjustment for each financial statement line item affected in accordance with paragraph 10.13(b) for the current period.

A39 An entity may elect to measure an item of **bearer plants** at its fair value at the beginning of the earliest period presented in the financial statements for the reporting period in which the entity initially applies the amendments to paragraphs 17.3 and 34.2–34.2B and use that fair value as its deemed cost at that date. Any difference between the previous carrying amount and fair value shall be recognised in opening retained earnings at the beginning of the earliest period presented.

Appendix B
Glossary of terms

This Appendix is an integral part of the Standard.

The Glossary of terms is amended. New text is underlined and deleted text is struck through.

accounting estimates	Monetary amounts in financial statements that are subject to measurement uncertainty.
accounting policies	The specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.
accounting profit	Profit or loss for a period before deducting tax expense.
~~accrual basis of accounting~~	~~The effects of transactions and other events are recognised when they occur (and not as cash or its equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate.~~
accumulating compensated absences	Compensated absences that are carried forward and can be used in future periods if the current period's entitlement is not used in full.
active market	A market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
acquiree	The business or businesses that the acquirer obtains control of in a business combination.
acquirer	The entity that obtains control of the acquiree.
aggregation	The adding together of assets, liabilities, equity, income or expenses that have shared characteristics and are included in the same classification.
agricultural activity	The management by an entity of the biological transformation of biological assets for sale, into agricultural produce or into additional biological assets.
agricultural produce	The harvested product of the entity's biological assets.
amortisation	The systematic allocation of the depreciable amount of an asset over its useful life.
amortised cost of a financial asset or financial liability	The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability.

asset — A present economic resource controlled by the entity as a result of past events. ~~and from which future economic benefits are expected to flow to the entity.~~

associate — 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 arrangement ~~venture~~.

bearer plant — A bearer plant is a living plant that:

(a) is used in the production or supply of agricultural produce;

(b) is expected to bear produce for more than one period; and

(c) has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.

biological asset — A living animal or plant.

borrowing costs — Interest and other costs incurred by an entity in connection with the borrowing of funds.

business — An integrated set of activities and assets that is capable of being conducted and managed for the purpose of ~~providing~~:

(a) providing goods or services to customers; ~~a return to investors; or~~

(b) generating investment income (such as dividends or interest); or ~~lower costs or other economic benefits directly and proportionately to policyholders or participants.~~

(c) generating other income from ordinary activities.

~~A business generally consists of inputs, processes applied to those inputs, and resulting outputs that are, or will be, used to generate revenues. If goodwill is present in a transferred set of activities and assets, the transferred set shall be presumed to be a business.~~

business combination — A transaction or other event in which an acquirer obtains control of one or more ~~The bringing together of separate entities or~~ businesses ~~into one reporting entity~~.

carrying amount — The amount at which an asset, a ~~or~~ liability or equity is recognised in the statement of financial position.

cash — Cash on hand and demand deposits.

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

cash flows — Inflows and outflows of cash and cash equivalents.

cash-generating unit	The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.
cash-settled share-based payment transaction	A share-based payment transaction in which the entity acquires goods or services by incurring a liability to transfer cash or other assets to the supplier of those goods or services for amounts that are based on the price (or value) of equity instruments (including shares or share options) of the entity or another group entity.
~~**change in accounting estimate**~~	~~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.~~
class of assets	A grouping of assets of a similar nature and use in an entity's operations.
classification	The sorting of assets, liabilities, equity, income or expenses on the basis of shared characteristics for presentation and disclosure purposes.
close members of the family of a person	Those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity, including: (a) that person's children and spouse or domestic partner; (b) children of that person's spouse or domestic partner; and (c) dependants of that person or that person's spouse or domestic partner.
closing rate	The spot exchange rate at the end of the reporting period.
combined financial statements	Financial statements of a reporting entity that comprises two or more entities that are not all linked by a parent–subsidiary relationship.
component of an entity	Operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity.
compound financial instrument	A financial instrument that, from the issuer's perspective, contains both a liability and an equity element.
consolidated financial statements	The financial statements of a parent and its subsidiaries presented as those of a single economic entity.

~~**construction contract**~~	~~A contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.~~
constructive obligation	An obligation that derives from an entity's actions where: (a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and (b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.
contingent asset	A possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.
contingent consideration	Usually, an obligation of the acquirer to transfer additional assets or equity interests to the former owners of an acquiree as part of the exchange for control of the acquiree if specified future events occur or conditions are met. However, contingent consideration also may give the acquirer the right to the return of previously transferred consideration if specified conditions are met.
contingent liability	(a) A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or (b) a present obligation that arises from past events but is not recognised because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or (ii) the amount of the obligation cannot be measured with sufficient reliability.
contract	An agreement between two or more parties that creates enforceable rights and obligations.
contract asset	An entity's right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time (for example, the entity's future performance).

contract liability	An entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or the amount is due) from the customer.
control (of an entity)	An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. ~~The power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.~~
credit loss	The difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (that is, all cash shortfalls), discounted at the original effective interest rate.
current tax	The amount of income tax payable (recoverable) in respect of the taxable profit (tax loss) for the current period or past periods.
customer	A party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.
date of initial application	The date an entity first applies the third edition of the Standard.
date of transition to the *IFRS for SMEs* Accounting Standard	The beginning of the earliest period for which an entity presents full comparative information under the *IFRS for SMEs* Accounting Standard in its first financial statements that comply with the *IFRS for SMEs* Accounting Standard.
deductible temporary differences	Temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.
deferred tax	Income tax payable (recoverable) in respect of the taxable profit (tax loss) for future periods as a result of past transactions or events.
deferred tax assets	The amounts of income tax recoverable in future periods in respect of: (a) deductible temporary differences; (b) the carryforward of unused tax losses; and (c) the carryforward of unused tax credits.
deferred tax liabilities	The amounts of income tax payable in future periods in respect of taxable temporary differences.
defined benefit liability	The ~~present value of the~~ defined benefit obligation at the reporting date minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

defined benefit obligation ~~(present value of)~~

The present value~~, without deducting any plan assets,~~ of an entity's obligations under defined benefit plans ~~expected future payments required to settle the obligation resulting from employee service in the current and prior periods~~.

defined benefit plans

Post-employment benefit plans other than defined contribution plans.

defined contribution plans

Post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions or to make direct benefit payments to employees if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

depreciable amount

The cost of an asset, or other amount substituted for cost (in the financial statements), less its residual value.

depreciation

The systematic allocation of the depreciable amount of an asset over its useful life.

derecognition

The removal of all or part of a ~~previously~~ recognised asset or liability from an entity's statement of financial position.

development

The application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.

discontinued operation

A component of an entity that either has been disposed of, or is held for sale, and:

(a) represents a separate major line of business or geographical area of operations;

(b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or

(c) is a subsidiary acquired exclusively with a view to resale.

dividends

Distributions of profits to holders of equity instruments in proportion to their holdings of a particular class of capital.

economic resource

A right that has the potential to produce economic benefits.

effective interest method

A method of calculating the amortised cost of a financial asset or a financial liability (or a group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

effective interest rate

The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

effectiveness of a hedge	The degree to which changes in the fair value or cash flows of the hedged item that are attributable to a hedged risk are offset by changes in the fair value or cash flows of the hedging instrument.
employee benefits	All forms of consideration given by an entity in exchange for service rendered by employees.
enhancing qualitative characteristic	A qualitative characteristic that makes useful information more useful. The enhancing qualitative characteristics are comparability, verifiability, timeliness and understandability.
equity	The residual interest in the assets of the entity after deducting all its liabilities.
equity claim	A claim on the residual interest in the assets of an entity after deducting all its liabilities.
equity-settled share-based payment transaction	A share-based payment transaction in which the entity: (a) receives goods or services as consideration for its own equity instruments (including shares or share options); or (b) receives goods or services but has no obligation to settle the transaction with the supplier.
errors	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.
executory contract	A contract, or a portion of a contract, that is equally unperformed—neither party has fulfilled any of its obligations, or both parties have partially fulfilled their obligations to an equal extent.
existence uncertainty	Uncertainty about whether an asset or liability exists.
expenses	Decreases in assets ~~economic benefits during the reporting period in the form of outflows or depletions of assets~~ or increases in ~~incurrences of~~ liabilities that result in decreases in equity, other than those relating to distributions to holders of equity claims ~~owners~~.
fair presentation	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.

fair value The price that would be received to sell ~~amount for which~~ an asset ~~could be exchanged~~, or paid to transfer a liability ~~settled or an equity instrument granted could be exchanged~~, in an orderly transaction between market participants at the measurement date ~~knowledgeable, willing parties in an arm's length transaction~~.

~~**fair value less costs to sell**~~ ~~The amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.~~

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

financial asset Any asset that is:

(a) cash;

(b) an equity instrument of another entity;

(c) a contractual right:

   (i) to receive cash or another financial asset from another entity; or

   (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or

(d) a contract that will or may be settled in the entity's own equity instruments and:

   (i) under which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or

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

financial guarantee contract A contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

financial instrument A contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

financial liability Any liability that is:

(a) a contractual obligation:

  (i) to deliver cash or another financial asset to another entity; or

  (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or

(b) a contract that will or may be settled in the entity's own equity instruments and:

  (i) under which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments, or

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

financial position The relationship of the assets, liabilities and equity of an entity as reported in the statement of financial position.

financial statements Structured representation of the financial position, financial performance and cash flows of an entity.

financing activities Activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

firm commitment A binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.

first-time adopter of the *IFRS for SMEs* Accounting Standard An entity that presents its first annual financial statements that conform to the *IFRS for SMEs* Accounting Standard, regardless of whether its previous accounting framework was full IFRS Accounting Standards or another set of accounting standards.

forecast transaction An uncommitted but anticipated future transaction.

foreign operation An entity that is a subsidiary, associate, joint arrangement ~~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.

fundamental qualitative characteristic A qualitative characteristic that financial information must possess to be useful to the primary users of general purpose financial reports. The fundamental qualitative characteristics are relevance and faithful representation.

~~**full IFRS**~~	~~International Financial Reporting Standards (IFRS) other than the *IFRS for SMEs*.~~
full IFRS Accounting Standards	Standards and Interpretations issued by the International Accounting Standards Board (IASB). They comprise: (a) International Financial Reporting Standards; (b) International Accounting Standards; (c) IFRIC Interpretations; and (d) SIC Interpretations.
functional currency	The currency of the primary economic environment in which the entity operates.
functional currency normalisation date	The date when an entity's functional currency no longer has either, or both, of the two characteristics of severe hyperinflation, or when there is a change in the entity's functional currency to a currency that is not subject to severe hyperinflation.
funding (of post-employment benefits)	Contributions by an entity, and sometimes its employees, into an entity, or fund, that is legally separate from the reporting entity and from which the employee benefits are paid.
~~**gains**~~	~~Increases in economic benefits that meet the definition of income but are not revenue.~~
general purpose financial report	A report that provides financial information about the reporting entity's economic resources, claims against the entity and changes in those economic resources and claims that is useful to primary users in making decisions relating to providing resources to the entity.
general purpose financial statements	A particular form of general purpose financial reports that provide information about the reporting entity's assets, liabilities, equity, income and expenses. ~~Financial statements directed to the general financial information needs of a wide range of users who are not in a position to demand reports tailored to meet their particular information needs.~~
going concern	An entity is a going concern unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.
goodwill	An asset representing the future ~~Future~~ economic benefits arising from other assets acquired in a business combination that are not ~~capable of being~~ individually identified and separately recognised.
government	Government, government agencies and similar bodies whether local, national or international.

government grants	Assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity.
grant date	The date at which the entity and another party (including an employee) agree to a share-based payment arrangement, being when the entity and the counterparty have a shared understanding of the terms and conditions of the arrangement. At the grant date, the entity confers on the counterparty the right to cash, other assets or equity instruments of the entity, provided the specified vesting conditions, if any, are met. If that agreement is subject to an approval process (for example, by shareholders), the grant date is the date when that approval is obtained.
gross investment in a lease	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.
group	A parent and all its subsidiaries.
hedged item	For the purpose of special hedge accounting by SMEs under Part II of Section 11 ~~12 of this Standard~~, a hedged item is: (a) interest rate risk of a debt instrument measured at amortised cost; (b) foreign exchange or interest rate risk in a firm commitment or a highly probable forecast transaction; (c) price risk of a commodity that it holds or in a firm commitment or highly probable forecast transaction to purchase or sell a commodity; or (d) foreign exchange risk in a net investment in a foreign operation.
hedging instrument	For the purpose of special hedge accounting by SMEs under Part II of Section 11 ~~12 of this Standard~~, a hedging instrument is a financial instrument that meets all of the following terms and conditions: (a) it is an interest rate swap, a foreign currency swap, a foreign currency forward exchange contract or a commodity forward exchange contract that is expected to be highly effective in offsetting a risk identified in paragraph 11.65~~12.17~~ that is designated as the hedged risk;

(b) it involves a party external to the reporting entity (ie external to the group, segment or individual entity being reported on);

(c) its notional amount is equal to the designated amount of the principal or notional amount of the hedged item;

(d) it has a specified maturity date not later than:

   (i) the maturity of the financial instrument being hedged;

   (ii) the expected settlement of the commodity purchase or sale commitment; or

   (iii) the occurrence of the highly probable forecast foreign currency or commodity transaction being hedged.

(e) it has no prepayment, early termination or extension features.

~~An entity that chooses to apply IAS 39 in accounting for financial instruments shall apply the definition of hedging instrument in that standard instead of this definition.~~

highly probable Significantly more likely than probable.

impairment (loss) The amount by which the carrying amount of an asset exceeds:

(a) in the case of inventories, its selling price less costs to complete and sell; or

(b) in the case of other non-financial assets, its recoverable amount.

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

~~imputed rate of interest~~ ~~The more clearly determinable of either:~~

~~(a)~~ ~~the prevailing rate for a similar instrument of an issuer with a similar credit rating; or~~

~~(b)~~ ~~a rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.~~

income Increases in assets, ~~economic benefits during the reporting period in the form of inflows or enhancements of assets~~ or decreases in ~~of~~ liabilities, that result in increases in equity, other than those relating to contributions from holders of equity claims ~~owners~~.

income statement A financial statement that presents all items of income and expense recognised in a reporting period, excluding the items of other comprehensive income.

income tax	All domestic and foreign taxes that are based on taxable profits. Income tax also includes taxes, such as withholding taxes, that are payable by a subsidiary, associate or joint arrangement ~~venture~~ on distributions to the reporting entity.
insurance contract	A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.
intangible asset	An identifiable non-monetary asset without physical substance. Such an asset is identifiable when it: (a) is separable, ie is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or (b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.
interest rate implicit in the lease	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.
interim financial report	A financial report containing either a complete set of financial statements or a set of condensed financial statements for an interim period.
interim period	A financial reporting period shorter than a full financial year.
~~**International Financial Reporting Standards (IFRS)**~~	~~Standards adopted by the International Accounting Standards Board (IASB). They comprise:~~ ~~(a) International Financial Reporting Standards;~~ ~~(b) International Accounting Standards; and~~ ~~(c) Interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).~~
intrinsic value	The difference between the fair value of the shares to which the counterparty has the (conditional or unconditional) right to subscribe or which it has the right to receive, and the price (if any) the counterparty is (or will be) required to pay for those shares. For example, a share option with an exercise price of CU15, on a share with a fair value of CU20, has an intrinsic value of CU5.
inventories	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.

investing activities The acquisition and disposal of long-term assets and other investments not included in cash equivalents.

investment property 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, instead of 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.

joint control The contractually agreed sharing of control of an arrangement ~~over an economic activity~~. It exists only when ~~the strategic financial and operating~~ decisions about the relevant activities ~~relating to the activity~~ require the unanimous consent of the parties sharing control ~~(the venturers)~~.

joint arrangement ~~venture~~ An ~~A contractual~~ arrangement of which ~~whereby~~ two or more parties have ~~undertake an economic activity that is subject to~~ joint control. Joint arrangements ~~ventures~~ can take the form of jointly controlled operations, jointly controlled assets, or jointly controlled entities.

jointly controlled entity A joint arrangement ~~venture~~ that involves the establishment of a corporation, partnership or other entity in which each party ~~venturer~~ has an interest. The entity operates in the same way as other entities, except that an ~~a contractual~~ arrangement between the parties ~~venturers~~ establishes joint control ~~over the economic activity of the entity~~.

lease 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.

lessee's incremental borrowing rate of interest 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.

liability A present obligation of the entity to transfer an economic resource as a result of ~~arising from~~ past events~~, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits~~.

loans payable Financial liabilities other than short-term trade payables on normal credit terms.

market participants Buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics:

(a) they are independent of each other, that is, they are not related parties as defined in Section 33;

(b) they are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information;

(c) they are able to enter into a transaction for the asset or liability; and

(d) they are willing to enter into a transaction for the asset or liability, that is, they are motivated but not forced or otherwise compelled to do so.

market vesting condition A performance condition upon which the exercise price, vesting or exercisability of an equity instrument depends that is related to the market price of the entity's equity instruments (or the equity instruments of another entity in the same group), such as:

(a) attaining a specified share price or a specified amount of intrinsic value of a share option; ~~,~~ or

(b) achieving a specified target that is based on the market price (or value) of the entity's equity instruments (or the equity instruments of another entity in the same group) relative to an index of market prices of equity instruments of other entities.

A market condition requires the counterparty to complete a specified period of service (that is, a service condition); the service requirement can be explicit or implicit.

material Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. ~~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.~~

measure The result of applying a measurement basis to an asset or liability and related income and expenses.

~~**measurement**~~ ~~The process of determining the monetary amounts at which the elements of the financial statements are to be recognised and carried in the statement of financial position and statement of comprehensive income.~~

<u>**measurement basis**</u> <u>An identified feature—for example, historical cost, fair value or fulfilment value—of an item being measured.</u>

<u>**measurement uncertainty**</u> <u>Uncertainty that arises when monetary amounts in financial reports cannot be observed directly and must instead be estimated.</u>

minimum lease payments 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.

monetary items Units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.

<u>**most advantageous market**</u> <u>The market that maximises the amount that would be received to sell the asset or minimises the amount that would be paid to transfer the liability, after taking into account transaction costs and transport costs.</u>

multi-employer (benefit) plans Defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that:

(a) pool the assets contributed by various entities that are not under common control; and

	(b) use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.
net investment in a lease	The gross investment in a lease discounted at the interest rate implicit in the lease.
non-controlling interest	The equity in a subsidiary not attributable, directly or indirectly, to a parent.
notes (to financial statements)	Notes contain information in addition to that presented in the statement of financial position, statement of comprehensive income, income statement (if presented), combined statement of income and retained earnings (if presented), statement of changes in equity and statement of cash flows. Notes provide narrative descriptions or disaggregations of items presented in those statements and information about items that do not qualify for recognition in those statements.
notional amount	The quantity of currency units, shares, bushels, pounds or other units specified in a financial instrument contract.
objective of financial statements	To provide financial information about ~~the financial position, performance and cash flows of~~ an entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity. ~~for economic decision-making by a broad range of users who are not in a position to demand reports tailored to meet their particular information needs.~~
observable inputs	Inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability.
offsetting	Grouping an asset and liability that are recognised and measured as separate units of account into a single net amount in the statement of financial position.
onerous contract	A contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.
operating activities	The principal revenue-producing activities of the entity and other activities that are not investing or financing activities.
operating lease	A lease that does not transfer substantially all the risks and rewards incidental to ownership. A lease that is not an operating lease is a finance lease.

orderly transaction	A transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (for example, a forced liquidation or distress sale).
ordinary share	An equity instrument that is subordinate to all other classes of equity instruments.
other comprehensive income	Items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by this Standard.
outcome uncertainty	Uncertainty about the amount or timing of any inflow or outflow of economic benefits that will result from an asset or liability.
owners	Holders of instruments classified as equity.
parent	An entity that has one or more subsidiaries.
performance	The relationship of the income and expenses of an entity, as reported in the statement of comprehensive income.
performance condition	A vesting condition that requires: (a) the counterparty to complete a specified period of service (that is, a service condition); the service requirement can be explicit or implicit; and (b) specified performance target(s) to be met while the counterparty is rendering the service required in (a). The period of achieving the performance target(s): (a) shall not extend beyond the end of the service period; and (b) may start before the service period on the condition that the commencement date of the performance target is not substantially before the commencement of the service period. A performance target is defined by reference to: (a) the entity's own operations (or activities) or the operations or activities of another entity in the same group (that is, a non-market condition); or (b) the price (or value) of the entity's equity instruments or the equity instruments of another entity in the same group (including shares and share options) (that is, a market condition). A performance target might relate either to the performance of the entity as a whole or to some part of the entity (or part of the group), such as a division or an individual employee.

plan assets (of an employee benefit plan)	Assets held by a long-term employee benefit fund and qualifying insurance policies.
post-employment benefits	Employee benefits (other than termination benefits) that are payable after the completion of employment.
post-employment benefit plans	Formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.
potential to produce economic benefits	Within an economic resource, a feature that already exists and that, in at least one circumstance, would produce for the entity economic benefits beyond those available to all other parties.
present value	A current estimate of the present discounted value of the future net cash flows in the normal course of business.
presentation currency	The currency in which the financial statements are presented.
primary users	Existing and potential investors, lenders and other creditors.
principal market	The market with the greatest volume and level of activity for the asset or liability.
probable	More likely than not.
profit or loss	The total of income less expenses, excluding the components of other comprehensive income.
projected unit credit method	An actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method).
promise (in a contract with a customer)	An obligation to transfer a good or service (or bundle of goods or services) that is distinct.
property, plant and equipment	Tangible assets 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.
~~**prospective application (of a change in accounting policy)**~~	~~Applying the new accounting policy to transactions, other events and conditions occurring after the date as at which the policy is changed.~~
provision	A liability of uncertain timing or amount.
prudence	The exercise of caution when making judgements under conditions of uncertainty. The exercise of prudence means that assets and income are not overstated and liabilities and expenses are not understated. Equally, the exercise of prudence does not allow for the understatement of assets or income or the overstatement of liabilities or expenses. ~~The inclusion of a degree of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty,~~

	~~such that assets or income are not overstated and liabilities or expenses are not understated.~~
public accountability	An entity has public accountability if: (a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (for example, banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks often meet this second criterion).
publicly traded (debt or equity instruments)	Traded, or in process of being issued for trading, in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets).
recognition	The process of capturing for inclusion ~~incorporating~~ in the statement of financial position or the statement(s) ~~statement~~ of financial performance ~~comprehensive income~~ an item that meets the definition of one of the elements of financial statements—an asset, a liability, equity, income or expenses. Recognition involves depicting the item in one of those statements—either alone or in aggregation with other items—in words and by a monetary amount, and including that amount in one or more totals in that statement.~~expense and that satisfies the following criteria:~~ ~~(a) it is probable that any future economic benefit associated with the item will flow to or from the entity; and~~ ~~(b) the item has a cost or value that can be measured with reliability.~~
recoverable amount	The higher of an asset's (or cash-generating unit's) fair value less costs to sell and its value in use.
related party	A related party is a person or entity that is related to the entity that is preparing its financial statements (the reporting entity): (a) a person or a close member of that person's family is related to a reporting entity if that person: (i) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity;

(ii) has control or joint control over the reporting entity; or

(iii) has significant influence over the reporting entity.

(b) an entity is related to a reporting entity if any of the following conditions applies:

(i) the entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) one entity is an associate or jointly controlled entity ~~joint venture~~ of the other entity (or an associate or jointly controlled entity ~~joint venture~~ of a member of a group of which the other entity is a member).

(iii) both entities are jointly controlled entities ~~joint ventures~~ of the same third entity.

(iv) one entity is a jointly controlled entity ~~joint venture~~ of a third entity and the other entity is an associate of the third entity.

(v) the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

(vi) the entity is controlled or jointly controlled by a person identified in (a).

(vii) the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

(viii) a person identified in (a)(ii) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

relevance	Relevant financial information is capable of making a difference in the decisions made by users. ~~The quality of information that allows it to influence the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations.~~
relevant activities (of an investee)	The activities that significantly affect the investee's returns.
reliability	The quality of information that makes it free from material error and bias and represent faithfully that which it either purports to represent or could reasonably be expected to represent.
reporting entity	An entity that is required, or chooses, to prepare general purpose financial statements.
reporting date	The end of the latest period covered by financial statements or by an interim financial report.
reporting period	The period covered by financial statements or by an interim financial report.
research	Original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.
residual value (of an asset)	The estimated amount that an entity would currently obtain from disposal of an 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.
retrospective application (of a change in accounting policy)	Applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.
revenue	Income arising in the course of an entity's ordinary activities. ~~The gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants.~~
separate financial statements	Those presented by an entity, in which the entity could elect, in accordance with paragraphs 9.25–9.26, to account for its investments in subsidiaries, jointly-controlled entities and associates either at cost less impairment, at fair value with changes in fair value recognised in profit or loss or using the equity method following the procedures in paragraph 14.8.
service concession arrangement	An arrangement whereby a government or other public sector body contracts with a private operator to develop (or upgrade), operate and maintain the grantor's infrastructure assets such as roads, bridges, tunnels, airports, energy distribution networks, prisons or hospitals.

service condition — A vesting condition that requires the counterparty to complete a specified period of service during which services are provided to the entity. If the counterparty, regardless of the reason, ceases to provide service during the vesting period, it has failed to satisfy the condition. A service condition does not require a performance target to be met.

severe hyperinflation — The currency of a hyperinflationary economy is subject to severe hyperinflation if it has both of the following characteristics:

(a) a reliable general price index is not available to all entities with transactions and balances in the currency; and

(b) exchangeability between the currency and a relatively stable foreign currency does not exist.

share-based payment arrangement — An agreement between the entity (or another group entity or any shareholder of any group entity) and another party (including an employee) that entitles the other party to receive:

(a) cash or other assets of the entity for amounts that are based on the price (or value) of equity instruments (including shares or share options) of the entity or another group entity; or

(b) equity instruments (including shares or share options) of the entity or another group entity

provided the specified vesting conditions, if any, are met.

share-based payment transaction — A transaction in which the entity:

(a) receives goods or services from the supplier of those goods or services (including an employee) in a share-based payment arrangement; or

(b) incurs an obligation to settle the transaction with the supplier in a share-based payment arrangement when another group entity receives those goods or services.

small and medium-sized entities — Entities that:

(a) do not have public accountability; and

(b) publish general purpose financial statements for external users.

An entity has public accountability if:

(a) it files, or it is 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; or

	(b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.
~~**state**~~	~~A national, regional or local government.~~
state (employee benefit) plan	Employee benefit plans established by legislation to cover all entities (or all entities in a particular category, for example a specific industry) and operated by national or local government or by another body (for example an autonomous agency created specifically for this purpose) which is not subject to control or influence by the reporting entity.
statement of cash flows	A financial statement that provides information about the changes in cash and cash equivalents of an entity for a period, showing separately changes during the period from operating, investing and financing activities.
statement of changes in equity	A financial statement that presents the profit or loss for a period, items of income and expense recognised directly in equity for the period, the effects of changes in accounting policy and corrections of errors recognised in the period and (depending on the format of the statement of changes in equity chosen by the entity) the amounts of transactions with owners acting in their capacity as owners during the period.
statement of comprehensive income	A financial statement that presents all items of income and expense recognised in a period, including those items recognised in determining profit or loss (which is a subtotal in the statement of comprehensive income) and items of other comprehensive income. If an entity chooses to present both an income statement and a statement of comprehensive income, the statement of comprehensive income begins with profit or loss and then displays the items of other comprehensive income.
statement of financial position	A financial statement that presents the relationship of an entity's assets, liabilities and equity as of a specific date (also called the balance sheet).
statement of income and retained earnings	A financial statement that presents the profit or loss and changes in retained earnings for a period.
subsidiary	An entity~~, including an unincorporated entity such as a partnership,~~ that is controlled by another entity~~ (known as the parent)~~.
tax base	The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.
tax expense	The aggregate amount included in total comprehensive income or equity for the reporting period in respect of current tax and deferred tax.

taxable profit (tax loss) The profit (loss) for a reporting period upon which income taxes are payable or recoverable, determined in accordance with the rules established by the taxation authorities. Taxable profit equals taxable income less amounts deductible from taxable income.

taxable temporary differences Temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.

temporary differences Differences between the carrying amount of an asset or liability in the statement of financial position and its tax base.

termination benefits Employee benefits payable at the earlier of the following dates ~~as a result of either~~:

(a) when an entity can no longer withdraw the offer of those benefits ~~an entity 's decision to terminate an employee's employment before the normal retirement date~~; and~~or~~

(b) when the entity recognises costs for a restructuring that is within the scope of Section 21 and involves the payment of termination benefits. ~~an employee's decision to accept voluntary redundancy in exchange for those benefits.~~

timing differences Income or expenses that are recognised in profit or loss in one period but, under tax laws or regulations, are included in taxable income in a different period.

timeliness Having information available to decision-makers in time to be capable of influencing their decisions. ~~Providing the information in financial statements within the decision time frame.~~

total comprehensive income The change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners (equal to the sum of profit or loss and other comprehensive income).

transaction costs ~~(financial instruments)~~ The costs to sell an asset or transfer a liability in the principal (or most advantageous) market for the asset or liability that are directly attributable to the disposal of the asset or the transfer of the liability and meet both of the following criteria:

(a) they result directly from and are essential to that transaction; and

(b) they would not have been incurred by the entity had the decision to sell the asset or transfer the liability not been made.

	~~Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.~~
transport costs	The costs that would be incurred to transport an asset from its current location to its principal (or most advantageous) market.
treasury shares	An entity's own equity instruments, held by the entity or other members of the consolidated group.
understandability	Classifying, characterising and presenting information clearly and concisely makes it understandable. ~~The quality of information in a way that makes it comprehensible by users who have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence.~~
unit of account	The right or the group of rights, the obligation or the group of obligations, or the group of rights and obligations, to which recognition criteria and measurement concepts are applied.
unobservable inputs	Inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability.
useful life	The period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity.
value in use	The present value of the future cash flows expected to be derived from an asset or cash-generating unit.
~~**venturer**~~	~~A party to a joint venture that has joint control over that joint venture.~~
vest	Become an entitlement. Under a share-based payment arrangement, a counterparty's right to receive cash, other assets or equity instruments of the entity vests when the counterparty's entitlement is no longer conditional on the satisfaction of any vesting conditions.
vested benefits	Benefits, the rights to which, under the conditions of a retirement benefit plan, are not conditional on continued employment.
vesting conditions	A condition that determines ~~The conditions that determine~~ whether the entity receives the services that entitle the counterparty to receive cash, other assets or equity instruments of the entity, under a share-based payment arrangement. A vesting condition is ~~Vesting conditions are~~ either a service condition ~~conditions~~ or a performance condition ~~conditions~~. ~~Service conditions require the counterparty to complete a~~

~~specified period of service. Performance conditions require the counterparty to complete a specified period of service and specified performance targets to be met (such as a specified increase in the entity's profit over a specified period of time). A performance condition might include a market vesting condition.~~

vesting period	The period during which all the specified vesting conditions of a share-based payment arrangement are to be satisfied.

Derivation table

The *IFRS for SMEs* Accounting Standard was developed by:

(a) extracting the fundamental concepts from the IASB *Framework for the Preparation and Presentation of Financial Statements* (IASB *Framework*) and the principles and related mandatory guidance from full IFRS Accounting Standards. In 2018 the IASB issued the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*), replacing the IASB *Framework*. In developing the *Conceptual Framework* the IASB tested for inconsistencies between the revised concepts and the Standards at that time. The analysis demonstrated that the requirements in those Standards were often consistent with potential outcomes of applying the proposed definitions and supporting guidance. In [date] the IASB issued the third edition of the *IFRS for SMEs* Accounting Standard, including a revised Section 2 aligned with the *Conceptual Framework*. The IASB undertook the same test for inconsistencies between the revised concepts and those in the *IFRS for SMEs* Accounting Standard with the same outcomes; that is, the requirements in the *IFRS for SMEs* Accounting Standard were often consistent with potential outcomes of applying the proposed definitions and supporting guidance. In circumstances in which there are inconsistencies, paragraph 2.2 requires that individual sections take precedence.~~;~~ ~~and~~

(b) considering the modifications that are appropriate on the basis of users' needs and cost-benefit considerations.

The following table identifies the primary sources in full IFRS Accounting Standards from which the principles in each section of the *IFRS for SMEs* Accounting Standard were derived.

	Section in the *IFRS for SMEs* Accounting Standard	**Sources**
	Preface	*Preface to IFRS Standards*~~*International Financial Reporting Standards*~~
1	*Small and Medium-sized Entities*	—
2	*Concepts and Pervasive Principles*	*Conceptual* ~~IASB~~ *Framework for Financial Reporting* ~~, IAS 1 *Presentation of Financial Statements*~~
3	*Financial Statement Presentation*	IAS 1 *Presentation of Financial Statements*
4	*Statement of Financial Position*	IAS 1
5	*Statement of Comprehensive Income and Income Statement*	IAS 1
6	*Statement of Changes in Equity and Statement of Comprehensive Income and Retained Earnings*	IAS 1
7	*Statement of Cash Flows*	IAS 7 *Statement of Cash Flows*

continued...

...continued

8	*Notes to the Financial Statements*	IAS 1
9	*Consolidated and Separate Financial Statements*	IAS 27 *~~Consolidated and~~ Separate Financial Statements* ~~as amended~~ , IFRS 10 *Consolidated Financial Statements*
10	*Accounting Policies, Estimates and Errors*	IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
11 ~~and 12~~	*~~Basic~~ Financial Instruments* ~~and~~ *~~Other Financial Instrument Issues~~*	IAS 32 *Financial Instruments: Presentation*, ~~IAS 39 *Financial Instruments: Recognition and Measurement*,~~ IFRS 7 *Financial Instruments: Disclosures*, IFRS 9 *Financial Instruments*
12	*Fair Value Measurement*	IFRS 13 *Fair Value Measurement*
13	*Inventories*	IAS 2 *Inventories*
14	*Investments in Associates*	IAS 28 *Investments in Associates and Joint Ventures*
15	*~~Investments in~~ Joint Arrangements~~Ventures~~*	IFRS 11 *Joint Arrangements* ~~IAS 31 *Interests in Joint Ventures*~~
16	*Investment Property*	IAS 40 *Investment Property*
17	*Property*, *Plant and Equipment*	IAS 16 *Property*, *Plant and Equipment*
18	*Intangible Assets other than Goodwill*	IAS 38 *Intangible Assets*
19	*Business Combinations and Goodwill*	IFRS 3 *Business Combinations*
20	*Leases*	IAS 17 *Leases*
21	*Provisions and Contingencies*	IAS 37 *Provisions*, *Contingent Liabilities and Contingent Assets*
22	*Liabilities and Equity*	IAS 1, IAS 32
23	*Revenue from Contracts with Customers*	IFRS 15 *Revenue from Contracts with Customers* ~~IAS 11 *Construction Contracts*, IAS 18 *Revenue*~~
24	*Government Grants*	IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*
25	*Borrowing Costs*	IAS 23 *Borrowing Costs*
26	*Share-based Payment*	IFRS 2 *Share-based Payment*
27	*Impairment of Assets*	IAS 2, IAS 36 *Impairment of Assets*
28	*Employee Benefits*	IAS 19 *Employee Benefits*

continued...

...continued

29	*Income Tax*	IAS 12 *Income Taxes* , IFRIC 23 *Uncertainty over Income Tax Treatments*
30	*Foreign Currency Translation*	IAS 21 *The Effects of Changes in Foreign Exchange Rates* , IFRIC 22 *Foreign Currency Transactions and Advance Consideration*
31	*Hyperinflation*	IAS 29 *Financial Reporting in Hyperinflationary Economies*
32	*Events after the End of the Reporting Period*	IAS 10 *Events after the Reporting Period*
33	*Related Party Disclosures*	IAS 24 *Related Party Disclosures*
34	*Specialised Activities*	IAS 41 *Agriculture*, IFRS 6 *Exploration for and Evaluation of Mineral Resources*, IFRIC 12 *Service Concession Arrangements*
35	*Transition to the* IFRS for SMEs *Accounting Standard*	IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Approval by the IASB of Exposure Draft *Third edition of the* IFRS for SMEs *Accounting Standard* published in September 2022

The Exposure Draft *Third edition of the* IFRS for SMEs *Accounting Standard* was approved for publication by all 10 members of the International Accounting Standards Board (IASB).

Andreas Barckow	Chair
Nick Anderson	
Tadeu Cendon	
Zach Gast	
Jianqiao Lu	
Bruce Mackenzie	
Bertrand Perrin	
Rika Suzuki	
Ann Tarca	
Mary Tokar	

IFRS® Foundation

Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD, UK

Tel **+44 (0) 20 7246 6410**
Email **customerservices@ifrs.org**

ifrs.org

SET ISBN 978-1-914113-66-6
9 781914 113666
PART A ISBN 978-1-914113-67-3

IFRS Accounting

SMEs

September 2022

Exposure Draft

IFRS for SMEs® Accounting Standard

Basis for Conclusions and Illustrative Financial Statements on

Third edition of the *IFRS for SMEs* Accounting Standard

Comments to be received by 7 March 2023

International Accounting Standards Board

IASB/ED/2022/1

Exposure Draft Third Edition of the
IFRS for SMEs *Accounting Standard*
Basis for Conclusions
Illustrative Financial Statements

Comments to be received by 7 March 2023

This Basis for Conclusions and Illustrative Financial Statements accompanies the Exposure Draft IASB/ED/2022/1 *Third edition of the* IFRS for SMEs *Accounting Standard* (published September 2022; see separate booklet). It is published by the International Accounting Standards Board (IASB) for comment only. Comments need to be received by 7 March 2023 and should be submitted by email to commentletters@ifrs.org or online at https://www.ifrs.org/projects/open-for-comment/.

All comments will be on the public record and posted on our website at www.ifrs.org unless the respondent requests confidentiality. Such requests will not normally be granted unless supported by a good reason, for example, commercial confidence. Please see our website for details on this policy and on how we use your personal data. If you would like to request confidentiality, please contact us at commentletters@ifrs.org before submitting your letter.

ISBN for this part: 978-1-914113-68-0

ISBN for complete publication (two parts): 978-1-914113-66-6

Copies of IASB publications may be ordered from the Foundation by emailing customerservices@ifrs.org or visiting our shop at https://shop.ifrs.org.

IFRS®

CONTENTS

CONTENTS

from paragraph

BASIS FOR CONCLUSIONS ON EXPOSURE DRAFT *THIRD EDITION OF THE* IFRS FOR SMEs *ACCOUNTING STANDARD*

continued...

...continued

Basis for Conclusions on Exposure Draft *Third edition of the* IFRS for SMEs *Accounting Standard*

This Basis for Conclusions accompanies, but is not part of, Exposure Draft Third edition of the *IFRS for SMEs* Accounting Standard. *It summarises the considerations of the International Accounting Standards Board (IASB) when developing the Exposure Draft. Individual IASB members gave greater weight to some factors than to others.*

Introduction

BC1 In 2009, the International Accounting Standards Board (IASB) issued the first edition of the *International Financial Reporting Standard for Small and Medium-sized Entities* (the Standard). The Standard:

(a) is intended to apply to the general purpose financial statements and other financial reporting of entities that do not have public accountability (called small and medium-sized entities (SMEs) in the Standard); and

(b) is based on full IFRS Accounting Standards with modifications to reflect the needs of users of SMEs' financial statements and cost–benefit considerations.

BC2 In 2015, the IASB:

(a) completed its first comprehensive review of the Standard by issuing *2015 Amendments to the IFRS for SMEs*, which became effective in 2017; and

(b) issued a second edition of the Standard, incorporating the 2015 amendments.

BC3 In 2019, the IASB commenced its second comprehensive review of the Standard, in line with the objective of commencing a comprehensive review approximately two years after the effective date of the amendments to the Standard resulting from a previous comprehensive review.

BC4 This Basis for Conclusions explains the IASB's rationale for proposing amendments to the Standard to reflect new requirements in full IFRS Accounting Standards, and other matters brought to the IASB's attention since it issued the second edition of the Standard. This Basis for Conclusions also explains the IASB's rationale for not proposing amendments to the Standard to reflect other new requirements in full IFRS Accounting Standards.

Background

Periodic reviews of the Standard

BC5 The IASB maintains the Standard through periodic review. The Preface to the Standard states that the IASB expects to propose amendments to the Standard by publishing an omnibus exposure draft periodically, but not more frequently than approximately once every three years. In developing these exposure drafts, the IASB expects to consider new and amended IFRS Accounting Standards as well as specific issues that have been brought to its attention regarding the application of the Standard. Occasionally, the IASB might identify an urgent matter that would require it to consider amending the Standard outside the periodic review process. However, such occasions are expected to be rare.

Request for Information

BC6 In January 2020, the IASB published Request for Information *Comprehensive Review of the* IFRS for SMEs *Standard* as a first step in its second comprehensive review. The objective of the Request for Information was to seek views on whether and, if so, how aligning the Standard with new and amended full IFRS Accounting Standards in the scope of the review could better serve users of financial statements prepared applying the Standard without causing undue cost or effort for SMEs.

BC7 The Request for Information was in three parts:

(a) the framework the IASB developed for the second comprehensive review (Part A of the Request for Information);

(b) sections of the Standard that could be aligned with new and amended requirements in full IFRS Accounting Standards in the scope of the review (Part B of the Request for Information); and

(c) topics omitted from the Standard and whether, in relation to these topics, the Standard could be aligned with full IFRS Accounting Standards; and topics related to application of the Standard (Part C of the Request for Information).

BC8 The Request for Information was open for comment for 270 days (extended from 180 days because of the covid-19 pandemic). During the comment period, IASB members and staff gathered feedback from stakeholders across different jurisdictions:

(a) IASB members and staff met remotely with more than 2,000 stakeholders in approximately 15 individual and group meetings in more than 90 jurisdictions across the world;

(b) the IASB also obtained feedback from:

   (i) 66 comment letters;

   (ii) 30 completed online surveys—the online survey replicated the questions in the Request for Information;

   (iii) 54 completed user surveys—the user survey included 13 questions focused on the needs of users of SMEs' financial statements; and

   (iv) 12 interviews with users of SMEs' financial statements.

SMEIG meetings and recommendations

BC9 The SME Implementation Group (SMEIG) advises the IASB on implementing and applying the Standard. It makes recommendations to the IASB throughout this comprehensive review of the Standard. Members of the SMEIG are appointed by the Trustees of the IFRS Foundation after a public call for nominations.

BC10 Between February 2021 and January 2022, the SMEIG met to discuss the feedback on the Request for Information and develop recommendations for the IASB on whether to propose amendments to the Standard. The SMEIG's recommendations were summarised in reports published on the IFRS Foundation website and considered by the IASB when it developed the proposals on the topics discussed by the SMEIG.

Scope of the Standard

Definition of public accountability

BC11 At the start of this second comprehensive review, the IASB engaged with its consultative groups and national standard-setters on whether to permit exceptions to the definition of public accountability to allow some publicly accountable entities to apply the Standard. Stakeholders agreed with the IASB's view that changes to the scope of the Standard might require other changes that would increase the complexity of the Standard. Furthermore, stakeholders raised concerns about the difficulty of clearly defining the group of entities with public accountability that should be permitted to apply the Standard.

BC12 Because of the feedback from both the first comprehensive review (see paragraphs BC178–BC181 of the Basis for Conclusions on the Standard[1]) and from stakeholder engagement during this second comprehensive review, the IASB decided it was unlikely that responses to the Request for Information would lead the IASB to change its previous conclusions. Therefore, the IASB decided not to ask a question in the Request for Information on amending the scope of the Standard to permit exceptions to the definition of public accountability. Nevertheless, a few respondents to the Request for Information suggested that the scope of the Standard be widened by relaxing or removing the second criterion for public accountability in paragraph 1.3(b) of the Standard. These respondents said that the Standard would improve the financial reporting of credit unions and smaller financial institutions, especially in developing countries.

BC13 The IASB observed that it had considered this perspective during the first comprehensive review and these respondents provided no new information. The IASB also noted the concerns raised by consultative groups and national standard-setters about increasing the complexity of the Standard and defining a wider scope of entities that could apply the Standard (see paragraph BC11). If

1 References to 'the Basis for Conclusions on the Standard' within this document are references to the Basis for Conclusions on the 2015 version of the Standard.

the scope were widened to include a sub-group of financial institutions, the IASB considered this might lead to pressure to include additional requirements from the newer IFRS Accounting Standards being considered during this review. For example, incorporating additional requirements from IFRS 9 *Financial Instruments* and IFRS 13 *Fair Value Measurement* to cater for more complex financial instruments, and incorporating risk disclosures from IFRS 7 *Financial Instruments: Disclosures*. Such additional requirements may include hedge accounting requirements and disclosures, and requirements to use the general model in IFRS 9 to calculate expected credit losses and disclose credit risk management practices. Therefore, the IASB decided not to propose widening the scope of the Standard to include some publicly accountable entities.

BC14 Nevertheless, feedback on the Exposure Draft ED/2021/7 *Subsidiaries without Public Accountability: Disclosures*, issued in July 2021, indicated some concerns about applying the definition of public accountability.[2] In particular, some respondents to ED/2021/7 disagreed with the statement in paragraph 1.3(b) of the Standard that 'most' banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks hold assets in a fiduciary capacity for a broad group of outsiders as a primary business, and hence have public accountability. These concerns were raised mainly in relation to insurance companies. A few respondents were of the view that premiums collected by an insurance company in exchange for a contractual promise to indemnify the customer for a possible future event belong to the insurance company and are not held and managed in a fiduciary capacity by the insurance company. Some respondents asked for guidance on the term 'fiduciary capacity'.

BC15 The IASB observed that there is a high degree of public interest in the financial reports of all non-captive insurance companies (insurance companies that insure the risks of parties outside their group of entities) because:

(a) the policyholders risk financial loss if an insured event occurs and the insurance company cannot pay the claim.

(b) the policyholders are outsiders who cannot demand information for themselves. That is why insurance companies are regulated—like banks, mutual funds, securities brokers and dealers, and other financial institutions.

BC16 The IASB also noted that the Standard includes no specific requirements for insurance contracts or complex financial instruments and, therefore, may not be suitable for more complex financial institutions. Nevertheless, the IASB agreed with respondents that specifying how often the entities in paragraph 1.3(b) of the Standard hold assets in a fiduciary capacity is unhelpful within the definition of public accountability and it would be better

2 In July 2021, the IASB issued Exposure Draft ED/2021/7 *Subsidiaries without Public Accountability: Disclosures*, which sets out the IASB's proposal for a new IFRS Accounting Standard that would permit a subsidiary that does not have public accountability to apply reduced disclosure requirements when applying full IFRS Accounting Standards. The description of 'public accountability' in ED/2021/7 is based on the definition and supporting guidance in paragraphs 1.3–1.4 of the *IFRS for SMEs* Accounting Standard.

to clarify why those entities often have public accountability. Consequently, the IASB is proposing to amend paragraph 1.3(b) to instead list banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks as examples of entities that often meet the second criterion. Nevertheless, the IASB noted that this amendment is not intended to be a relaxation of the criterion in paragraph 1.3(b).

BC17 Furthermore, to help jurisdictions better understand the basis for the definition of 'public accountability' and apply that definition consistently, the IASB is proposing to clarify why the entities in paragraph 1.3(b) would often be considered to have public accountability. In particular, the IASB is proposing to clarify that an entity with these characteristics would usually have public accountability:

(a) there is both a high degree of outside interest in the entity and a broad group of users of the entity's financial statements (existing and potential investors, lenders and other creditors) who have a direct financial interest in, or substantial claim against, the entity.

(b) these users depend primarily on external financial reporting as their means of obtaining financial information about the entity. These users need financial information about the entity but lack the power to demand the information for themselves.

The IASB's view is that full IFRS Accounting Standards are intended to meet the needs of these users.

BC18 The IASB expects that the proposed amendments explained in paragraphs BC16–BC17 will add clarity, without changing the intended scope of the Standard. However, in the Invitation to Comment on the Exposure Draft, the IASB is asking whether respondents agree with this expectation and with the proposed clarification.

BC19 The IASB observed that it discussed providing guidance on, or defining, the term fiduciary capacity during the first comprehensive review (see paragraph BC183 of the Basis for Conclusions on the Standard) and concluded that it would be difficult to develop guidance that would be applicable, translatable and capable of being consistently applied across all jurisdictions applying the Standard. The IASB also noted that the Standard is established in many jurisdictions, using the definition of public accountability. Consequently, including a definition of 'fiduciary capacity' in the Standard now could create problems in jurisdictions that have already determined which types of entities in that jurisdiction have public accountability, if such determinations are inconsistent with any new definition.

Name of the Standard

BC20 In the Request for Information, the IASB did not ask about amending the name of the *IFRS for SMEs* Accounting Standard. However, some respondents raised the name as an additional issue they would like to bring to the IASB's attention. These respondents said the name of the Standard is misleading because the Standard does not prescribe size criteria and large, non-publicly accountable entities are eligible to use the Standard. The IASB observed that it had discussed the alternative names suggested by these respondents when it developed the Standard.

BC21 The IASB decided after several rounds of discussion that the best alternative for the name of the Standard was 'IFRS for SMEs'.[3] The IASB observed that the name 'IFRS for SMEs' is established as a recognised brand and changes to the name would risk weakening this brand. The SMEIG advised the IASB that the name has been incorporated in national law in many jurisdictions and changing the name could have other consequences. The IASB is of the view that, to justify changing the name, it would need to have evidence of either a better alternative or a change in the scope of the Standard. The IASB also observed that changing the name of the Standard could be confusing without a change in the scope of the Standard. Therefore, the IASB is not proposing to change the name 'IFRS for SMEs'.

Scope of this review

BC22 The scope of this second comprehensive review includes:

(a) IFRS Accounting Standards, amendments to IFRS Accounting Standards and IFRIC Interpretations issued since the first comprehensive review of the Standard;

(b) IFRS Accounting Standards and IFRIC Interpretations issued before the first comprehensive review that did not result in amendments to the *IFRS for SMEs* Accounting Standard; and

(c) general implementation experience and issues arising from applying the Standard.

BC23 The second comprehensive review includes many IFRS Accounting Standards in its scope, in part, because it re-examines some IFRS Accounting Standards from the scope of the first comprehensive review. IFRS Accounting Standards in the scope of this review are:

(a) the *Conceptual Framework for Financial Reporting* (issued in 2018);

(b) IFRS 3 *Business Combinations*;

(c) IFRS 9 *Financial Instruments*;

(d) IFRS 10 *Consolidated Financial Statements*;

(e) IFRS 11 *Joint Arrangements*;

(f) IFRS 13 *Fair Value Measurement*;

(g) IFRS 14 *Regulatory Deferral Accounts*;

(h) IFRS 15 *Revenue from Contracts with Customers*;

(i) IFRS 16 *Leases*; and

(j) IAS 19 *Employee Benefits* (revised in 2011).

3 See paragraphs BC78–BC79 of the Basis for Conclusions on the Standard.

BC24 Amendments to IFRS Accounting Standards and IFRIC Interpretations in the scope of this review are shown in Tables A1–A2 accompanying this Basis for Conclusions.

BC25 In this review, the IASB did not:

(a) consider ongoing projects on the IASB's agenda that it expects will result in changes to full IFRS Accounting Standards. Until the IASB issues an IFRS Accounting Standard, an amendment to an IFRS Accounting Standard or an IFRIC Interpretation its views are tentative and subject to change.

(b) ask for views in the Request for Information on amending the scope of the Standard (see paragraph BC12).

BC26 The IASB is proposing in this review that in a future review of the Standard, it consider whether to amend the Standard:

(a) to include requirements for regulatory assets and regulatory liabilities;

(b) to include requirements for cryptocurrency; and

(c) to align the Standard with IFRS 16 *Leases*.

Approach to the second comprehensive review

BC27 The IASB developed the Standard from full IFRS Accounting Standards. The Standard was based on the 1989 *Framework for the Preparation and Presentation of Financial Statements* (1989 *Framework*) and the principles and requirements in full IFRS Accounting Standards. These principles and requirements were simplified for SMEs based on users' needs and cost–benefit considerations. As part of this review, the IASB wanted to understand if it should continue to develop the Standard in this way (referred to as the alignment approach) or whether it should only consider issues stakeholders raised about the Standard. The Request for Information explained that IASB members had different views on how to approach this review.

BC28 The IASB decided that, subject to further evidence, it should continue with the alignment approach and treat alignment with full IFRS Accounting Standards as the starting point for developing the Request for Information, while applying judgement in deciding whether and, if so, how that alignment should take place.

BC29 To help the IASB apply judgement in deciding whether and, if so, how the Standard should be aligned with full IFRS Accounting Standards in the scope of the second comprehensive review, the IASB applied three principles:

(a) relevance to SMEs;

(b) simplicity; and

(c) faithful representation.

BC30 The IASB determines relevance to SMEs by assessing whether the problem addressed by a new requirement in full IFRS Accounting Standards (in the scope of the review) would make a difference in the decisions of users of financial statements prepared applying the Standard.

BC31 Applying the principle of simplicity involves looking at the new requirements in the IFRS Accounting Standards, amendments to IFRS Accounting Standards and IFRIC Interpretations that have satisfied the relevance condition and then assessing what simplifications are appropriate. Paragraph BC16 of the Basis for Conclusions on the Standard sets out five ways the requirements in full IFRS Accounting Standards can be simplified. They are:

(a) omitting some topics;

(b) permitting only the simplest option if an IFRS Accounting Standard permits options;

(c) simplifying recognition and measurement requirements;

(d) reducing disclosures; and

(e) simplifying language.

BC32 The principle of faithful representation is intended to help the IASB assess whether financial statements prepared applying the Standard would faithfully represent the substance of economic phenomena in words and numbers. Simplifications that would result in financial statements that do not meet this criterion could damage the quality of information reported to users.

BC33 The Request for Information sought views on the alignment approach. Overall, stakeholders who provided feedback on the alignment approach and the principles for applying the alignment approach agreed with continuing to base the Standard on full IFRS Accounting Standards.

BC34 Some stakeholders queried whether the alignment principles:

(a) adequately acknowledged the limited resources available to SMEs given the complexity of some requirements in full IFRS Accounting Standards, particularly in IFRS 9 *Financial Instruments* and IFRS 16 *Leases*; and

(b) appropriately assessed the costs and benefits of any possible amendment to the Standard, considering the costs to SMEs and the capabilities of SMEs to provide financial information.

BC35 The IASB acknowledged these concerns but noted that, in applying the alignment approach to developing proposed amendments to the Standard, the alignment principles would involve the IASB researching simplifications to reduce complexity. This research would be considered alongside feedback on the Request for Information and the advice of SMEIG members.

BC36 The IASB noted that, in applying the principle of relevance to SMEs, it would only propose amendments to the Standard if it assessed that a new requirement in full IFRS Accounting Standards would make a difference to users of SMEs' financial statements. This assessment would, itself, be part of the cost–benefit considerations. However, acknowledging the limited resources of entities applying the Standard, the IASB decided it would consider the costs and benefits of aligning the Standard separately with each new requirement in full IFRS Accounting Standards in the scope of the review.

BC37 The IASB also decided it would specify how the alignment principles are met when proposing an amendment to the Standard.

Proposed amendments

Section 2 *Concepts and Pervasive Principles*

Align with the *Conceptual Framework for Financial Reporting*

BC38 Section 2 *Concepts and Pervasive Principles* describes the objective of financial statements of SMEs and sets out the concepts and basic principles underlying the financial statements of SMEs. Section 2 is based on the 1989 *Framework*, which the IASB revised and replaced with the *Conceptual Framework for Financial Reporting* (2018 *Conceptual Framework*) in March 2018. In the Request for Information, the IASB asked for views on aligning Section 2 with the 2018 *Conceptual Framework*.

BC39 The 2018 *Conceptual Framework*:

(a) has new:

(i) concepts on measurement, including factors to be considered when selecting a measurement basis;

(ii) concepts on presentation and disclosure, including when to classify income and expenses in other comprehensive income; and

(iii) guidance on when assets and liabilities are derecognised from financial statements;

(b) has updated:

(i) the definitions of an asset and a liability;

(ii) the criteria for recognising assets and liabilities in financial statements; and

(c) has clarified the concepts of 'prudence', 'stewardship', 'measurement uncertainty', and 'substance over form'.[4]

BC40 Respondents to the Request for Information and the SMEIG agreed with aligning the Standard with the 2018 *Conceptual Framework* and making any appropriate amendments to other sections of the Standard. Therefore, the Exposure Draft sets out the IASB's proposals for a revised Section 2, which is aligned with the 2018 *Conceptual Framework.* The IASB did not apply the alignment principles to Section 2, because the alignment principles are not

4 Substance over form refers to the requirement for financial information to faithfully represent the substance of the phenomena, which could differ from the legal form.

directly applicable to Section 2. The IASB did not discuss these principles but considered the overall assessment of the costs and benefits of developing amendments to the Standard to align it with the 2018 *Conceptual Framework*.

Status of Section 2

BC41 The 2018 *Conceptual Framework* is not an IFRS Accounting Standard, and nothing in the *Conceptual Framework* overrides any IFRS Accounting Standard or any requirement in an IFRS Accounting Standard. In contrast, Section 2 is part of the Standard meaning that it has equal authority with other sections in the Standard. The IASB is proposing to retain the revised Section 2 as part of the Standard.

BC42 Some respondents and some SMEIG members—acknowledging the different status of the 2018 *Conceptual Framework* in full IFRS Accounting Standards compared to the status of the revised Section 2 in the Standard—were concerned about potential inconsistencies between the revised Section 2 and other sections in the Standard.

BC43 The IASB noted that the inconsistencies identified—in developing the 2018 *Conceptual Framework*—between any IFRS Accounting Standards and the 2018 *Conceptual Framework* could apply to the equivalent sections of the Standard when aligning Section 2 with the 2018 *Conceptual Framework*. Therefore, the IASB applied the approach it had applied to full IFRS Accounting Standards when it issued the 2018 *Conceptual Framework*; that is:

(a) as a first step, the proposed revised Section 2 would not automatically lead to proposed changes to other sections of the Standard. However, the IASB is proposing necessary clarifications to some sections. The IASB is also proposing to add an override paragraph in Section 2 emphasising that the requirements in the other sections take precedence over the requirements in the revised Section 2.

(b) as a second step, undertaking a review for potential inconsistencies between the revised Section 2 and other sections of the Standard.

BC44 As part of the second step, the IASB performed a review of potential inconsistencies during development of the Exposure Draft. The IASB is not proposing amendments to the Standard as a result of the review for potential inconsistencies between the revised Section 2 and other sections of the Standard—except for clarifying amendments explained in paragraphs BC45–BC47.

Review of potential inconsistencies

Proposed clarifications

BC45 The IASB observed that the recognition criteria in Section 17 *Property, Plant and Equipment* and Section 18 *Intangible Assets other than Goodwill* refer to the recognition criteria in Section 2.

BC46 The IASB is proposing to revise Section 2 and thereby update the recognition criteria. Therefore, the IASB is also proposing to delete the references to Section 2 from Section 17 and Section 18 to avoid creating inconsistencies.

BC47 Section 18 and Section 21 *Provisions and Contingencies* rely on the 1989 *Framework* definitions of an asset and of a liability. Because the IASB is proposing to revise Section 2 to align it with the 2018 *Conceptual Framework* there could be inconsistencies with these sections in the amended Standard. The IASB noted that IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and IAS 38 *Intangible Assets* include the definition of an asset from the 1989 *Framework*. To avoid unintended consequences the IASB is proposing these sections continue to use the definitions of an asset and of a liability from the previous version of Section 2, which were based on the 1989 *Framework*.

Proposing no changes

BC48 Other inconsistencies considered by the IASB included:

(a) faithful representation versus reliability (paragraph BC49);

(b) Section 19 *Business Combinations and Goodwill* (paragraphs BC151–BC156);

(c) Section 20 *Leases* (paragraph BC243); and

(d) Section 22 *Liabilities and Equity* (paragraph BC50).

BC49 Section 2 uses the term 'reliability' to describe what is referred to broadly as faithful representation in the revised Section 2. The IASB is not proposing to retain the term 'reliability' as a qualitative characteristic in the revised Section 2. However, some sections of the Standard use the term 'reliability' in this way. The IASB observed that it would be difficult to determine when the term 'reliability' was being used in the broader sense of 'faithful representation' or being used in the narrower sense of 'measurement uncertainty'. Therefore, the IASB was of the view that replacing the term 'reliability' with 'faithful representation' could result in unintended consequences in the sections. The IASB also noted that it had decided not to make such changes in full IFRS Accounting Standards and that the Standard should not move ahead of full IFRS Accounting Standards. Therefore, the IASB is not proposing to replace the term 'reliability' with the term 'faithful representation' in the other sections of the Standard.

BC50 Some of the classification requirements in Section 22 are inconsistent with the definitions of a liability and equity in the revised Section 2. However, the IASB noted that this inconsistency also exists between IAS 32 *Financial Instruments: Presentation* and the 2018 *Conceptual Framework*. In developing the 2018 *Conceptual Framework*, the IASB decided not to propose changes to the definitions to eliminate the inconsistencies in IAS 32 because the IASB had a project underway, *Financial Instruments with Characteristics of Equity*, which is exploring how to distinguish liabilities from equity claims. The IASB is of the view that the Standard should not move ahead of full IFRS Accounting Standards, and therefore is not proposing to eliminate such inconsistencies during this review of the Standard.

Undue cost or effort

BC51 Section 2 also includes the concept of 'undue cost or effort', which is available as an 'undue cost or effort' exemption to an entity applying the Standard in specified circumstances. This concept is not in the 2018 *Conceptual Framework*. In the Request for Information, the IASB asked if it should retain the 'undue cost or effort' concept. Respondents and the SMEIG agreed with retaining the concept of 'undue cost or effort' because it provides a mechanism to balance the costs and benefits of the requirements in the Standard and alleviates the burden for SMEs applying the Standard. The IASB agreed with this feedback and is proposing to retain the concept of 'undue cost or effort' unchanged in the revised Section 2.

Section 9 *Consolidated and Separate Financial Statements*

Definition of control

BC52 In the first comprehensive review of the Standard, the IASB consulted with stakeholders on aligning the definition of control and the guidance on its application in Section 9 *Consolidated and Separate Financial Statements* with IFRS 10 *Consolidated Financial Statements*, but decided not to align, because IFRS 10 had only recently become effective.

BC53 The definition of control in Section 9 was aligned with the definition in IAS 27 *Consolidated and Separate Financial Statements* when the IASB developed the Standard and included some of the requirements in SIC-12 *Consolidation—Special Purpose Entities*. IFRS 10 replaced the requirements in IAS 27 and SIC-12 with a control model as the single basis for consolidation.

BC54 The IASB completed its Post-implementation Review of IFRS 10 in June 2022 and concluded that IFRS 10 is working as intended. The Post-implementation Review was undertaken simultaneously with the second comprehensive review. Therefore, the IASB considered the evidence from the Post-implementation Review to help it develop the proposals in the Exposure Draft.

BC55 The IASB had already judged consolidated financial statements to be relevant to SMEs by including a section on this topic in the Standard. Therefore, in the Request for Information, the IASB asked whether aligning the definition of 'control' and using that definition as the single basis for consolidation (control model) would facilitate greater consistency between financial statements prepared applying the Standard.

BC56 Many respondents to the Request for Information agreed with aligning the definition of 'control' with IFRS 10. The IASB agreed with respondents that the definition of 'control' is important, and that alignment would facilitate greater consistency between financial statements prepared applying the Standard. In applying its faithful representation principle, the IASB referred to its conclusion in the Post-implementation Review that IFRS 10 is working as intended, which provided evidence that using the control model as the single basis for consolidation improves faithful representation. Therefore, the IASB is proposing to align the definition of 'control' in Section 9 with that in IFRS 10.

BC57 In applying its simplicity principle, the IASB observed that using the control model as the single basis for consolidation is itself a simplification. The IASB acknowledges the feedback on the Post-implementation Review that assessing control requires judgement. The extent of the judgement required depends on the complexity of the transaction and can, sometimes, be significant. However, some respondents to the Request for Information said entities that apply the Standard rarely engage in complex transactions.

BC58 The IASB also agreed with many respondents' views on retaining the rebuttable presumption in paragraph 9.5 of the Standard and updating it to state that control is presumed to exist when the parent entity owns, directly or indirectly through subsidiaries, a majority of the voting rights of an entity. The rebuttable presumption is a simplification to the control model. The IASB is of the view that retaining the rebuttable presumption will continue to ease the application of the control model.

Investment entities

BC59 IFRS 10 requires an investment entity to measure an investment in a subsidiary at fair value through profit or loss and not consolidate such a subsidiary. The Standard has no equivalent requirement. In the Request for Information, the IASB explained its view that, because of the scope of the Standard, few entities would qualify as investment entities as defined in IFRS 10. That is, the IASB's assessment was that this topic did not meet the principle of relevance to SMEs. Therefore, in the Request for Information, the IASB asked for views on omitting from the Standard the requirement that an investment entity measures an investment in a subsidiary at fair value through profit or loss.

BC60 Respondents to the Request for Information agreed with the IASB's view that this topic did not meet the relevance principle because few entities eligible to apply the Standard would qualify as investment entities. However, some SMEIG members said some high-net-worth individuals hold assets in entities that would meet the definition of an 'investment entity'. These SMEIG members recommended that the IASB propose introducing the requirement that an investment entity measures investments in subsidiaries at fair value through profit or loss. However, the IASB decided against proposing requirements for investment entities in the Exposure Draft, based on its initial view and on the feedback on the Request for Information.

Loss of control

BC61 When a parent entity loses control but retains an investment in a former subsidiary, paragraph 9.19 of the Standard requires the carrying amount of the investment at the date control is lost to be the cost on initial measurement of the retained investment.

BC62 The IASB is proposing to align paragraph 9.19 with paragraph 25(b) of IFRS 10 to require an entity to measure its retained interest in the former subsidiary at fair value at the date control is lost, with any resulting gain or loss recognised in profit or loss. Measuring the investment at fair value reflects the IASB's view that losing control of a subsidiary is a significant economic event.

The parent–subsidiary relationship ceases to exist and an investor–investee relationship that differs significantly from the former parent–subsidiary relationship begins. The IASB also noted that this proposal is consistent with its decision to propose amendments to Section 19 to introduce requirements for an acquisition achieved in stages (step acquisitions) as set out in IFRS 3 (these amendments would require an SME to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss in profit or loss).

Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instrument Issues* (combined and renamed Section 11 *Financial Instruments*)[5]

BC63 In July 2014, the IASB issued IFRS 9 *Financial Instruments*, completing its project to replace IAS 39 *Financial Instruments: Recognition and Measurement* with a principle-based Standard.

Classifying and measuring financial assets

BC64 IFRS 9 applies a principle-based approach to classifying financial assets based on: (a) the contractual cash flow characteristics of the financial asset; and (b) the business model for managing the financial asset. Section 11 *Basic Financial Instruments* provides a list of examples of basic financial instruments and sets out the conditions a debt instrument is required to satisfy to be classified as a basic financial instrument and, therefore, be measured at amortised cost. In the Request for Information, the IASB asked for views on supplementing the list of examples in paragraphs 11.9A–11.11 of the Standard with a principle based on the contractual cash flow characteristics of the financial asset.

BC65 The IASB observed that supplementing the list of examples in Section 11 with such a principle would provide a clear rationale for classifying financial assets and measuring them either at amortised cost or fair value. Therefore, the principle would assist entities if a financial asset does not match the characteristics in any of the examples and would provide relevant guidance to entities applying the Standard.

BC66 In supplementing the list of examples in Section 11 with a principle based on the contractual cash flow characteristics, the IASB decided it should simplify the classification and measurement requirements for financial assets in IFRS 9 by:

(a) removing the requirement to determine how financial assets should be classified and measured on the basis of the entity's business model for managing the financial asset; and

5 The IASB is proposing to combine Section 11 and Section 12 to create a revised Section 11, which is structured in two parts: Part I *Basic Financial Instruments* and Part II *Other Financial Instrument Issues*.

(b) removing the option to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument (FVOCI election).[6]

BC67 The IASB took the view that these simplifications would not impede faithful representation because removing the business model assessment is unlikely to significantly affect how entities applying the Standard classify their financial assets because SMEs are unlikely to hold financial assets under different business models.

BC68 Feedback on the Request for Information and the SMEIG supported supplementing the list of examples in Section 11 with a principle for classifying financial assets based on their contractual cash flow characteristics. Many respondents said that it would provide helpful guidance if an asset does not match the characteristics described in the examples. The Request for Information did not ask a specific question about introducing the FVOCI election and the feedback did not indicate a demand for this election.

BC69 In the light of the feedback, the IASB is proposing an amendment to supplement the list of examples in paragraphs 11.9A–11.11 of the Standard with a principle based on the contractual cash flow characteristics of the debt instrument.

BC70 Feedback on the Request for Information also supported aligning the Standard with the 2017 Amendments to IFRS 9 *Prepayment Features with Negative Compensation*. Consequently, the IASB is proposing to clarify that a party may pay or receive reasonable compensation on early termination of a debt instrument and the requirements in paragraph 11.9 of the Standard for that debt instrument to be a basic financial instrument measured at amortised cost may still apply.

BC71 The IASB is also proposing to clarify that reassessing how a financial instrument is classified is only required when contractual terms are modified and result in the financial instrument being derecognised. Such a requirement is aligned with the requirements in IFRS 9, but is simplified for consistency with the derecognition requirements in Section 11 and the IASB's decision not to introduce requirements for SMEs to determine how financial assets should be classified on the basis of their business model.

Impairment of financial assets

BC72 The current requirements for recognising and measuring impairment of financial assets measured at cost or amortised cost in the Standard are based on IAS 39. The impairment model in IAS 39 and Section 11 (an incurred loss model) may delay an entity's recognition of credit losses because an impairment test is not required until there is objective evidence of impairment. The impairment requirements in IFRS 9 responded to the

6 IFRS 9 permits an entity to make an irrevocable election at initial recognition to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is neither held for trading nor contingent consideration in a business combination (FVOCI election).

problem of delayed recognition by requiring an entity to recognise expected credit losses.

BC73 In considering aligning the requirements for the impairment of financial assets in Section 11 with IFRS 9, the IASB noted that the scope of the Standard excludes any entity that holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. Banks, credit unions, insurance companies, securities brokers, securities dealers, mutual funds and investment banks often satisfy this criterion. Therefore, the general approach to impairment in IFRS 9 would not be relevant to many entities applying the Standard. However, the IASB observed that the expected credit loss model is widely regarded as an improvement on the approach in IAS 39 and so the IASB included a question in the Request for Information about introducing the simplified approach in IFRS 9 into the Standard.

BC74 Feedback on the Request for Information was varied. Some respondents agreed with alignment with the simplified approach in IFRS 9, but some also called for the simplified approach in IFRS 9 to be further simplified. Some respondents and some SMEIG members suggested that SMEs measure expected credit losses based on management's 'best estimate' of contractual cash flows less expected cash flows (best-estimate approach), instead of considering a weighted probability of a range of possible outcomes. Other respondents disagreed with alignment and expressed concerns that an expected credit loss model would be difficult for SMEs to apply and would impose undue cost or effort on them. Feedback from the user survey and user interviews did not show a demand for the more sophisticated information provided under an expected credit loss model for SMEs.

BC75 In response to the feedback and to the SMEIG's suggestion, the staff did further research by interviewing four global preparers about their experience of implementing and applying the expected credit loss model in IFRS 9. The aim of this research was to understand the practical challenge for entities that have implemented and now apply the simplified approach. Feedback from those interviews indicated that implementing the simplified approach in IFRS 9 would be complex for SMEs and would not result in significant changes in the amount of impairment for the types of financial assets held by typical SMEs, namely short-term trade receivables.

BC76 Some IASB members expressed concern about modifying the simplified approach in IFRS 9 for SMEs, for example, by introducing a best-estimate approach. Their concern was that such an approach may imply an outcome aligned with the expected credit loss model in IFRS 9, which may not necessarily be true. For example, some members raised concerns that an SME's best estimate might be interpreted as the most likely repayment outcome, meaning an SME could conclude that its best estimate of credit losses is nil. Such an interpretation would be inconsistent with the IFRS 9 expected credit loss model, which requires an entity to consider the possibility that a credit loss will occur even if the possibility is low. The IASB observed that the expected credit loss model in IFRS 9 contains several expedients and was designed to be proportionate for different types of entities, because the focus is on reasonable and supportable information that is available without undue cost or effort (see paragraph 5.5.17(c) of IFRS 9). Therefore, the IASB decided that if a forward-looking impairment model is proposed the Standard should be aligned with the simplified approach in IFRS 9, with further simplifications for SMEs if necessary, rather than introducing modifications to that model for SMEs. In considering whether to include an expected credit loss model into the Standard, the IASB observed that:

(a) the expected credit loss model in IFRS 9 was developed predominantly to respond to concerns, which were highlighted during the 2008 financial crisis, about delayed recognition of credit losses on loans. Financial institutions are generally outside the scope of the Standard. SMEs typically have no significant long-term loan receivables or investments in bonds. Many SMEs only hold short-term, non-interest-bearing financial assets, specifically trade receivables.

(b) feedback on the Request for Information and from interviews with preparers identified that SMEs already consider forward-looking information when assessing the impairment of trade receivables. Such information is considered because SMEs usually prepare less timely financial statements, meaning SMEs will capture events after the reporting period over a longer period. For many SMEs, by the time their financial statements are issued, most of the financial assets outstanding at the reporting date will have been settled.

(c) feedback also identified that many SMEs already apply a collective impairment approach using a provision matrix. This feedback highlighted that, for SMEs holding only trade receivables, moving to an expected credit loss model is likely to involve substantial implementation costs without a substantial change in impairment information or benefits for users of their financial statements.

BC77 The IASB concluded that the feedback provides evidence that:

(a) moving to an expected credit loss model would provide better information for users of financial statements when SMEs hold longer-term financial assets; but

(b) retaining an incurred loss model for impairment would be the approach best supported by cost–benefit considerations for SMEs that hold trade receivables, which are normally short-term, non-interest-bearing assets.

BC78 Therefore, the IASB is proposing to:

(a) retain the incurred loss model in Section 11 for trade receivables and contract assets in the scope of the revised Section 23 *Revenue from Contracts with Customers*.

(b) require an SME to use an expected credit loss model for all other financial assets measured at amortised cost, aligned with the simplified approach in IFRS 9.

(c) retain the requirements in Section 11 for impairment of equity instruments measured at cost. IFRS 9 requires entities to measure all equity instruments at fair value, and so the expected credit loss model does not apply to equity instruments.

BC79 The IASB acknowledged that having two impairment models could add complexity to Section 11. However, it noted that only those SMEs that hold financial assets other than trade receivables and contract assets would be required to apply an expected credit loss model, preserving the simplicity of the Standard for those entities that hold only trade receivables and contract assets.

BC80 The IASB also observed that the proposed amendments would enable respondents to evaluate and comment on both the incurred loss model and the IASB's proposals for an expected credit loss model for SMEs. Feedback on the Exposure Draft will help the IASB evaluate the two approaches and decide how to proceed without needing to re-expose its proposals.

Hedge accounting

BC81 IFRS 9 introduced new requirements that resulted in a major overhaul of hedge accounting. Section 12 *Other Financial Instrument Issues* sets out requirements for the types of hedging transactions an SME is likely to use to manage risks and was greatly simplified from IAS 39 when the Standard was issued. In the Request for Information, the IASB asked for views on whether the Standard should provide hedge accounting requirements, and on retaining the current requirements or aligning them with IFRS 9.

BC82 Feedback on the Request for Information indicated that SMEs do not frequently apply hedge accounting. Some respondents noted that, even when SMEs undertake economic hedges, they do not apply hedge accounting because of its complexity. Nevertheless, respondents and the SMEIG generally agreed with continuing to include hedge accounting requirements in the Standard because removing these requirements would disadvantage entities that apply them.

BC83 However, there were mixed views on whether to retain the requirements unchanged or align them with IFRS 9:

(a) many respondents agreed with retaining the hedge accounting requirements unchanged because they are well understood and adequate for SMEs' typical hedging activities; and

(b) some respondents preferred that the hedge accounting requirements be aligned with IFRS 9, with or without simplifications, because IFRS 9 permits the use of hedge accounting in additional circumstances and would benefit SMEs with more sophisticated hedging transactions.

BC84 The IASB observed that the hedge accounting model in IFRS 9 introduces improvements principally by aligning the accounting more closely with an entity's risk management activities. The model in IFRS 9 enables:

(a) entities to better reflect their risk management activities in the financial statements and use information produced internally as a basis for hedge accounting; and

(b) investors to better understand the entity's risk management activities and the effect of its hedging on its financial statements.

BC85 The IASB's primary aim in developing and maintaining the Standard is to provide a stand-alone, simplified set of accounting principles for entities that do not have public accountability and that typically have less complex transactions, limited resources to apply full IFRS Accounting Standards and that operate in circumstances in which comparability with their listed peers is not an important consideration.[7] Feedback indicates that such entities are unlikely to have sophisticated risk management activities that involve hedging strategies. They are also likely to have simpler financial reporting needs and might choose not to apply hedge accounting even if they engage in basic hedging transactions.

BC86 Consistent with its primary aim, the IASB observed that improvements IFRS 9 introduced would generally not be relevant for the transactions undertaken by 'typical' SMEs (for example, reducing complexity from IAS 39 and improved reflection of risk management activities). Therefore, it noted that alignment with IFRS 9 would add complexity for all SMEs applying hedge accounting without substantial benefits for users of their financial statements to cater for entities applying the Standard that might have more sophisticated hedging activities.

BC87 Section 12 focuses on the types of risk that SMEs are likely to hedge, and the feedback provides evidence that the requirements are well understood and adequate for typical SMEs and users of their financial statements. Consequently, the IASB is proposing to retain the existing hedge accounting requirements.

Using recognition and measurement requirements in full IFRS Accounting Standards for financial instruments

BC88 The Standard permits entities to choose to apply either (see paragraph 11.2 of the Standard):

(a) the requirements in both Sections 11 and 12 in full; or

(b) the recognition and measurement requirements in IAS 39 and the disclosure requirements in Sections 11 and 12.

BC89 The Standard refers specifically to IAS 39 and provides no option to apply the recognition and measurement requirements in IFRS 9.

BC90 The option to apply the recognition and measurement requirements in IAS 39 is the only option to apply the requirements in full IFRS Accounting Standards (fallback to full IFRS Accounting Standards) included in the Standard. The IASB's main reason for permitting the fallback was that SMEs should be

7 See paragraph BC187 of the Basis for Conclusions on the Standard.

permitted to have the same accounting policy options as in IAS 39, pending completion of the IASB's comprehensive project to replace IAS 39 with IFRS 9.[8]

BC91 During the first comprehensive review of the Standard, the IASB noted that consistent with its primary aim of developing a stand-alone, simplified Standard (see paragraph BC85), it would prefer the only fallback to full IFRS Accounting Standards in the Standard to be removed. However, the IASB decided to retain the fallback pending consideration of IFRS 9 during a future review and further evidence of how frequently SMEs use the fallback.[9]

BC92 In the Request for Information, the IASB asked whether respondents are aware of entities that choose to apply the recognition and measurement requirements of IAS 39. It also asked for views on changing the reference to IAS 39 to permit an entity to apply the recognition and measurement requirements in IFRS 9 and the disclosure requirements in Sections 11 and 12 (that is, updating the fallback to IAS 39 to a fallback to IFRS 9).

BC93 The IASB observed that, while most respondents supported updating the fallback from IAS 39 to IFRS 9, most explained that they did so because IFRS 9 is an improved Standard or because the IASB plans to withdraw IAS 39. Furthermore, most respondents, including those that approved of updating the fallback, said they are not aware of SMEs applying it. Therefore, the IASB decided the feedback provided insufficient evidence for retaining the fallback to full IFRS Accounting Standards.

BC94 In the light of this feedback, the IASB is proposing to remove the option to apply the recognition and measurement requirements in full IFRS Accounting Standards for financial instruments in Sections 11 and 12. That is, the IASB is proposing to remove the fallback to IAS 39, without replacing it with a fallback to IFRS 9 because:

(a) the IASB has not identified a good reason for indefinitely maintaining a single exception in the Standard, which permits SMEs to use the recognition and measurement requirements of full IFRS Accounting Standards. The IASB intends the Standard to be a self-contained, stand-alone set of accounting principles. Therefore, any options or requirements considered appropriate should be incorporated in the Standard, not incorporated via a cross-reference to full IFRS Accounting Standards.

(b) the IASB aims to restrict accounting policy options in the Standard because including more complex options generally increases complexity and options also reduce comparability. Paragraphs BC208–BC209 of the Basis for Conclusions on the Standard explain the IASB's reasons for restricting accounting policy options.

8 Paragraph BC106 of the Basis for Conclusions on the Standard sets out the IASB's original reasoning for permitting the fallback to IAS 39.

9 Paragraph BC217 of the Basis for Conclusions on the Standard sets out the IASB's reasoning for retaining the fallback to IAS 39 during the first comprehensive review.

(c) feedback on the Request for Information identified that most respondents are unaware of entities opting to apply the fallback to IAS 39. Furthermore, during this second comprehensive review, the IASB is considering aligning Sections 11 and 12 with IFRS 9. Therefore, the reasons for retaining the fallback to IAS 39 as stated in paragraph BC91 are no longer applicable.

(d) feedback during the first comprehensive review was that most SMEs applied Sections 11 and 12 in full because applying the fallback would be onerous—except subsidiaries of a parent entity that prepares consolidated financial statements complying with full IFRS Accounting Standards.[10] In July 2021, the IASB published Exposure Draft ED/2021/7 *Subsidiaries without Public Accountability: Disclosures*, which would permit these subsidiaries to apply full IFRS Accounting Standards with a reduced set of disclosure requirements. These subsidiaries may find that the proposed new Standard *Subsidiaries without Public Accountability: Disclosures* will be more cost beneficial in their circumstances than applying the *IFRS for SMEs* Accounting Standard.

Issued financial guarantee contracts

BC95 In 2017, the SMEIG issued Q&A 2017/12.1 *Accounting for financial guarantee contracts in individual or separate financial statements of the issuer*. Q&A 2017/12.1 explains that an entity applies the requirements in Section 12 to issued financial guarantee contracts, unless the reporting entity applies the option to use the recognition and measurement requirements in IAS 39. An entity applying Section 12 measures an issued financial guarantee contract at fair value initially and at the end of each reporting period, with changes in fair value recognised in profit or loss.

BC96 In finalising Q&A 2017/12.1, the SMEIG noted that some respondents to the draft Q&A said the requirement for issued financial guarantee contracts to be measured at fair value at the end of each reporting period is more complex than the accounting requirements in IFRS 9. Therefore, the SMEIG recommended that the IASB revisit the accounting for issued financial guarantee contracts during the second comprehensive review, and provide measurement relief. Responding to this advice, in the Request for Information, the IASB asked for views on aligning the accounting requirements for issued financial guarantee contracts in Section 12 with IFRS 9.

BC97 In developing Q&A 2017/12.1, the SMEIG applied the definition of a 'financial guarantee contract' in IFRS 9 because the Standard includes no equivalent definition. Therefore, in the Request for Information, the IASB asked for views on introducing the IFRS 9 definition into the Standard for clarity. Respondents generally agreed with this suggestion. Therefore, the IASB is proposing an amendment to include the IFRS 9 definition of a 'financial guarantee contract' in the Standard.

10 See paragraph BC217(c) of the Basis for Conclusions on the Standard.

BC98 Stakeholders had mixed views on aligning the requirements for issued financial guarantee contracts with IFRS 9. Some respondents raised concerns that the IFRS 9 requirements are too complex for SMEs and simplifications should be considered. Some respondents said entities should apply Section 21 *Provisions and Contingencies* to issued financial guarantee contracts because the requirements in Section 21 are simpler for SMEs than the requirements in IFRS 9. Some respondents noted that the type of financial guarantees commonly issued by SMEs are related party financial guarantees. However, the IASB noted that a financial guarantee contract meets the definition of a 'financial liability' and so should be accounted for as a financial instrument, not a provision.

BC99 An entity applying IFRS 9 initially measures an issued financial guarantee contract at fair value and thereafter at the higher of:

(a) the provision for expected credit losses; and

(b) the amount initially recognised less the cumulative amount of income recognised, when appropriate, applying the principles of IFRS 15 *Revenue from Contracts with Customers*.

BC100 To respond to feedback that the IFRS 9 requirements are too complex, the IASB is proposing these simplifications for SMEs:

(a) the contract would be initially measured at the premium received (plus the present value of any future premium payments receivable). This simplification would respond to feedback that determining the fair value of an issued financial guarantee contract is difficult, particularly for related party contracts. The simplification is also consistent with the requirement in paragraph 11.13 of the Standard that a basic financial asset or liability is initially measured at the transaction price unless the arrangement constitutes a financing transaction.

(b) the wording in paragraph BC99(b) would be simplified by referring to 'the amount initially recognised, if any, amortised on a straight-line basis over the life of the guarantee'. The IASB observed that usually the outcome of applying this wording would be similar to the outcome of applying paragraph BC99(b) for the types of financial guarantee contracts commonly issued by entities applying the Standard (although the amount initially recognised may not be fair value). Furthermore, this wording would be easy to apply and be understood by entities applying the Standard and users of their financial statements.

BC101 Some IASB members expressed concern about recognising the financial guarantee contract at the premium receivable because users of financial statements might lose useful fair value information. These IASB members observed that the premium might be nil for related party financial guarantee contracts, such as intragroup financial guarantee contracts. Some IASB members were also concerned that if the financial guarantee is recorded on initial recognition at nil, this would lead to the recognition of expected credit losses in the period in which the guarantee was issued. Nevertheless, the IASB observed that under the proposed requirements the liability would, at a minimum, at each reporting date be subsequently measured at the amount of the allowance for expected credit losses, which would provide useful information in the statement of financial position about the entity's exposure to credit risk.

BC102 Some IASB members expressed concerns about the cost of measuring expected credit losses for the financial guarantee contract at each reporting date. However, the IASB observed that this cost was a consequence of incorporating an expected credit loss model into the Standard. It also observed that there was no good reason to have a specific exception for financial guarantee contracts.

Requirements for financial instruments in relation to the interbank offered rate (IBOR) reform

BC103 A small number of respondents to the Request for Information suggested the IASB monitor the progress of IBOR reform and if necessary provide reliefs similar to those in full IFRS Accounting Standards. These respondents are referring to the effects of the interest rate benchmark reform on an entity's financial statements that arise when, for example, an interest rate benchmark used to calculate interest on a financial asset is replaced with an alternative benchmark rate. The IASB issued amendments to full IFRS Accounting Standards in 2019 and 2020 to provide relief from the effects of interest rate benchmark reform.

BC104 The IASB consulted the SMEIG and based on the advice of SMEIG members decided no action should be taken for the amendments to full IFRS Accounting Standards relating to the IBOR reform because:

(a) in many jurisdictions the IBOR reform is likely to be completed before any amendments to the Standard from the second comprehensive review are issued. These timings mean any reliefs are unlikely to be helpful for SMEs.

(b) the amendments to full IFRS Accounting Standards assist entities in addressing issues that might affect financial reporting during the reform—issues such as the effects of changes to contractual cash flows arising from the replacement of an interest rate benchmark with an alternative benchmark. The Standard does not include detailed requirements for contract modifications. Therefore, introducing these amendments could lead to unnecessary complexity.

Financial instruments that form part of the long-term investment in an associate or jointly controlled entity

BC105 Feedback on the Request for Information supported aligning the Standard with the 2017 Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures* (see Table A1 accompanying this Basis for Conclusions). In view of this feedback and the IASB's proposed amendments to the impairment model in Section 11, the IASB is also proposing to clarify application of Section 11 and Section 14 *Investments in Associates* when an entity applies the equity method in Section 14 and has financial instruments that form part of the entity's net investment in an associate or jointly controlled entity.

Single section on financial instruments

BC106 The IASB is proposing to consolidate the fair value measurement requirements in a new section (see paragraphs BC116–BC118). The proposal is to combine Sections 11 and 12 into a single section renamed Section 11 *Financial Instruments* to enable the fair value measurement requirements to be included in Section 12 *Fair Value Measurement*. The IASB is proposing the previous requirements in Section 11 are included as Part I of the revised Section 11 and the previous requirements in Section 12 are included as Part II of the revised Section 11.

Other financial instruments topics

BC107 In the Request for Information, the IASB decided not to specifically ask for views on aligning Sections 11 and 12 with IFRS 9 in respect of financial liabilities and own credit risk, and derecognition. Feedback on the Request for Information provided no evidence that the IASB should consider amendments for these topics:

(a) *financial liabilities and own credit risk*—the IASB assessed that the issue of own credit risk is unlikely to be relevant to entities applying the Standard. The IASB decided it was unnecessary to seek views on financial liabilities and own credit risk.

(b) *derecognition*—the requirements for derecognising financial assets and financial liabilities were carried forward from IAS 39 to IFRS 9 and the principle for derecognition is already simplified in Sections 11 and 12. Therefore, the IASB decided it was unnecessary to seek views on derecognition.

(New) Section 12 *Fair Value Measurement*

BC108 Paragraphs 11.27–11.32 of the Standard set out requirements for measuring fair value and are referred to in other sections of the Standard that require or permit the use of fair value. Examples include Sections 14 and 15 (the fair value model for associates and jointly controlled entities), Section 16 (investment property) and Section 28 (the fair value of pension plan assets).

BC109 In May 2011, the IASB issued IFRS 13 *Fair Value Measurement*. IFRS 13 is a single source of fair value measurement guidance that clarifies the definition of 'fair value', provides a clear framework for measuring fair value and enhances disclosures about fair value measurements.

Definition of fair value and fair value guidance

BC110 In the first comprehensive review of the Standard, the IASB consulted with stakeholders on aligning the definition of 'fair value' and the guidance on measuring fair value in the Standard with IFRS 13, but decided not to align, because IFRS 13 had only recently become effective.

BC111 In December 2018, the IASB completed its Post-implementation Review of IFRS 13 and concluded that IFRS 13 is working as intended. The IASB observed that the Post-implementation Review of IFRS 13 provided evidence it should align the Standard with IFRS 13 by applying the IASB's alignment principles.

BC112 In applying the alignment principles, the IASB assessed that alignment with IFRS 13 is relevant to SMEs because it would lead to greater clarity and consistency when SMEs are permitted or required to use a fair value measurement, thereby improving the information provided to users of SMEs' financial statements. Consequently, in the Request for Information, the IASB asked for views on:

(a) aligning the definition of fair value with IFRS 13;

(b) aligning the guidance on fair value measurement with the principles of the fair value hierarchy set out in IFRS 13; and

(c) including examples that illustrate how to apply the hierarchy.

BC113 Respondents to the Request for Information and the SMEIG favoured aligning the Standard with the definition of 'fair value' in IFRS 13 to provide clarity and enhance comparability between financial statements prepared applying the Standard.

BC114 In applying its simplicity principle, the IASB observed that the IFRS 13 definition of 'fair value' is clearer and more comprehensive than the definition of 'fair value' in the Standard and it would, therefore, be simpler to apply. The IASB decided it was unnecessary to simplify the definition in IFRS 13 and is proposing to include that definition in the Standard.

BC115 Feedback on the Request for Information and the SMEIG also favoured aligning the Standard with the guidance on measuring fair value in IFRS 13 and including examples to illustrate how to apply the fair value hierarchy set out in IFRS 13. Some respondents suggested that introducing the IFRS 13 fair value hierarchy into the Standard would be clearer than the current approach, which is based on examples. The IASB agreed with these views and is proposing to align the Standard with the guidance on measuring fair value in IFRS 13. The IASB also agreed to include examples relevant to entities that apply the Standard illustrating how to apply the hierarchy.

Single section

BC116 In the Request for Information, the IASB asked for views on moving the guidance and related disclosure requirements from Section 11 to Section 2 to place these requirements alongside other pervasive principles and emphasise the relevance of these requirements across the Standard.

BC117 Many respondents to the Request for Information and most SMEIG members agreed with moving the requirements for measuring fair value and the disclosure requirements on fair value to Section 2. However, some respondents and some SMEIG members said it may not be appropriate to include the requirements for measuring fair value and disclosure requirements alongside the concepts and principles in Section 2. Many of these respondents suggested it would be more appropriate to have a new, separate section in the Standard.

BC118 The IASB agreed that a new section would emphasise the relevance of the fair value requirements across the Standard, while making it distinct from the concepts and principles in Section 2. Therefore, the IASB is proposing that the requirements for measuring fair value and related disclosure requirements be consolidated in a new section—Section 12 *Fair Value Measurement*. The IASB is proposing the previous requirements in Section 12 be included as Part II of the revised Section 11 *Financial Instruments*.

Section 15 *Investments in Joint Ventures* (renamed *Joint Arrangements*)

BC119 In the first comprehensive review of the Standard, the IASB consulted with stakeholders on aligning the requirements for joint arrangements in Section 15 *Investments in Joint Ventures* (proposed to be renamed Joint Arrangements) with IFRS 11, but decided not to align, because IFRS 11 *Joint Arrangements* had only recently become effective.

BC120 Section 15 of the Standard is based on IAS 31 *Interests in Joint Ventures*. In May 2011, the IASB issued IFRS 11, which replaced IAS 31. In Section 15, 'joint control' is defined as the 'contractually agreed sharing of control over an economic activity and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control'. In contrast, in IFRS 11, joint control is defined as the 'contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control'. The IASB noted that, when developing IFRS 11, it did not reconsider the concept of joint control but aligned the definition of 'joint control' with the definition of 'control' in IFRS 10.

BC121 An entity applying IFRS 11 classifies joint arrangements based on the parties' rights and obligations arising from the arrangements. IFRS 11 classifies joint arrangements as either joint operations or joint ventures. In contrast, IAS 31 and Section 15 classify joint arrangements based on the legal form of the arrangements—subdividing arrangements into three categories: jointly controlled operations, jointly controlled assets and jointly controlled entities. Unlike IAS 31, Section 15 does not permit an entity to apply proportionate consolidation in accounting for its interests in jointly controlled entities.

BC122 The IASB had received feedback (when the Request for Information was developed) that IFRS 11 had been challenging for some entities to apply—specifically classifying a joint arrangement as either a joint operation or a joint venture. Therefore, in the Request for Information, the IASB asked for views on aligning the definition of 'joint control' in Section 15 with the definition in IFRS 11, but retaining the three categories of joint arrangements in Section 15.

Aligning the definition of joint control

BC123 Most respondents favoured aligning the definition of joint control in Section 15 with that in IFRS 11. The IASB views aligning the definition of 'joint control' as a consequence of aligning the definition of 'control' in Section 9.

Classification and measurement requirements of joint arrangements

BC124 The IASB, in applying its alignment principles, noted that alignment of the classification and measurement requirements of joint arrangements is relevant to entities that apply the Standard because the improvements IFRS 11 introduced apply to entities that are parties to joint arrangements.

BC125 IFRS 11 requires an entity to exercise judgement to classify its interests in joint arrangements by assessing its rights and obligations arising from the arrangements. In some cases, the judgement required can be significant. There were mixed views from respondents on whether to align the classification requirements with IFRS 11 or retain the Section 15 classification requirements. Those respondents that preferred to retain the classification requirements in Section 15 said retaining the requirements would reduce judgement involved in classifying joint arrangements. However, some respondents said that retaining the classification requirements would embed an inconsistency with full IFRS Accounting Standards and could confuse users of SMEs' financial statements, especially those familiar with full IFRS Accounting Standards. However, the IASB concluded that retaining the classification requirements in Section 15 would be more consistent with the simplicity principle and there was sufficient evidence from the feedback on the Request for Information to retain the classification requirements.

BC126 Findings in the Post-implementation Review of IFRS 11 provided evidence that the requirements in IFRS 11 enable an entity to faithfully represent its interests in joint arrangements by reflecting its rights and obligations arising from the arrangements. However, the IASB concluded that retaining the classification requirements in Section 15 would not significantly impede faithful representation, because the accounting outcome for jointly controlled assets and jointly controlled operations reached by applying Section 15 is similar to the accounting outcome for joint operations reached by applying IFRS 11.

BC127 Section 15 includes an accounting policy election permitting an entity to choose to apply the cost model, the equity method or the fair value model to account for its jointly controlled entities. The IASB introduced the accounting policy election because entities that apply the Standard had experienced difficulty in applying the equity method and because fair values are relevant for lenders. Respondents to the Request for Information agreed with retaining the accounting policy election and the IASB agreed doing so was an appropriate application of the simplicity principle and cost–benefit considerations.

A party to a jointly controlled operation or a jointly controlled asset (without joint control)

BC128 The IASB is proposing amendments to Section 15 to align it with the requirements in paragraph 23 of IFRS 11, so a party to a jointly controlled operation or a jointly controlled asset that does not have joint control of those arrangements would account for its interest according to the classification of that jointly controlled operation or the jointly controlled asset.

BC129 If the IASB retained paragraph 15.18 of the Standard, a party to a jointly controlled operation or a jointly controlled asset that does not have joint control would recognise either a financial asset or an investment in an associate even though that party may have rights to the assets and obligations for the liabilities. The IASB expects that aligning Section 15 with paragraph 23 of IFRS 11 for entities that are parties to a jointly controlled operation or a jointly controlled asset would result in an accounting outcome that faithfully represents the party's rights and obligations arising from the arrangement.

Section 19 *Business Combinations and Goodwill*

BC130 Section 19 is based on IFRS 3 (2004) *Business Combinations*, which requires an entity to apply the purchase method to business combinations.

BC131 In January 2008, the IASB issued a revised IFRS 3, which requires an entity to apply the acquisition method of accounting to business combinations. IFRS 3 (2008) enhances the relevance, reliability and comparability of information provided about business combinations and their effects. It was developed to address known deficiencies in IFRS 3 (2004) requirements and reduce application problems.

BC132 In October 2018, the IASB issued Amendments to IFRS 3 *Definition of a Business* following a Post-implementation Review of IFRS 3, to make it easier for entities to decide whether activities and assets they acquire are a business or a group of assets.

BC133 In May 2020, the IASB issued Amendments to IFRS 3 *Reference to the Conceptual Framework* following completion of the IASB's research on the possible consequences of referring to the revised definitions of an asset and of a liability.

BC134 During the first comprehensive review of the Standard, the IASB decided against amending the Standard to include the changes introduced by IFRS 3 (2008) because the requirements in Section 19 were working well in practice and requiring more assets to be measured at fair value would introduce complexity. The IASB also prioritised providing SMEs with a stable platform over aligning the Standard with full IFRS Accounting Standards.

BC135 In reassessing the alignment of Section 19 with IFRS 3 (2008) as part of this second comprehensive review, the IASB considered:

(a) the completed Post-implementation Review of IFRS 3 (2008) and the amendment of the definition of a 'business' following the Post-implementation Review;

(b) the increased implementation experience of IFRS 3 (2008), which entities have been applying for several years; and

(c) the increased familiarity of entities with applying Section 19 (which was based on IFRS 3 (2004)).

2018 definition of a 'business'

BC136 In the Request for Information, the IASB asked for views on aligning the definition of a 'business' in the Standard with the amended definition of a business issued in 2018.

BC137 In applying the alignment principles, the IASB assessed that aligning the definition of a 'business' in the Standard with the amended definition of a 'business' issued in 2018 is relevant to SMEs. The improvements introduced in the 2018 definition would enhance the consistency of application and provide clarity and understandability for users of SMEs' financial statements and, therefore, would make a difference in the decisions of those users.

BC138 Feedback on the Request for Information supported aligning the definition of a 'business' in the Standard with the 2018 definition of a 'business' because it would provide clarity and understandability for users of financial statements, and consistency and comparability between the financial statements of entities applying the Standard would be improved. The IASB agreed with respondents that the definition of a 'business' is important because accounting for the acquisition of a set of activities and assets depends on whether the set is a business or merely a group of assets.

BC139 In applying its simplicity principle, the IASB observed that the 2018 definition of a 'business' is clearer than the current definition in the Standard and is simpler for preparers to apply. Therefore, the IASB decided it was unnecessary to further simplify the 2018 definition of a 'business'.

BC140 Therefore, the IASB is proposing to align the definition of a 'business' in the Standard with the amended definition of a 'business' issued in 2018. Some respondents suggested that the IASB include application guidance to assist entities applying the requirements of the 2018 definition of a 'business'. The IASB agreed and is proposing to add application guidance in a new appendix to Section 19 that includes:

(a) the optional concentration test in paragraphs B7A–B7B of IFRS 3;

(b) a decision tree to assess whether an acquired process is substantive; and

(c) the application guidance for the assessment in paragraphs B8–B12D of IFRS 3, along with some illustrative examples.

BC141 As a possible simplification, the IASB also considered introducing a rebuttable presumption in Section 19 when an entity applies the definition of a 'business' —so that if an acquired set of activities and assets has outputs, the rebuttable presumption is that the set of activities and assets qualifies as a business at the acquisition date. This presumption could be rebutted using the factors set out in paragraphs B12B–B12C of IFRS 3.

BC142 The IASB sought the SMEIG's views. Many SMEIG members advised the IASB against introducing the rebuttable presumption because, for example, applying such a presumption could lead to inappropriate conclusions in several situations and would be inconsistent with the 'minimum requirements to be a business' as set out in paragraph B8 of IFRS 3, impeding faithful representation and damaging the quality of information reported to users. Some SMEIG members said the IASB should introduce the rebuttable presumption.

BC143 The IASB agreed with those SMEIG members who did not favour introducing the rebuttable presumption.

The acquisition method of accounting

Simplifications to the acquisition method of accounting

BC144 The Request for Information explained the IASB was not asking for views on amending the Standard:

(a) to change the recognition criteria for recognising an intangible asset acquired in a business combination;

(b) to clarify that an assembled workforce is not recognised as an intangible asset;

(c) to provide additional guidance on reacquired rights; and

(d) to introduce the option to measure non-controlling interests at fair value.

BC145 The IASB acknowledged that not aligning Section 19 with these requirements in IFRS 3 would result in the requirements for accounting for business combinations in the Standard diverging from the acquisition method of accounting. However, the topics the IASB had sought views on (see paragraphs BC165–BC183) aimed to balance simplicity and faithful representation. The IASB reasoned that, applying the Standard, goodwill acquired in a business combination is amortised over its useful life. Consequently, intangible assets acquired in a business combination that are not recognised separately are amortised through the annual amortisation of goodwill. Therefore, the allocation of items between intangible assets and goodwill has less of an effect on financial statements prepared applying the Standard than it does on financial statements prepared applying IFRS 3. The IASB also decided these requirements would introduce unnecessary complexity into the Standard.

1—Identifying the acquirer

BC146 Paragraph B18 of IFRS 3 requires that a new entity formed to effect a business combination is not necessarily the acquirer. Section 19 has no equivalent requirement.

BC147 In responding to the Request for Information, a few respondents and a few SMEIG members suggested that the IASB introduce the guidance in paragraph B18 of IFRS 3 into Section 19. In their view the guidance would:

(a) be useful to preparers and users of financial statements prepared applying the Standard because these types of business combinations are pervasive among entities that apply the Standard, particularly in group reorganisations; and

(b) fill a gap in the Standard.

BC148 In applying its relevance principle, the IASB observed that the feedback on the Request for Information provided evidence that the topic is relevant.

BC149 In applying its simplicity and faithful representation principles, the IASB noted that entities that apply the Standard are already familiar with the indicators set out in paragraph 19.10 of the Standard for identifying an acquirer in situations in which it may be difficult to identify an acquirer. The IASB observed that introducing such guidance would enhance comparability, reduce diversity and provide useful information when a new entity is formed to effect a business combination (that is, if the new entity issues equity shares to effect the business combination).

BC150 Therefore, the IASB is proposing to introduce guidance for a new entity formed to effect a business combination in the new appendix to Section 19, as set out in paragraphs B13–B18 of IFRS 3.

2—Recognition and measurement principles (including exceptions to the principles)

BC151 Section 19 is based on IFRS 3 (2004) and includes the principle that an acquirer recognises separately, at the acquisition date, the acquiree's identifiable assets and liabilities that can be measured reliably and for which it is probable that any associated future economic benefits will flow to, or resources embodying economic benefits will flow from, the acquirer. IFRS 3, as amended in May 2020 (see paragraph BC133), requires recognition of identifiable assets acquired and liabilities assumed that meet the definitions of assets and liabilities in the 2018 *Conceptual Framework*.

BC152 The IASB observed that not aligning Section 19 with IFRS 3, as amended in May 2020, would be inconsistent with the proposed definitions of assets and liabilities in the revised Section 2, which the IASB is proposing to align with the 2018 *Conceptual Framework*.

BC153 The IASB decided to align Section 19 with IFRS 3, as amended in May 2020, so that, to qualify for recognition, the identifiable assets acquired and liabilities assumed would be required to meet the definitions of an asset and a liability in the revised Section 2 at the acquisition date.

BC154 The IASB also observed that in accordance with paragraph 19.15(d) of the Standard, SMEs recognise contingent liabilities assumed in a business combination, whether they are possible obligations or present obligations, when their fair value can be measured reliably. IFRS 3 requires entities to recognise contingent liabilities only if they are present obligations arising from past events whose fair value can be measured reliably.

BC155 The IASB is proposing to clarify that an acquirer does not recognise a contingent liability assumed in a business combination that is not a liability. The proposed clarification would require an SME to recognise contingent liabilities assumed in a business combination only if it is a present obligation and would prohibit an SME from recognising 'possible obligations'.

BC156 The IASB noted that this clarification:

(a) would improve the financial information provided;

(b) would remove the efforts needed to measure the 'possible obligations' at fair value (removing an unnecessary complexity from the Standard); and

(c) would result in the recognition of an amount of goodwill that more faithfully represents the underlying economics of the business combination (avoiding any potential overstatement of the amount of goodwill recognised).

3—Guidance on reacquired rights

BC157 Paragraphs B36 and B53 of IFRS 3 provide guidance on reacquired rights.

BC158 In assessing if guidance on reacquired rights is relevant to SMEs, the IASB asked SMEIG members for their views. SMEIG members said reacquired rights occur infrequently for entities applying the Standard. Therefore, the IASB decided that this topic does not meet the relevance principle. Therefore, in the Exposure Draft, the IASB is not proposing to introduce additional guidance on reacquired rights.

4—Exceptions to the acquisition method (measuring non-controlling interests)

BC159 Section 19 requires that, at the acquisition date, an acquirer measures any non-controlling interest in the acquiree at the non-controlling interest's proportionate share in the recognised amounts of the acquiree's identifiable net assets. IFRS 3 permits the acquirer to measure it at either fair value or the non-controlling interest's proportionate share in the recognised amounts of the acquiree's identifiable net assets.

BC160 In the Request for Information, the IASB did not ask for views on aligning the Standard with IFRS 3 by introducing the option of measuring non-controlling interests at fair value (see paragraph BC144). The IASB was of the view that introducing such an option would add complexity into the Standard, particularly when the acquiree's shares are not traded in an active market. However, some feedback on the Request for Information questioned the elimination of this option.

BC161 In considering the feedback on the Request for Information, the IASB took the view that, conceptually, a non-controlling interest in the acquiree is a component of a business combination and, like other components, should be measured at fair value. Furthermore, the IASB observed that this view is consistent with the reporting entity concept and its proposal to revise Section 2.

BC162 In reviewing the feedback, some IASB members retained the view that introducing the option would add complexity into the Standard. Other IASB members favoured introducing the option to measure non-controlling interests at fair value—both to align with IFRS 3 and because it would be more consistent with the way other components of a business combination are measured and would be useful in decision making.

BC163 The IASB observed that measuring non-controlling interests at the proportionate share of the acquiree's identifiable net assets recognises only the parent's share of goodwill (not the full goodwill). Accordingly, such measurement could be viewed as inconsistent with the revised Section 2. However, the IASB noted that:

(a) this treatment is optional in IFRS 3 and effectively represents an exception to the measurement principle in IFRS 3;

(b) not introducing the option is a simplification and the cost of measuring non-controlling interests at fair value may outweigh the benefit for SMEs; and

(c) the measurement principle in Section 19 requires recognition in full of the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values (except for retaining the simplified criteria for recognising intangible assets acquired in a business combination, see paragraph BC144) and that principle is consistent with the reporting entity perspective discussed in the revised Section 2.

BC164 The IASB is proposing to retain the requirement in Section 19 that an acquirer measures any non-controlling interest in the acquiree at the non-controlling interest's proportionate share in the recognised amounts of the acquiree's identifiable net assets. However, because IASB members have differing views, the IASB, in the Invitation to Comment on the Exposure Draft, asks a question about not introducing the option to measure non-controlling interests at fair value.

5—Contingent consideration

BC165 Section 19 requires that contingent consideration is included in the cost of the business combination at the acquisition date if its payment is probable and can be reliably measured. A change in the estimate of contingent consideration is treated as additional consideration and the cost of the business combination is adjusted—amending the amount of goodwill.

BC166 In the Request for Information, the IASB explained the benefit of requiring an SME to recognise contingent consideration at fair value and subsequently measure it at fair value at each reporting date, with changes in fair value recognised in profit or loss. This requirement would improve users' ability to understand the cost of the business combination and result in the amount of goodwill recognised being a more faithful representation of the underlying economics of the business combination. Therefore, the requirement is relevant to entities applying the Standard.

BC167 In the Request for Information, the IASB asked for views on aligning Section 19 with the requirements for contingent consideration set out in IFRS 3. The IASB also asked for views on simplifying these requirements by permitting an SME to use the undue cost or effort concept in the Standard, including the related disclosures, if measuring contingent consideration at fair value would involve undue cost or effort.

BC168 Respondents to the Request for Information supported aligning Section 19 with the requirements for contingent consideration set out in IFRS 3 (and permitting an SME to use the undue cost or effort concept) because it would more faithfully represent the underlying economics of a business combination. This alignment would also enhance comparability and provide better-quality information to users of SMEs' financial statements.

BC169 A few respondents to the Request for Information expressed concern that requiring contingent consideration to be measured at fair value could introduce complexity. These respondents were also concerned about the risk that SMEs might apply the undue cost or effort concept like an accounting policy choice (that is, an SME might choose to disclose information about contingent consideration instead of attempting to estimate the fair value of that consideration).

BC170 In applying its simplicity and faithful representation principles, the IASB acknowledged that requiring an SME to recognise the contingent consideration at fair value would extend the use of fair value in the Standard. At the same time, delaying the recognition of the contingent consideration would fail to consider that the acquirer's agreement to make contingent payments is the obligating event in a business combination. Therefore, delaying the recognition of the contingent consideration would not faithfully represent the economic consideration exchanged at that date.

BC171 To balance simplicity and faithful representation:

(a) the IASB is proposing to align Section 19 with the requirements for contingent consideration in IFRS 3 and, therefore, to require an SME to recognise contingent consideration at fair value and subsequently measure it at fair value at each reporting date, with changes in fair value recognised in profit or loss.

(b) the IASB is also proposing to exempt an entity from measuring contingent consideration at fair value if that would involve undue cost or effort. An entity applying the exemption would recognise an estimate of the most likely amount of contingent consideration and subsequently review the estimate at each reporting date to reflect the current estimate of the most likely amount. Any adjustments to the amounts previously recognised would be recognised in profit or loss. The IASB views its proposals as consistent with its conclusion, set out in paragraph BC357 of the Basis for Conclusions on IFRS 3, that those subsequent changes in value are generally directly related to post-combination events and changes in circumstances related to the combined entity. Thus, these adjustments should not affect the measurement of the consideration transferred or goodwill on the acquisition date.

6—Business combination achieved in stages (step acquisition)

BC172 Section 19 does not include requirements for step acquisitions. IFRS 3 requires an acquirer to:

(a) measure the fair value of assets and liabilities acquired at the acquisition date and determine the amount of goodwill at the acquisition date; and

(b) remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss in profit or loss.

BC173 The IASB assessed that introducing the requirements set out in IFRS 3 for step acquisitions would improve comparability and provide better-quality information to users. In the absence of requirements in the Standard, SMEs may apply other practices.

BC174 Therefore, the IASB asked for views—first, on whether requirements for step acquisitions should be introduced into Section 19 and, second, on whether those requirements should be aligned with IFRS 3.

BC175 Respondents to the Request for Information agreed with introducing requirements for the accounting for step acquisitions as set out in IFRS 3 because, for example:

(a) the topic is relevant for SMEs.

(b) applying IFRS 3 requirements for step acquisitions would enhance comparability and provide useful information about business combinations and reduce diversity in accounting. It would also require that the fair values of the consideration given, and net assets acquired, are measured on a consistent basis.

BC176 However, there was mixed feedback from SMEIG members on whether entities applying the Standard undertake step acquisitions and, therefore, whether the relevance principle was met.

BC177 In applying its relevance principle, the IASB observed that the feedback on the Request for Information provides evidence that including requirements for step acquisitions aligned with IFRS 3 satisfies the relevance principle. However, the IASB noted that SMEIG members had mixed views on this matter. Thus, the IASB is proposing to include requirements for step acquisitions but asking for further information on introducing these requirements in the Invitation to Comment on the Exposure Draft.

7—Acquisition-related costs

BC178 Section 19 requires costs directly attributable to the business combination to be added to the cost of the business combination.

BC179 In the Request for Information, the IASB noted that introducing requirements for SMEs to recognise acquisition-related costs as an expense at the time of the acquisition (as set out in IFRS 3) would result in the amount of goodwill recognised more faithfully representing the underlying economics of the business combination. Therefore, the requirements would be relevant to SMEs and improve users' ability to understand the cost of the business combination.

BC180 In the Request for Information, the IASB asked for views on aligning Section 19 with the requirements for acquisition-related costs set out in IFRS 3.

BC181 Feedback on the Request for Information supported recognising acquisition-related costs separately as an expense because these costs are not considered part of the fair value exchange between the buyer and seller of the business combination.

BC182 In applying its simplicity and faithful representation principles, the IASB observed that recognising acquisition-related costs as an expense at the time of the acquisition would:

(a) introduce a simplification into the Standard; and

(b) result in the amount of goodwill recognised more faithfully representing the underlying economics of the business combination.

BC183 Therefore, IASB is proposing to align Section 19 with the requirements for acquisition-related costs in IFRS 3, by requiring an SME to recognise acquisition-related costs as an expense at the time of the acquisition.

Section 23 *Revenue* (renamed *Revenue from Contracts with Customers*)

BC184 Section 23 *Revenue* is based on IAS 11 *Construction Contracts* and IAS 18 *Revenue*. This section requires revenue to be recognised for goods when risks and rewards are transferred and, for services, as the service is performed.

BC185 In 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*, which replaced IAS 11 and IAS 18. IFRS 15 was developed to eliminate the inconsistencies and weaknesses in previous revenue Standards. IFRS 15 introduced a single framework for recognising revenue for both goods and services, which requires revenue to be recognised when the customer obtains control of the good or service.

BC186 In the Request for Information, the IASB acknowledged the importance of revenue to financial statements and the potential negative effects of not aligning Section 23 with IFRS 15. However, the IASB also noted that, if Section 23 were aligned with IFRS 15, many entities applying the Standard could see limited changes in the amount and timing of revenue recognised.

BC187 Therefore, in the Request for Information, the IASB asked for views on alternative approaches to aligning Section 23 with IFRS 15, which included:

(a) modifying Section 23 only to remove the clear differences in outcome from applying Section 23 or IFRS 15, without wholly reworking Section 23; and

(b) fully rewriting Section 23 to reflect the principles and language used in IFRS 15.

BC188 Respondents to the Request for Information and the SMEIG generally agreed with aligning Section 23 with IFRS 15. However, respondents had mixed views on whether to modify or fully rewrite (revise) Section 23 (see paragraph BC187). SMEIG members supported aligning Section 23 with IFRS 15 by fully rewriting Section 23.

BC189 The IASB is proposing aligning Section 23 with IFRS 15 by fully rewriting Section 23 to reflect the principles and language used in IFRS 15. The IASB concluded that alignment with IFRS 15 would benefit users and preparers by:

(a) providing consistent and comparable information that more faithfully represents an entity's performance; and

(b) addressing the inconsistencies and weaknesses in the current Section 23 by providing a single, comprehensive framework for revenue recognition.

BC190 The IASB rejected the alternative of modifying Section 23 only to remove the clear differences in outcome from applying Section 23 or IFRS 15. In the IASB's view, that alternative approach would result in a hybrid model for revenue recognition that would be complex to apply. The alternative would also require two conceptually different frameworks for revenue recognition to be brought together, which could result in potential inconsistencies between the requirements. Therefore, the IASB concluded that fully rewriting Section 23 provides a straightforward approach to ensure the fundamental principles for revenue recognition in IFRS 15 are reflected in the Standard. Therefore, the IASB is proposing to revise Section 23 and to rename the section as Section 23 *Revenue from Contracts with Customers*.

BC191 The IASB is proposing simplifications to the requirements in IFRS 15 to reduce the costs of applying the revised Section 23:

(a) the term 'performance obligation' is used in IFRS 15 to identify the unit of account for goods and services promised in a contract with a customer. The IASB is proposing that the term 'promise' is used instead, which is more reflective of the language SMEs use to describe their obligations under contracts with customers.

(b) the definition of a 'performance obligation' in IFRS 15 specifies circumstances in which a promise to provide a series of goods or services is accounted for as a single performance obligation. To simplify the definition of a 'promise', the IASB is proposing to remove this specification from the definition and include it as a separate requirement in Section 23.

(c) IFRS 15 requires contract modifications to be accounted for prospectively using one of two approaches each specified by criteria based on the type of modification (either treated as a separate contract or as a termination of the existing contract and the creation of a new contract). The IASB is proposing that the requirement to account for the modification as a separate contract is available to SMEs as an option when the specified criteria are met, rather than a requirement. This proposal simplifies the accounting for contract modifications by reducing the number of approaches and criteria that an SME is required to consider.

(d) if a contract includes a warranty and the customer does not have the option to purchase the warranty separately, IFRS 15 requires an entity to assess whether the warranty provides a service in addition to the assurance that the product complies with agreed-upon specifications. To limit the situations in which an SME is required to make this assessment, the IASB is proposing to require an SME to make this assessment only when the warranty is significant to the contract.

(e) IFRS 15 requires options granted to customers to purchase additional goods or services to be accounted for as separate performance obligations if these provide the customer with a material right. The IASB is proposing that SMEs separately account for material rights arising from a contract only when the effects of doing so are significant to the contract. This proposal is intended to limit situations when an SME is required to separately account for material rights.

(f) the IASB is proposing to simplify the expression of the requirements for constraining estimates of variable consideration in IFRS 15. The IASB is proposing to reframe the constraint on estimates of variable consideration in the positive by focusing on consideration that will become due instead of revenue reversals that will not occur. This proposal is intended to make the constraint more understandable for SMEs while retaining the level of confidence (highly probable) used in IFRS 15.

(g) IFRS 15 includes a principle that an entity applies to determine whether it is acting as a principal or agent, which is supported by three indicators. The IASB is proposing to reframe the principle and one indicator as circumstances that would result in an entity acting as a principal. If these circumstances are not met, the SME is acting as an agent. The IASB observed that the omitted indicators may be relevant to assessing whether an SME is acting as a principal. However, restricting the assessment to a limited number of factors makes the assessment more prescriptive, which is intended to make determining whether an entity is acting as a principal or an agent simpler for SMEs.

(h) the IASB is proposing that SMEs be required to adjust the promised amount of consideration for the time value of money if payment from customers is deferred beyond normal business terms. This proposal is less onerous than the requirement in IFRS 15 for an entity to adjust the promised amount of consideration for the time value of money if a contract contains any significant financing component, whether from deferred or advance payments.

(i) IFRS 15 includes criteria that specify circumstances in which an entity is required to allocate a discount or variable consideration entirely to one or more, but not all, performance obligations in a contract. Only in these circumstances is the entity allowed to depart from the default method of allocating the transaction price on a stand-alone selling price basis. The IASB is proposing to allow an SME to allocate a discount or variable consideration to promises using an alternative method if the default method does not depict the amount of consideration to which the SME expects to be entitled in exchange for transferring the goods or services. This proposal simplifies the process of allocating a discount or variable consideration to the promises in a contract by removing the requirement for an SME to consider criteria to depart from applying the default method, while still requiring the SME to apply a method that faithfully represents the consideration to which the SME is entitled.

(j) IFRS 15 specifies criteria that determine whether a licence of intellectual property transfers to a customer at a point in time or over time. The criteria require an entity to assess the effect of its activities on the intellectual property and can require an entity to assess whether the intellectual property has 'significant stand-alone functionality'. The IASB is proposing to require SMEs to determine whether a licence of intellectual property transfers at a point in time or over time by applying a single set of simplified criteria to assess the effect of the entity's activities on the benefit that a customer obtains from the intellectual property. The IASB's view is that this approach will result in an outcome consistent with IFRS 15 and so provide useful information for users of SMEs' financial statements, while being more intuitive and easier for SMEs to apply.

(k) IFRS 15 requires an entity to recognise the incremental costs of obtaining a contract as an asset if the entity expects to recover those costs. The IASB is proposing that these costs are recognised as an asset if an SME can identify and assess the costs as recoverable without undue cost or effort. The undue cost or effort exemption is intended for SMEs operating in industries in which the costs of obtaining a contract relative to the costs of fulfilling the contract are small and not reflected in management's assessment of a contract's profit margin or a contract's pricing. In such circumstances, the costs of recognising an asset may exceed the benefits of the information for users of the financial statements.

(l) to simplify application of the proposed revenue recognition model, the revised requirements in Section 23 are structured based on the five steps of this model and reflect the order in which SMEs are expected to apply them.

BC192 As well as the simplifications described in paragraph BC191, the IASB is proposing to allow SMEs the option to apply the revised Section 23 prospectively. Additional disclosure requirements are being proposed to enable users to understand the effect on trend information when an SME applies the requirements prospectively.

BC193 The IASB's view is that the simplifications described in paragraph BC191 appropriately balance the costs and benefits of the requirements in Section 23. The revised Section 23 also expresses the requirements in IFRS 15 in simpler, more concise language when possible. The IASB's view is that these simplifications do not substantially change the underlying principles in IFRS 15 and would not affect faithful representation. Nevertheless, using simpler language in this section may lead to outcomes that are different from the outcomes of applying IFRS 15.

Section 28 *Employee Benefits*

Termination benefits

BC194 The 2011 amendments to IAS 19 *Employee Benefits* clarified that termination benefits should be recognised at the earlier of:

(a) when an entity can no longer withdraw the offer of those benefits; and

(b) when any related restructuring costs are recognised.

BC195 In the Request for Information, the IASB asked for views on aligning the recognition requirements for termination benefits in Section 28 *Employee Benefits* with the requirements in IAS 19. Most respondents agreed with aligning the recognition requirements for termination benefits with the 2011 amendments to IAS 19. The IASB agreed with these respondents and is of the view that aligning the recognition requirements for termination benefits would enable an entity to provide information that faithfully represents its liabilities. The aligned requirements would enable this by requiring the entity to recognise a liability for termination benefits only when the entity has an obligation that it has no practical ability to avoid.

BC196 The IASB noted that paragraph 28.35 of the Standard states 'An entity is demonstrably committed to a termination only when the entity has a detailed formal plan for the termination and without realistic possibility of withdrawal of the plan'. Therefore, aligning Section 28 with the 2011 amendments to IAS 19 is a clarification of the current requirements.

Removing the measurement simplifications for defined benefit obligations

BC197 Section 28 requires an entity to use the projected unit credit method to measure its defined benefit obligation and the related expense if the entity is able to do so without undue cost or effort. Paragraph 28.19 of the Standard permits an entity to make simplifications in measuring its defined benefit obligation with respect to current employees.

BC198 Before publishing the Request for Information, the IASB received questions on applying the measurement simplifications permitted by paragraph 28.19, including:

(a) whether discounting is required when applying the simplifications;

(b) how an entity applies paragraph 28.19; and

(c) the meaning of 'ignore future service' in paragraph 28.19(b).

BC199 In the Request for Information, the IASB asked for views on applying the simplifications in paragraph 28.19.

BC200 Some respondents to the Request for Information said some entities applying paragraph 28.19(b) are measuring their defined benefit obligations, for particular types of defined benefit plans, without discounting, because they assume all employees retire at the reporting date. Without discounting the defined benefit obligation could be overstated. Furthermore, some respondents asked what assumptions an entity can ignore when applying paragraph 28.19(b), that is, ignoring the future service of current employees. The IASB observed that the feedback suggests there is diversity in the application of the simplifications in paragraph 28.19, which results in diversity in measuring defined benefit obligations.

BC201 Feedback on the Request for Information also provided evidence that only a few entities apply paragraph 28.19. Therefore, the IASB is proposing to remove the measurement simplifications by deleting paragraph 28.19.

BC202 However, the IASB noted that if feedback on the Exposure Draft disagreed with removing paragraph 28.19, it could consider clarifying how to apply the measurement simplifications. Therefore, the IASB is asking, in the Invitation to Comment on the Exposure Draft, whether application of the measurement simplifications in paragraph 28.19 is limited and therefore whether it should delete paragraph 28.19 or, alternatively, whether it should clarify paragraph 28.19 by:

(a) stating that an entity may apply any, or all, of the simplifications permitted by paragraph 28.19 when measuring a defined benefit obligation; and

(b) explaining that, when an entity applies paragraph 28.19(b), examples of future service of current employees (assumes closure of the plan for existing employees and for any new employees) that can be ignored include:

    (i) the probability of employees not meeting the vesting conditions when the vesting conditions relate to future service (future turnover rate); and

    (ii) the effects of a benefit formula that gives employees greater benefits for later years of service.

BC203 The IASB is also proposing editorial amendments to Section 28 to improve the drafting and clarify when an entity discounts its defined benefit obligation.

Section 33 *Related Party Disclosures*

BC204 Section 33 *Related Party Disclosures* includes the government-related entity exemption from IAS 24 *Related Party Disclosures* but does not include the additional disclosures required if an entity applies that exemption under IAS 24. Therefore, under Section 33, an entity is exempt from disclosing the nature of the relationship and also information about the transactions and outstanding balances with government-related entities. Feedback from users of SMEs' financial statements identified that information about related party transactions is important. Therefore, the IASB is proposing amendments:

(a) to align the basic disclosure requirements in Section 33 with paragraphs 25–26 of IAS 24. The IASB expects these disclosures will better enable users of SMEs' financial statements to understand the effect of the related party transactions covered by the exemption.

(b) to change the term 'state' in Section 33 to 'government' to align it with IAS 24 (which would also align the terminology with Section 24 *Government Grants*).

BC205 The IASB is also proposing minor amendments to Section 33 to add clarity and align with IAS 24 to improve information for users of SMEs' financial statements:

(a) to replace the heading before paragraph 33.5 of the Standard with one that better describes the content of paragraph 33.5;

(b) to specify in paragraph 33.9(b) of the Standard that an entity shall disclose commitments in addition to disclosing outstanding balances; and

(c) to require an entity to disclose separately the amounts it incurred for the provision of key management services provided by a separate management entity to align with amendments to IAS 24 in *Annual Improvements to IFRSs 2010–2012 Cycle*, issued in December 2013.

Disclosure requirements within sections

BC206 The IASB developed the disclosure requirements in the Standard using the disclosure requirements in full IFRS Accounting Standards as a starting point, and then assessing users' needs and applying the principles set out in paragraph BC157 of the Basis for Conclusions on the Standard. As part of the stakeholder engagement on the Request for Information, interviews were held with users of SMEs' financial statements and feedback was also obtained via an online user survey. Most users who provided feedback agreed that the principles in paragraph BC157 continue to be appropriate for setting disclosure requirements in the Standard.

BC207 In July 2021, the IASB issued Exposure Draft ED/2021/7 *Subsidiaries without Public Accountability: Disclosures*, which sets out the IASB's proposal for a new IFRS Accounting Standard that would permit a subsidiary without public accountability to apply reduced disclosure requirements when applying full

IFRS Accounting Standards. In developing the disclosure requirements in ED/2021/7, the IASB used the Standard as the starting point.

BC208 The IASB developed the disclosure requirements proposed in ED/2021/7 using the following approach:

(a) when there is no recognition and measurement difference between the Standard and full IFRS Accounting Standards, the IASB used the disclosure requirements in the Standard but updated them to align terms and language with full IFRS Accounting Standards; and

(b) when recognition and measurement requirements differ, the IASB used the disclosure requirements in full IFRS Accounting Standards but tailored them by applying the principles it used in considering users' needs in the Standard—set out in paragraph BC157 of the Basis for Conclusions on the Standard.

BC209 The IASB is proposing amendments to the recognition and measurement requirements in many sections of the Standard to align them with full IFRS Accounting Standards during this comprehensive review. Therefore, the IASB also considered whether corresponding changes to disclosure requirements are needed. The IASB views the disclosures in ED/2021/7 as an appropriate basis for amending disclosures in the Standard during this review because of the approach taken to developing ED/2021/7 (see paragraph BC208), which would prioritise consistency between these disclosure requirements and ED/2021/7.

BC210 The IASB is proposing three possible outcomes for each section:

(a) **retain unchanged** the disclosure requirements in the sections of the Standard with recognition and measurement requirements that the IASB is not proposing to amend.

(b) **align** disclosure requirements with the proposals in ED/2021/7 in the sections of the Standard that the IASB is proposing to align with the recognition and measurement requirements in full IFRS Accounting Standards.

(c) **partly align** disclosure requirements with the proposals in ED/2021/7 in the sections of the Standard that the IASB is proposing to partly align with the recognition and measurement requirements in full IFRS Accounting Standards. Partly aligning these requirements means the IASB would:

    (i) retain unchanged those disclosure requirements in the section of the Standard that the IASB is not proposing to align with the recognition and measurement requirements in full IFRS Accounting Standards;

    (ii) align those disclosure requirements with the proposals in ED/2021/7 that the IASB is proposing to align with the recognition and measurement requirements in full IFRS Accounting Standards; and

(iii) simplify those disclosure requirements in full IFRS Accounting Standards by applying paragraph BC157 of the Basis for Conclusions on the Standard, when the IASB is proposing to simplify the recognition and measurement requirements in full IFRS Accounting Standards.

BC211 The disclosure requirements for which the IASB is proposing substantive amendments are in Section 11 *Financial Instruments*, Section 19 *Business Combinations and Goodwill*, Section 23 *Revenue from Contracts with Customers*, Section 28 *Employee Benefits*, Section 33 *Related Party Disclosures* and Section 34 *Specialised Activities*. Minor amendments are included in other sections.

BC212 Proposed new disclosure requirements relating to the transition to the new edition of the Standard are also included in the Exposure Draft.

Multiple sections of the *IFRS for SMEs* Accounting Standard

BC213 In the Request for Information, the IASB asked for views on aligning multiple sections of the Standard with minor amendments to IFRS Accounting Standards and IFRIC Interpretations.[11]

BC214 In developing the Exposure Draft, the IASB considered the feedback and decided:

(a) to propose aligning the Standard with some new requirements resulting from amendments to IFRS Accounting Standards and IFRIC Interpretations, because these new requirements:

(i) are relevant to SMEs;

(ii) would not introduce extra complexity for SMEs; and

(iii) would introduce clarification to assist SMEs to prepare financial statements that faithfully represent the substance of economic phenomena in words and numbers, without significantly changing the requirements in the Standard.

(b) not to propose aligning the Standard with other amendments to IFRS Accounting Standards and IFRIC Interpretations, because:

(i) many of these new requirements are not relevant to SMEs; and/or

(ii) other new requirements contained more detail or required more information to be disclosed than SMEs and users of their financial statements typically require.

BC215 Tables A1–A2 accompanying this Basis for Conclusions categorise the amendments to IFRS Accounting Standards and IFRIC Interpretations based on whether the IASB is:

11 The minor amendments to IFRS Accounting Standards were grouped into tables A1–A5 in Appendix A of the Request for Information.

(a) proposing to align the Standard with the listed amendments to IFRS Accounting Standards and IFRIC Interpretations; and

(b) not proposing to align the Standard with the listed amendments to IFRS Accounting Standards and IFRIC Interpretations.

Disclosure of changes in liabilities from financing activities (Section 7)

BC216 In the Request for Information, the IASB asked for views on aligning the Standard with the 2016 Amendments to IAS 7 *Disclosure Initiative*. These amendments to IAS 7 *Statement of Cash Flows* require a disclosure of changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

BC217 Some respondents and SMEIG members expressed concerns about the difficulty that would be introduced by aligning the Standard with this amendment. However, feedback from the user survey and interviews with users of SMEs' financial statements confirmed that users are particularly interested in information about liquidity and solvency. Most respondents to the user survey and users interviewed supported requiring a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

BC218 In the Exposure Draft ED/2021/7 *Subsidiaries without Public Accountability: Disclosures* (ED/2021/7), the IASB proposed simplifying the disclosure requirements from the 2016 Amendments to IAS 7 by only proposing disclosure of a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. ED/2021/7 does not include the disclosure objective from the 2016 Amendments to IAS 7. Therefore, the disclosure requirements in ED/2021/7 are simpler to apply than in IAS 7 because an eligible subsidiary would not need to apply judgement to decide whether the reconciliation provides sufficient information to enable users of financial statements to evaluate changes in liabilities arising from financing activities.

BC219 The IASB is proposing the same simplification in the Exposure Draft. The IASB observed that because SMEs do not typically have complex liabilities arising from financing activities, in most cases the reconciliation would provide sufficient information about an entity's financial activities. The IASB considers the simplification balances the cost to SMEs of providing the disclosure and the benefit to users of improved information about an SME's financing activities.

Agriculture: Bearer Plants (Section 34)

BC220 In 2014, the IASB issued Amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants*, to require that bearer plants, such as grape vines, rubber trees and oil palms, be accounted for in the same way as property, plant and equipment in IAS 16, because their use is like that of property, plant and equipment in manufacturing operations. The amendment provided relief under full IFRS Accounting Standards by requiring an entity to account for bearer plants applying IAS 16, which permits a cost model, rather than requiring fair value measurement applying IAS 41. The IASB was told that measuring the fair value of bearer plants was costly and complex.

BC221 The amendments to IAS 16 and IAS 41 are relevant to SMEs because some SMEs have bearer plants. Aligning the Standard with these amendments would change the information SMEs provide to users by separately accounting for bearer plants as property, plant and equipment. Section 34 *Specialised Activities* provides relief from fair value measurement for all biological assets, including bearer plants, only if fair value cannot be determined reliably without undue cost or effort. Therefore, in the Request for Information, the IASB asked for views on aligning the Standard with *Agriculture: Bearer Plants*, which would provide further relief for bearer plants.

BC222 Many respondents did not comment specifically on *Agriculture: Bearer Plants*, but offered overall agreement with aligning the Standard with the amendments to IFRS Accounting Standards in Table A1 in Appendix A of the Request for Information, which included *Agriculture: Bearer Plants*. Therefore, it was not clear whether their support for aligning the Standard with this amendment was based on specific agreement or a lack of a detailed objection. However, a few respondents and some SMEIG members expressed specific concerns about aligning Section 34 with *Agriculture: Bearer Plants*, because SMEs might find separately determining the fair value of produce growing on bearer plants costly and complex. Furthermore, separately measuring the bearer plant from the produce might provide little benefit to users of SMEs' financial statements, particularly if the SME uses the undue cost or effort exemption from fair value measurement in Section 34 for the growing produce.

BC223 Considering this feedback, the IASB is proposing to align the Standard with *Agriculture: Bearer Plants*, but providing an exemption that an entity would not be required to separate bearer plants from the produce growing on them if, at initial recognition, such separation would involve undue cost or effort.

BC224 The IASB considered but rejected an alternative approach suggested by some respondents to allow SMEs to choose to account for the 'entire' bearer plant (including the produce) as a single asset. This is not an option provided in full IFRS Accounting Standards and the IASB aims to restrict accounting policy options in the Standard because options reduce comparability and can increase complexity. Paragraphs BC208–BC209 of the Basis for Conclusions on the Standard explain the IASB's reasons for restricting accounting policy options in the Standard.

Editorial amendments

BC225 The IASB is also proposing editorial amendments throughout the Standard. These amendments are shown in marked-up text.

Topics the IASB considered but for which amendments are not proposed

IFRS 14 *Regulatory Deferral Accounts*

BC226 In 2014, the IASB issued IFRS 14 *Regulatory Deferral Accounts*. IFRS 14 provides requirements for regulatory deferral account balances that arise when an entity provides goods or services to customers at a price or rate that is subject to rate regulation. The Standard has no section that corresponds to IFRS 14. Therefore, entities applying the Standard cannot recognise regulatory deferral account balances if these balances would not be permitted or required to be recognised by other sections of the Standard.

BC227 The IASB observed that entities subject to rate regulation could be non-publicly accountable entities. Therefore, such entities could be in the scope of the Standard and the topic may be relevant. However, the IASB has an active project on Rate-regulated Activities which could lead to the replacement of IFRS 14. In the Request for Information, the IASB asked for views on not aligning the Standard with IFRS 14 as part of the second comprehensive review (that is, not including requirements for regulatory deferral account balances in the Standard). During a future review, the IASB could consider alignment with any new IFRS Accounting Standard that arises from its current project on Rate-regulated Activities.

BC228 Many respondents and the SMEIG agreed that the IASB should not align the requirements in the Standard with IFRS 14. Some respondents agreed that the IASB should wait before considering alignment because the IASB has a project on Rate-regulated Activities, which could lead to the replacement of IFRS 14. Some respondents said that rate-regulated entities are generally large, listed entities that do not meet the definition of an SME. Only a few respondents said that the topic may be relevant to some entities.

BC229 The IASB decided the feedback provided enough evidence not to propose aligning the Standard with IFRS 14 as part of this comprehensive review. Nevertheless, the IASB decided it would consider including requirements for regulatory assets and regulatory liabilities in a future review of the Standard, after considering the outcome of its project on Rate-regulated Activities.

IFRS 16 *Leases*

BC230 Section 20 *Leases* is based on IAS 17 *Leases*. In January 2016, the IASB completed its project to improve financial reporting for leases and issued IFRS 16 *Leases*. IFRS 16 superseded IAS 17. IFRS 16:

(a) eliminated, for lessees, the classification of leases as either operating leases or finance leases required by IAS 17 and introduced a single lessee accounting model.

(b) substantially carried forward the lessor accounting requirements in IAS 17. Accordingly, lessors continue to classify leases as operating leases or finance leases, and to account for those two types of leases differently.

BC231 IFRS 16 was issued after the first comprehensive review of the Standard was completed. Therefore, the IASB has not previously considered aligning the Standard with IFRS 16.

BC232 In developing the Request for Information, the IASB noted that leases provide an important source of funding to SMEs. Therefore, it sought views on aligning Section 20 with IFRS 16, simplifying some of the recognition, measurement and disclosure requirements of IFRS 16, as well as the language. In seeking views, the IASB noted that aligning the Standard with IFRS 16 could improve transparency about SMEs' financial leverage and capital employed. In the Request for Information, the IASB said financial statements prepared applying an aligned Section 20 would more faithfully represent SMEs' assets and liabilities and provide useful and relevant information to users.

BC233 Overall feedback on aligning Section 20 with IFRS 16 was mixed. Stakeholders generally suggested the IASB assess the costs and benefits of aligning the Standard with IFRS 16 even with simplifications, and obtain more information about the experience of entities applying IFRS 16, including via the Post-implementation Review of IFRS 16. Some stakeholders and some SMEIG members suggested improving disclosure requirements for operating leases instead of aligning the Standard with IFRS 16.

BC234 In the light of the feedback on the Request for Information, and from supplementary research, the SMEIG discussed three possible approaches:

(a) Approach 1—aligning Section 20 with IFRS 16 with possible simplifications (as described in the Request for Information);

(b) Approach 2—aligning Section 20 with the main principle of IFRS 16 by extending the accounting for finance leases in the Standard to all leases; and

(c) Approach 3—improving disclosure requirements for operating leases without changing the recognition and measurement requirements in the Standard.

BC235 SMEIG members expressed mixed views, and there was no consensus on which of the three approaches to recommend to the IASB for developing the Exposure Draft.

BC236 The IASB considered but rejected both Approach 2 and Approach 3, observing that:

(a) Approach 2 could be considered a subset of Approach 1. Therefore, there was no good reason to prevent SMEs from benefiting from the improved features and various reliefs in IFRS 16.

(b) Approach 3 essentially ignores the fact that a lessee obtains the right to use an underlying asset (an asset) and has an obligation to make lease payments (a liability). Therefore, it would be challenging to improve disclosure requirements for operating leases without amending the recognition and measurement requirements of Section 20.

BC237 As a result, the IASB applied its alignment principles to Approach 1. In considering the relevance to SMEs, the IASB observed that many stakeholders did not disagree that the topic is relevant to SMEs. Stakeholders said that:

(a) IFRS 16 introduces improvements to financial reporting, provides useful information to users and leads to greater transparency of assets and liabilities;

(b) a lessee obtains an asset and incurs a liability whether the entity is applying the Standard or applying IFRS 16; and

(c) property leases for long periods are becoming more common, increasing the need to recognise right-of-use assets and related liabilities to show significant leases in the statement of financial position.

BC238 The IASB also observed, in assessing the relevance to SMEs, that some stakeholders expressed concerns that introducing simplifications, as set out in the Request for Information:

(a) could be challenging because these simplifications might result in new application questions that preparers had not raised when implementing IFRS 16;

(b) could require adjustments to software developed to comply with the requirements in IFRS 16; and

(c) might not faithfully represent an SME's assets and liabilities.

BC239 The IASB also noted that a few stakeholders asserted that a simplified model for operating leases—in which a lessee would classify all cash payments within operating activities in the statement of cash flows—is sufficient for the information needs of users of SMEs' financial statements.

BC240 Overall, the IASB considered that the improvements to financial reporting introduced by IFRS 16 are relevant to SMEs because leases provide an important source of funding to SMEs. However, considering the mixed feedback on whether to align Section 20 with IFRS 16 at this time, IASB members' views on such alignment were also mixed.

BC241 Some IASB members disagreed with aligning Section 20 with IFRS 16 at this time. These IASB members were persuaded by feedback from some stakeholders that the costs and efforts of applying an aligned Section 20 for SMEs would outweigh the benefits for users of their financial statements because:

(a) alignment with IFRS 16 would introduce complexity for SMEs (for example, determining the lease term and the lease payments to measure the lease liability, or applying a discount rate to the lease payments). Further complications could arise if some requirements in IFRS 16 are simplified for SMEs without the IASB having further information about the experience of entities applying IFRS 16. The IASB needs to strike the right balance between simplification and alignment with IFRS 16.

(b) feedback from lenders was that their lending decisions about SMEs were not entirely based on the SMEs' financial statements, but that other sources of information were important, such as forecast cash flow information.

(c) the IASB should wait to align Section 20 with IFRS 16 until it hears more feedback about how IFRS 16 is working in practice, including via:

    (i) any application questions submitted to the IFRS Interpretations Committee; and

    (ii) the post-implementation review.

BC242 Other IASB members agreed that aligning Section 20 with IFRS 16 at this time would be beneficial for SMEs because:

(a) the single accounting model in IFRS 16 is similar to the accounting for finance leases in the Standard. Therefore, SMEs and users of their financial statements are already familiar with the accounting model for leases in IFRS 16.

(b) most SMEs do not have sophisticated leases arrangements (for example, power purchase agreements) and the single accounting model in IFRS 16 is simpler than the requirements for finance leases in Section 20.

(c) IFRS 16 contains several simplifications and practical expedients to respond to concerns about the costs associated with requiring an entity to recognise right-of-use assets and lease liabilities. In some jurisdictions, the only incremental cost of applying an aligned Section 20 might be the cost associated with applying a discount rate to the lease payments. The Request for Information had suggested a simplification for the discount rate that could be used if the IASB decided to align Section 20 with IFRS 16—it was similar to the simplification introduced in Topic 842 *Leases* of US GAAP for lessees that are not public business entities.

(d) ensuring that all leases are recognised in the statement of financial position would improve comparability and provide better-quality information to users—for example, in assessing the repayment capacity of SMEs, lenders consider cash flows associated with leases and the maturity of lease commitments. In some jurisdictions, lenders access the information about leases via centralised credit registers if the information is not available in SMEs' financial statements.

(e) retaining the accounting for lessees in Section 20—for example, until the IASB gathers more feedback about how IFRS 16 is working in practice—would delay potential improvements and lead to a major divergence from full IFRS Accounting Standards on an important matter affecting most SMEs.

BC243 The IASB observed that not aligning Section 20 with the single accounting model in IFRS 16 at this time could be viewed as inconsistent with the proposed definitions of an asset (and of a liability) and therefore the revised Section 2. In developing IFRS 16, the IASB concluded that:

(a) the lessee's right to use an underlying asset meets both the previous (*Conceptual Framework for Financial Reporting*, issued in 2010) and current (*Conceptual Framework for Financial Reporting*, issued in 2018) definitions of an asset; and

(b) the lessee's obligation to make lease payments meets both the previous (*Conceptual Framework for Financial Reporting*, issued in 2010) and current (*Conceptual Framework for Financial Reporting*, issued in 2018) definitions of a liability.

BC244 The IASB weighed the costs and benefits of aligning Section 20 with IFRS 16 and decided:

(a) not to propose amendments to Section 20 at this time; and

(b) to consider amending the Standard to align with IFRS 16 during a future review of the Standard.

BC245 In reaching this decision, the IASB:

(a) observed that cost is a pervasive constraint on the information that can be provided by financial reporting as set out in the revised Section 2—that is, reporting financial information imposes costs, and it is important that those costs are justified by the benefits to users in reporting that information.

(b) observed that the costs and efforts for SMEs to apply an aligned Section 20 (at this stage of IFRS 16's life cycle) might not be justified by the benefits to users.

(c) prioritised timing—that is, allowing for more experience of applying IFRS 16. The IASB noted findings from the projects on its work plan may provide additional information about the costs and benefits of aligning Section 20 with IFRS 16 including:

    (i) both the IFRS Interpretations Committee and the IASB have projects on their work plans related to IFRS 16; and

    (ii) the post-implementation review of IFRS 16 has not yet started.

BC246 The IASB decided to ask for further information on cost–benefit considerations in the Invitation to Comment on the Exposure Draft. The IASB is asking whether:

(a) aligning Section 20 with IFRS 16 at this time imposes a workload on SMEs disproportionate to the benefit to users of their financial statements—specifically, considering:

    (i) the implementation costs that preparers of financial statements could incur;

(ii) the costs that users of financial statements could incur when information is unavailable; and

(iii) the improvement to financial reporting that would be realised from recognising the lessee's right to use an underlying asset (and the lessee's obligation to make lease payments) in the statement of financial position; and

(b) introducing possible simplifications—for example, for determining the discount rate and the subsequent measurement of the lease liability (reassessment)—could help to simplify the requirements and reduce the cost of implementing an aligned Section 20 without reducing the usefulness of the reported information.

Cryptocurrency

BC247 The Standard does not include specific requirements for cryptocurrency and related transactions. In the Request for Information, the IASB asked for information on the prevalence of holdings of cryptocurrency and issuance of cryptoassets among SMEs to help the IASB decide whether the Standard should include requirements for holdings of cryptocurrency and issuance of cryptoassets.

BC248 Many respondents and SMEIG members said that in their jurisdictions holdings of cryptocurrency and issuance of cryptoassets were uncommon among SMEs. Some SMEIG members said that the IASB should complete research and standard-setting on cryptocurrency as part of its work on full IFRS Accounting Standards before considering requirements for the Standard.

BC249 The IASB agreed with the views of respondents and the advice of SMEIG members that the Standard should follow full IFRS Accounting Standards. Therefore, it decided against developing requirements for holdings of cryptocurrency or for issuing cryptoassets. The IASB decided to revisit this topic in the next comprehensive review of the Standard in the light of any future research and standard-setting completed during projects for full IFRS Accounting Standards.

Requirements for non-current assets held for sale and discontinued operations

BC250 The IASB considered requests from some respondents to add definitions or requirements relating to discontinued operations and assets held for sale—that is, to align the Standard with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

BC251 The IASB observed that the disclosure requirements in paragraph 4.14 of the Standard address disposals of major assets or groups of assets and that adding presentation requirements based on requirements in IFRS 5 would introduce complexity.[12] The IASB has not identified other significant relevant information that enhanced disclosure requirements would provide.

BC252 The IASB is proposing amendments to paragraph 4.14(b) of the Standard to remove the phrase 'or plan' because the disclosures only apply to a situation in which an entity has a binding sale agreement rather than other plans to sell or dispose of an asset or a group of assets and liabilities. The IASB is also proposing amendments to paragraph 5.11 of the Standard to clarify that the required analysis may be included in a note, separately from the primary statements.

Recognition and measurement requirements for development costs

BC253 As a simplification, the Standard requires all development costs to be recognised as expenses, whereas IAS 38 *Intangible Assets* requires the recognition of intangible assets arising from development costs that meet specified criteria. This simplification in the Standard was made for cost–benefit reasons. In particular, when the IASB was developing the Standard, feedback suggested that SMEs do not have the resources to assess whether a project is commercially viable on an ongoing basis and lenders disregard information about capitalised development costs in making lending decisions about SMEs (see paragraph BC113 of the Basis for Conclusions on the Standard).

BC254 A few respondents to the Request for Information said the IASB should amend the recognition and measurement requirements for development costs in the Standard to permit an SME to recognise intangible assets arising from development costs meeting the criteria in paragraph 57(a)–(f) of IAS 38. The IASB noted that similar comments had been raised during the first comprehensive review of the Standard. However, the IASB had focused on the balance of costs and benefits and decided not to amend the recognition and measurement requirements for development costs in the Standard as part of the first comprehensive review.

BC255 SMEIG members agreed with amending the recognition and measurement requirements for development costs subject to the criteria in IAS 38—that is, either by introducing an accounting policy option or by introducing a requirement with an undue cost or effort exemption.

12 Paragraph 4.14 requires that if, at the reporting date, an entity has a binding sale agreement for a major disposal of assets, or a group of assets and liabilities, the entity shall disclose:

(a) a description of the asset(s) or the group of assets and liabilities;

(b) a description of the facts and circumstances of the sale or plan; and

(c) the carrying amount of the asset or, if the disposal involves a group of assets and liabilities, the carrying amount of those assets and liabilities.

BC256 During this second comprehensive review, the IASB acknowledged new information might be identified that would warrant amending the recognition and measurement requirements for development costs. However, the IASB is not proposing to amend the recognition and measurement requirements for development costs in the Exposure Draft. Instead, in the Invitation to Comment on the Exposure Draft, the IASB is asking about the costs and benefits of introducing an accounting policy option permitting an SME to recognise intangible assets arising from development costs meeting the criteria in paragraph 57(a)–(f) of IAS 38.

BC257 The IASB aims to restrict accounting policy options in the Standard because including more complex options generally increases complexity and options also reduce comparability. Nevertheless, the IASB considered the alternative of requiring an SME to recognise the development costs meeting the criteria in IAS 38 as intangible assets unless doing so involves undue cost or effort. However, the IASB is of the view that the undue cost or effort assessment for development costs would require judgement and would add complexity for all SMEs. The IASB continues to agree with its reasoning in paragraph BC253 and therefore thinks that typically SMEs should recognise development costs as expenses. Therefore, in applying the alignment principles, the IASB is of the view that introducing an accounting policy option would be more consistent with the principle of simplicity compared to introducing a requirement with an undue cost or effort exemption.

Other topics

BC258 In the Request for Information, the IASB asked respondents if there were any topics the Standard does not address that should be the subject of specific requirements and whether respondents would like to bring to the IASB's attention any additional issue relating to the Standard.

BC259 Respondents identified various topics including:

(a) requests that the Standard include requirements for:

  (i) not-for-profit entities;

  (ii) earnings per share and operating segments;

  (iii) IFRIC 2 *Members' Shares in Co-operative Entities and Similar Instruments*;

  (iv) non-governmental grants; and

  (v) interim financial reporting;

(b) suggestions on requirements in the Standard:

  (i) removing the requirement in paragraph 22.7(a) of the Standard that an entity presents unpaid issued equity instruments as an offset to equity in its statement of financial position;

  (ii) amending the requirements in paragraph 26.15 of the Standard on share-based payments with settlement options to require equity-settled as the default treatment rather than cash-settled;

(iii) expanding the consolidation exemption in paragraph 9.3 of the Standard;

(iv) including a fallback option to IAS 38 for the subsequent measurement of intangible assets; and

(v) simplifying the measurement of loans from a director by measuring them at transaction price rather than at present value as required by Section 11;

(c) suggestions on disclosures:

(i) introducing specific disclosures in the Standard for tax authorities and lenders; and

(ii) simplifying disclosures in the Standard for related party transactions;

(d) suggestions to include guidance and clarification:

(i) identifying the inconsistencies between the Standard and the European Accounting Directive;

(ii) clarifying whether a new IFRS Accounting Standard can be applied by an entity applying the Standard;

(iii) adding guidance for the application of present value techniques under conditions of uncertainty; and

(iv) adding guidance on the subsequent measurement of biological assets measured at fair value less costs to sell;

(e) suggestions to permit accounting policy options for:

(i) capitalisation of borrowing costs;

(ii) subsequent measurement of investment property; and

(iii) recognition requirements for government grants; and

(f) suggestions to consider topics within the IASB's work plan or Third Agenda Consultation.

BC260 The IASB considered the topics in paragraph BC259, but is not proposing amendments to the Standard because:

(a) some suggestions would not meet the principle of relevance to SMEs (for example, the matter in paragraph BC259(a)(ii));

(b) some of these requirements are already considered in a published document or supporting material in relation to the Standard (for example, the matter in paragraph BC259(a)(iii));

(c) some of these requirements, if introduced or amended, would lead to the Standard including requirements before those requirements are considered for inclusion in full IFRS Accounting Standards (for example, the matter in paragraph BC259(a)(iv));

(d) some suggestions would lead to inconsistency with full IFRS Accounting Standards (for example, the matter in paragraph BC259(b)(iii));

(e) some suggestions would not enhance the usefulness of financial statements prepared applying the Standard (for example, the matter in paragraph BC259(c)(ii));

(f) some suggestions would add complexity to the Standard (for example, the matters in paragraph BC259(e)); and

(g) some suggestions relate to an active project that the IASB is working on or one that was being considered as part of its Third Agenda Consultation, and thus should be considered in a future review of the Standard when the IASB has concluded its active project (for example, the matters in paragraph BC259(f)).

BC261 Most SMEIG members supported not proposing amendments to the Standard for the topics described in paragraph BC259.

Transition and effective date

Transition to the third edition of the *IFRS for SMEs* Accounting Standard

BC262 The IASB's approach in proposing transition requirements for entities initially applying the third edition of the Standard is to reflect the comparable transition requirements in new or amended IFRS Accounting Standards and IFRIC Interpretations, when possible, with simplifications when they are considered appropriate for SMEs.

BC263 The default approach to transition is to require retrospective application of new and amended paragraphs in the Standard, subject to paragraph 10.12 of the Standard. Paragraph 10.12 requires that if a change in accounting policy is applied retrospectively (whether because of a change in the Standard or a management decision), the policy is applied to comparative information for prior periods to 'the earliest date for which it is practicable, as if the new accounting policy had always been applied'. When it is impracticable to determine the effects for one or more prior periods, the policy is applied to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable.

BC264 Appendix A to the Standard sets out exceptions to the default approach to applying changes retrospectively. When exceptions are set out that permit application from the date of initial application of the third edition of the Standard, these are generally based on the exceptions in the related new or amended IFRS Accounting Standard or IFRIC Interpretation.

BC265 The transition requirements relating to Section 23 would permit fewer retrospective transition methods than IFRS 15. IFRS 15 allowed a cumulative adjustment on transition, and the IASB is proposing to exclude this method, because entities that can prepare the information for a cumulative adjustment also are likely to be able to determine a full retrospective adjustment, and those that cannot would be permitted to apply the revised Section 23 prospectively from the date of initial application.

BC266 If an entity prepares its first financial statements using the *IFRS for SMEs* Accounting Standard, it would apply the requirements in Section 35. The IASB is proposing to amend only one of these requirements in the third edition of the Standard—that involving revenue. The IASB is proposing to retain the accounting policy for contracts in progress at the date of first-time application, updated for the proposed requirements of Section 23.

Effective date of the third edition of the *IFRS for SMEs* Accounting Standard

BC267 The IASB is proposing a wide range of amendments to the *IFRS for SMEs* Accounting Standard as part of its second comprehensive review. Therefore, the IASB observed that sufficient time should be provided for SMEs to understand and prepare for the amendments. The IASB is proposing that the effective date of the third edition of the *IFRS for SMEs* Accounting Standard be a minimum of two years from the date when the third edition of the Standard is issued, with early application permitted.

Likely effects of the proposals

BC268 The IASB is committed to assessing and explaining its views about the likely benefits and costs of implementing its proposals, and the likely ongoing benefits and application costs of those proposals—these benefits and costs are collectively referred to as 'effects'. The IASB expects to gain further insight into the likely effects of its proposals from responses to the Exposure Draft and through analysis and stakeholder engagement activities.

BC269 Paragraphs BC27–BC37 describe the IASB's alignment approach to developing proposed amendments to the Standard. Acknowledging SMEs' limited resources, the IASB considered, separately for each requirement, the likely costs and benefits of aligning the Standard with a new requirement in full IFRS Accounting Standards in the scope of the review. The IASB has explained how it has applied its alignment approach for each amendment throughout this Basis for Conclusions. By using the IASB's alignment approach and separately assessing the likely costs and benefits of each new requirement in full IFRS Accounting Standards in the scope of the review, the IASB can be satisfied that an overall assessment of the proposed amendments to the Standard would be that the benefits of the information provided under the proposed amendments would outweigh the costs of implementing the proposals.

Tables showing treatment of amendments to full IFRS Accounting Standards

A1 For amendments to full IFRS Accounting Standards in the scope of this second comprehensive review, the following table lists topics the IASB considered and for which it is proposing amendments to the *IFRS for SMEs* Accounting Standard.

Table A1—Overview of amendments to full IFRS Accounting Standards for which the IASB is proposing changes to the *IFRS for SMEs* Accounting Standard

Section	IFRS Accounting Standard/Amendment to IFRS Accounting Standards	Main paragraphs in the Exposure Draft
Section 2 *Concepts and Pervasive Principles*	*Conceptual Framework for Financial Reporting*	2.1–2.131
Section 3 *Financial Statement Presentation*	*Definition of Material* (Amendments to IAS 1 and IAS 8)	3.16
Section 3 *Financial Statement Presentation*	*Disclosure Initiative* (Amendments to IAS 1)	3.15A
Section 7 *Statement of Cash Flows*	*Disclosure Initiative* (Amendments to IAS 7)	7.19A
Section 8 *Notes to the Financial Statements*	*Disclosure of Accounting Policies* (Amendments to IAS 1 and IFRS Practice Statement 2)[13]	8.4–8.6
Section 9 *Consolidated and Separate Financial Statements*	IFRS 10 *Consolidated Financial Statements*	9.4–9.6A, 9.18–9.19 and 9.23B
Section 10 *Accounting Policies, Estimates and Errors*	*Definition of Accounting Estimates* (Amendments to IAS 8)[13]	10.14A–10.15
Section 11 *Financial Instruments*	IFRS 9 *Financial Instruments*	11.2, 11.4–11.5, 11.8(e), 11.9ZA, 11.11A, 11.13 (Examples—financial liabilities), 11.14(d), 11.41(g), 11.48(a)(v), 11.25 and 11.26A–11.26L

continued...

13 This amendment to an IFRS Accounting Standard is outside the scope of the second comprehensive review, but the IASB is of the view that it is interrelated with other amendments the IASB is proposing and that SMEs could benefit from the improvements brought by the amendment without delay.

...continued

Section	IFRS Accounting Standard/Amendment to IFRS Accounting Standards	Main paragraphs in the Exposure Draft
Section 11 *Financial Instruments*	*Prepayment Features with Negative Compensation* (Amendments to IFRS 9)	11.9(b)
Section 12 *Fair Value Measurement*	IFRS 13 *Fair Value Measurement* *Annual Improvements to IFRSs 2010–2012 Cycle* (IFRS 13) *Annual Improvements to IFRSs 2011–2013 Cycle* (IFRS 13)	12.1–12.32 and 12A.1–12A.8
Section 14 *Investments in Associates*	*Long-term Interests in Associates and Joint Ventures* (Amendments to IAS 28)	14.8(d) and 14.8(h)
Section 15 *Joint Arrangements*	IFRS 11 *Joint Arrangements*	15.1–15.8 and 15.16–15.18B
Section 16 *Investment Property*	*Transfers of Investment Property* (Amendments to IAS 40)	16.9
Section 16 *Investment Property*	*Annual Improvements to IFRSs 2011–2013 Cycle* (IAS 40)	16.3A
Section 17 *Property, Plant and Equipment*	*Clarification of Acceptable Methods of Depreciation and Amortisation* (Amendments to IAS 16 and IAS 38)	17.21(c) and 17.22
Section 17 *Property, Plant and Equipment*	*Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41)	17.3(a)
Section 18 *Intangible Assets other than Goodwill*	*Clarification of Acceptable Methods of Depreciation and Amortisation* (Amendments to IAS 16 and IAS 38)	18.22A

continued...

...continued

Section	IFRS Accounting Standard/Amendment to IFRS Accounting Standards	Main paragraphs in the Exposure Draft
Section 19 *Business Combinations and Goodwill*	IFRS 3 *Business Combinations* *Annual Improvements to IFRSs 2010–2012 Cycle (IFRS 3)* *Annual Improvements to IFRSs 2011–2013 Cycle* (IFRS 3) *Annual Improvements to IFRS Standards 2015–2017 Cycle* (IFRS 3)	19.1–19.26A, 19A.1–19A.15 and 19B.1–19B.19
Section 23 *Revenue from Contracts with Customers*	IFRS 15 *Revenue from Contracts with Customers* *Clarifications to IFRS 15* Revenue from Contracts with Customers	23.1–23.129
Section 26 *Share-based Payment*	*Annual Improvements to IFRSs 2010–2012 Cycle* (IFRS 2)	26.9
Section 26 *Share-based Payment*	*Classification and Measurement of Share-based Payment Transactions* (Amendments to IFRS 2)	26.14A–26.15C
Section 28 *Employee Benefits*	IAS 19 *Employee Benefits* (issued in 2011)	28.1(d)(ii), 28.34–28.35 and 28.41–28.41E
Section 29 *Income Tax*	*Recognition of Deferred Tax Assets for Unrealised Losses* (Amendments to IAS 12)	29.16A, 29.19(a) and 29.19A
Section 29 *Income Tax*	IFRIC 23 *Uncertainty over Income Tax Treatments*	29.34A–29.34D
Section 30 *Foreign Currency Translation*	IFRIC 22 *Foreign Currency Transactions and Advance Consideration*	30.8A

continued...

...continued

Section	IFRS Accounting Standard/Amendment to IFRS Accounting Standards	Main paragraphs in the Exposure Draft
Section 33 *Related Party Disclosures*	IAS 24 *Related Party Disclosures* *Annual Improvements to IFRSs 2010–2012 Cycle* (IAS 24)	33.7A, 33.9(b), 33.11, 33.12(ha) and 33.15
Section 34 *Specialised Activities*	*Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41)	34.2–34.2B

A2 The following table lists amendments to full IFRS Accounting Standards in the scope of this second comprehensive review that the IASB considered but for which it decided not to propose amendments to the *IFRS for SMEs* Accounting Standard.

Table A2—Overview of amendments to full IFRS Accounting Standards for which the IASB is not proposing changes to the *IFRS for SMEs* Accounting Standard

Section	IFRS Accounting Standard/Amendment to IFRS Accounting Standards
Section 9 *Consolidated and Separate Financial Statements*	*Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* (Amendments to IFRS 10, IFRS 11 and IFRS 12)
Section 9 *Consolidated and Separate Financial Statements*	*Annual Improvements to IFRS Standards 2014–2016 Cycle* (IFRS 12)
Section 9 *Consolidated and Separate Financial Statements*	*Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27)
Section 9 *Consolidated and Separate Financial Statements*	*Investment Entities: Applying the Consolidation Exception* (Amendments to IFRS 10, IFRS 12 and IAS 28)
Section 11 *Financial Instruments*	*Annual Improvements to IFRSs 2012–2014 Cycle* (IFRS 7)
Section 11 *Financial Instruments*	*Novation of Derivatives and Continuation of Hedge Accounting* (Amendments to IAS 39)
Section 14 *Investments in Associates*	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28)
Section 15 *Joint Arrangements*	*Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* (Amendments to IFRS 10, IFRS 11 and IFRS 12)
Section 15 *Joint Arrangements*	*Accounting for Acquisitions of Interests in Joint Operations* (Amendments to IFRS 11)
Section 15 *Joint Arrangements*	*Annual Improvements to IFRS Standards 2015–2017 Cycle* (IFRS 11)
Section 18 *Intangible Assets other than Goodwill*	*Annual Improvements to IFRSs 2010–2012 Cycle* (IAS 38)
Section 20 *Leases*	IFRS 16 *Leases*
Section 21 *Provisions and Contingencies*	IFRIC 21 *Levies*

continued...

...continued

Section	IFRS Accounting Standard/Amendment to IFRS Accounting Standards
Section 23 *Revenue from Contracts with Customers*	*Effective Date of IFRS 15*
Section 27 *Impairment of Assets*	*Recoverable Amount Disclosures for Non-Financial Assets* (Amendments to IAS 36)
Section 28 *Employee Benefits*	*Defined Benefit Plans: Employee Contributions* (Amendments to IAS 19)
Section 28 *Employee Benefits*	*Plan Amendment, Curtailment or Settlement* (Amendments to IAS 19)
Section 29 *Income Tax*	*Annual Improvements to IFRS Standards 2015–2017 Cycle* (IAS 12)
Section 34 *Specialised Activities*	IFRS 14 *Regulatory Deferral Accounts*
Section 35 *Transition to the* IFRS for SMEs *Accounting Standard*	*Annual Improvements to IFRSs 2011–2013 Cycle* (IFRS 1)
Section 35 *Transition to the* IFRS for SMEs *Accounting Standard*	*Annual Improvements to IFRS Standards 2014–2016 Cycle* (IFRS 1)
No equivalent section	*Applying IFRS 9* Financial Instruments *with IFRS 4* Insurance Contracts

CONTENTS

from page

EXPOSURE DRAFT *THIRD EDITION OF THE* IFRS FOR SMEs *ACCOUNTING STANDARD* ILLUSTRATIVE FINANCIAL STATEMENTS

IFRS for SMEs® Accounting Standard

Illustrative Financial Statements

This guidance accompanies, but is not part of, the IFRS for SMEs *Accounting Standard*.

F1 Section 3 *Financial Statement Presentation* of the *IFRS for SMEs* Accounting Standard defines a complete set of financial statements and prescribes general requirements for presenting financial statements. Section 4 *Statement of Financial Position*, Section 5 *Statement of Comprehensive Income and Income Statement*, Section 6 *Statement of Changes in Equity and Statement of Income and Retained Earnings*, Section 7 *Statement of Cash Flows* and Section 8 *Notes to the Financial Statements* prescribe the format and content of the individual financial statements and notes. Other sections of the *IFRS for SMEs* Accounting Standard establish additional presentation and disclosure requirements. These illustrative financial statements show how those presentation and disclosure requirements might be met by a typical small or medium-sized entity. Of course, each entity will need to consider the content, sequencing and format of their presentation and the descriptions it uses for line items to achieve 'fair presentation' in that entity's particular circumstances. These illustrative financial statements should not be regarded as a template appropriate for all entities.

F2 The illustrative statement of financial position presents current assets followed by non-current assets, and presents current liabilities followed by non-current liabilities and then by equity (that is, the most liquid items are presented first). In some jurisdictions, the sequencing is typically reversed (that is, the most liquid items are presented last), and that is also permitted by the *IFRS for SMEs* Accounting Standard. In accordance with paragraph 3.22 of the *IFRS for SMEs* Accounting Standard, an entity may use titles for the financial statements other than those used in these illustrations.

F3 In accordance with paragraph 3.18, the illustrative financial statements present a single statement of comprehensive income and retained earnings in place of two separate statements—a statement of comprehensive income and a statement of changes in equity. An entity can take this approach if the only changes to its equity during the periods for which it presents financial statements arise from profit or loss, payment of dividends, corrections of prior period errors and changes in accounting policy. (Because no items of other comprehensive income are presented, this statement could have been titled 'Statement of income and retained earnings'.) Two statements of comprehensive income and retained earnings are provided to illustrate the alternative classifications of income and expenses, by nature and by function—see paragraph 5.11 of the *IFRS for SMEs* Accounting Standard.

F4 The illustrative financial statements are not intended to illustrate all aspects of the *IFRS for SMEs* Accounting Standard. The IFRS Foundation's *IFRS for SMEs* training material, available on the SME webpages of the IFRS Foundation's website (www.ifrs.org), contains, by section, further illustrations of the presentation and disclosure requirements of the *IFRS for SMEs* Accounting Standard.

F5 The *IFRS for SMEs* Accounting Standard does not require a statement of financial position at the beginning of the earliest comparative period. However, the illustrative statement of financial position includes a column for the opening statement of financial position to assist understanding of the calculations of the underlying amounts in the statement of cash flows.

XYZ Group

Consolidated statement of comprehensive income and retained earnings for the year ended 31 December 20X2

(Alternative 1—Illustrating the classification of expenses by function)

	Notes	**20X2**	**20X1**
		CU	**CU**
Revenue	5	6,846,037	5,785,275
Cost of sales		(5,157,249)	(4,404,400)
Gross profit		1,688,788	1,380,875
Other income	6	88,850	25,000
Distribution costs		(175,550)	(156,800)
Administrative expenses		(810,230)	(660,389)
Other expenses		(106,763)	(100,030)
Finance costs	7	(26,366)	(36,712)
Profit before tax	8	658,729	451,944
Income tax expense	9	(270,250)	(189,559)
Profit for the year		388,479	262,385
Retained earnings at start of year		2,166,150	2,003,765
Dividends		(150,000)	(100,000)
Retained earnings at end of year		2,404,629	2,166,150

Note: In this format, the entity aggregates expenses according to their function (for example, cost of sales, distribution and administrative). As the only changes to XYZ Group's equity during the year arose from profit or loss and payment of dividends, it has elected to present a single statement of comprehensive income and retained earnings instead of separate statements of comprehensive income and changes in equity.

XYZ Group

Consolidated statement of comprehensive income and retained earnings for the year ended 31 December 20X2

(Alternative 2—Illustrating the classification of expenses by nature)

	Notes	**20X2**	**20X1**
		CU	**CU**
Revenue	5	6,846,037	5,785,275
Other income	6	88,850	25,000
Changes in inventories of finished goods, work in progress and returns assets		6,416	10,595
Raw material and consumables used		(4,786,699)	(4,092,185)
Employee salaries and benefits		(936,142)	(879,900)
Depreciation and amortisation expense		(272,060)	(221,247)
Impairment of property, plant and equipment		(30,000)	–
Other expenses		(231,307)	(138,882)
Finance costs	7	(26,366)	(36,712)
Profit before tax	8	658,729	451,944
Income tax expense	9	(270,250)	(189,559)
Profit for the year		388,479	262,385
Retained earnings at start of year		2,166,150	2,003,765
Dividends		(150,000)	(100,000)
Retained earnings at end of year		2,404,629	2,166,150

Note: In this format, the entity aggregates expenses according to their nature (for example, raw materials and consumables, employee salaries and benefits, depreciation and amortisation, impairment and other expenses). As the only changes to XYZ Group's equity during the year arose from profit or loss and payment of dividends, it has elected to present a single statement of comprehensive income and retained earnings instead of separate statements of comprehensive income and changes in equity.

XYZ Group

Consolidated statement of financial position at 31 December 20X2

	Notes	20X2	20X1	20X0
		CU	CU	CU
ASSETS				
Current assets				
Cash		38,905	22,075	18,478
Trade and other receivables	10	585,548	573,862	521,234
Inventories	11	96,837	66,095	45,050
		721,290	662,032	584,762
Non-current assets				
Investment in associate	12	107,500	107,500	107,500
Property, plant and equipment	13	2,549,945	2,401,455	2,186,002
Intangible assets	14	850	2,550	4,250
Deferred tax asset	15	4,309	2,912	2,155
		2,662,604	2,514,417	2,299,907
Total assets		3,383,894	3,176,449	2,884,669
LIABILITIES AND EQUITY				
Current liabilities				
Bank overdraft	16	83,600	115,507	20,435
Trade and other payables	17	482,571	443,898	412,690
Interest payable	7	2,000	1,200	–
Current tax liability		271,647	190,316	173,211
Provision for warranty obligations	18	4,200	5,040	2,000
Current portion of employee benefit obligations	19	4,944	4,754	4,571
Current portion of obligations under finance leases	20	21,461	19,884	18,423
		870,423	780,599	631,330

continued...

...continued

Non-current liabilities				
Bank loan	16	50,000	150,000	150,000
Long-term employee benefit obligations	19	5,679	5,076	5,066
Obligations under finance leases	20	23,163	44,624	64,508
		78,842	199,700	219,574
Total liabilities		949,265	980,299	850,904
Equity				
Share capital	22	30,000	30,000	30,000
Retained earnings	4	2,404,629	2,166,150	2,003,765
		2,434,629	2,196,150	2,033,765
Total liabilities and equity		3,383,894	3,176,449	2,884,669

Note: The *IFRS for SMEs* Accounting Standard does not require a statement of financial position at the beginning of the earliest comparative period. This opening statement of financial position is presented here, in the shaded column, to aid understanding of the calculations underlying amounts in the statement of cash flows.

XYZ Group

Consolidated statement of cash flows for the year ended 31 December 20X2

	Notes	20X2	20X1
		CU	**CU**
Cash flows from operating activities			
Profit for the year		388,479	262,385
Adjustments for non-cash income and expenses:			
Non-cash finance costs[(a)]		800	1,200
Non-cash income tax expense[(b)]		79,934	16,348
Depreciation of property, plant and equipment		270,360	219,547
Impairment loss		30,000	–
Amortisation of intangibles		1,700	1,700
Cash flow included in investing activities:			
Gain on sale of equipment		(63,850)	–
Changes in operating assets and liabilities:			
Decrease (increase) in trade and other receivables		(11,686)	(52,628)
Decrease (increase) in inventories		(30,742)	(21,045)
Increase (decrease) in trade and other payables[(c)]		37,833	34,248
Increase in current and long-term employee benefit payable		793	193
Net cash from operating activities		703,621	461,948
Cash flows from investing activities			
Proceeds from sale of equipment		100,000	–
Purchases of equipment		(485,000)	(435,000)
Net cash used in investing activities		(385,000)	(435,000)

continued...

...continued

Cash flows from financing activities			
Payment of finance lease liabilities		(19,884)	(18,423)
Repayment of borrowings		(100,000)	–
Dividends paid		(150,000)	(100,000)
Net cash used in financing activities		(269,884)	(118,423)
Net increase (decrease) in cash and cash equivalents		48,737	(91,475)
Cash and cash equivalents at beginning of year		(93,432)	(1,957)
Cash and cash equivalents at end of year	23	(44,695)	(93,432)
(a) Finance costs paid in cash		25,566	35,512
(b) Income taxes paid in cash		190,316	173,211
(c) Includes unrealised foreign exchange loss		1,000	–

XYZ Group
Accounting policies and explanatory notes to the financial statements for the year ended 31 December 20X2

1. General information

XYZ (Holdings) Limited (the Company) is a limited company incorporated in A Land. The address of its registered office and principal place of business is _________. XYZ Group consists of the Company and its wholly-owned subsidiary XYZ (Trading) Limited. Their principal activities are the manufacture and sale of candles.

2. Basis of preparation and accounting policies

These consolidated financial statements have been prepared in accordance with the *IFRS for SMEs* Accounting Standard issued by the International Accounting Standards Board. They are presented in the currency units (CU) of A Land.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its wholly-owned subsidiary. All intragroup transactions, balances, income and expenses are eliminated.

Investments in associates

Investments in associates are accounted for at cost less any accumulated impairment losses.

Dividend income from investments in associates is recognised when the Group's right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably. Dividend income from investments in associates is included in other income.

Revenue recognition

Revenue from the sale of goods is recognised when the goods are delivered. Revenue from licensing candle-making patents for use by others is based on a percentage of revenue generated by the patent, as specified in the relevant licence agreement. Royalty revenue is recognised as the sales associated with the patent occur. Revenue is measured at the fair value of the consideration received or receivable, net of discounts and sales-related taxes collected on behalf of the government of A Land and a liability for expected returns.

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases (known as temporary differences). Deferred tax liabilities are generally recognised for all temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled (taxable temporary differences). Deferred tax assets are generally recognised for all temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled (deductible temporary differences). However, deferred tax assets are recognised only to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and is adjusted to reflect the current assessment of future taxable profits. Any adjustments are recognised in profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the taxable profit (tax loss) of the periods in which the entity expects the deferred tax asset to be realised or the deferred tax liability to be settled, on the basis of tax rates that have been enacted or substantively enacted by the end of the reporting period.

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to allocate the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The annual rates used for the depreciation of property, plant and equipment are:

Buildings	2%
Fixtures and equipment	10%–30%

If there is an indication that there has been a significant change in depreciation rate, useful life or residual value of an asset, the depreciation of that asset is revised prospectively to reflect the new expectations.

Intangible assets

Intangible assets are purchased computer software that is stated at cost less accumulated depreciation and any accumulated impairment losses. Computer software is amortised over its estimated life of five years using the straight-line method. If there is an indication that there has been a significant change in amortisation rate, useful life or residual value of an intangible asset, the amortisation is revised prospectively to reflect the new expectations.

Impairment of assets

At each reporting date, property, plant and equipment, intangible assets and investments in associates are reviewed for indications that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount and an impairment loss is recognised immediately in profit or loss.

Similarly, at each reporting date, inventories are assessed for impairment by comparing the carrying amount of each item of inventory (or group of similar items) with its selling price less costs to complete and sell. If an item of inventory (or group of similar items) is impaired, its carrying amount is reduced to selling price less costs to complete and sell, and an impairment loss is recognised immediately in profit or loss.

If an impairment loss subsequently reverses, the carrying amount of the asset (or group of related assets) is increased to the revised estimate of its recoverable amount (selling price less costs to complete and sell, in the case of inventories). However, the carrying amount is not increased in excess of the amount that would have been determined had no impairment loss been recognised for the asset (or group of related assets) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Leases

Leases are classified as finance leases whenever the terms of a lease transfer substantially all the risks and rewards of ownership of the leased asset to the Group. All other leases are classified as operating leases.

Rights to assets held under finance leases are recognised as assets of the Group at the fair value of the leased property (or, if lower, the present value of minimum lease payments) at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are deducted in measuring profit or loss. Assets held under finance leases are included in property, plant and equipment, and depreciated and assessed for impairment losses in the same way as owned assets.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

Inventories

Inventories are stated at the lower of cost and selling price less costs to complete and sell. Cost is calculated using the first-in, first-out (FIFO) method. Inventories include a return asset which represents the right to recover goods expected to be returned by customers. The asset is measured at the former carrying amount of the goods less any expected costs to recover the goods and any expected reduction in value.

Trade and other receivables

Most sales are made on the basis of normal credit terms (30 days from the date of invoice) and the receivables do not bear interest. Trade receivables are measured at cost, except when credit is extended to customers that are not expected to pay within one year from the date of delivery. In such instances, receivables are measured at amortised cost using the effective interest method. At the end of each reporting period, the carrying amounts of trade and other receivables are reviewed to assess whether there is any objective evidence that the amounts are not recoverable. If so, an impairment loss is recognised immediately in profit or loss.

Trade and other payables

Trade payables are obligations on the basis of normal credit terms and do not bear interest. Trade payables denominated in a foreign currency are translated into CU using the exchange rate at the reporting date. Foreign exchange gains or losses are included in other income or other expenses.

Customers may return any unused goods within 30 days and receive a full refund. The refund liability is the amount of consideration received or receivable that is expected to be refunded to customers in respect of returned goods.

Bank loans and overdrafts

Interest expense is recognised on the basis of the effective interest method and is included in finance costs.

Employee benefits—Long-service payment

The liability for employee benefit obligations relates to government-mandated, long-service payments. All full-time staff, excluding directors, are covered by the programme. A payment is made of 5% of salary (as determined for the 12 months before the payment) at the end of each of five years of employment. The payment is made as part of the December payroll in the fifth year. The Group does not fund this obligation in advance.

The Group's cost and obligation to make long-service payments to employees are recognised during the employees' periods of service. The cost and obligation are measured using the projected unit credit method, assuming a 4% average annual salary increase, with employee turnover based on the Group's recent experience, discounted using the current market yield for high-quality corporate bonds.

Provision for warranty obligations

All goods sold by the Group are warranted to be free of manufacturing defects for a period of one year. Goods are repaired or replaced at the Group's option. When revenue is recognised, a provision is made for the estimated cost of the warranty obligation.

3. Key sources of estimation uncertainty

Long-service payments

In determining the liability for long-service payments (explained in note 19), management must make an estimate of salary increases over the following five years, the discount rate for the next five years to use in the present value calculation and the number of employees expected to leave before they receive the benefits.

Refund liability for expected returns

In determining the liability for expected returns (included in other liabilities—see note 17), management must make an estimate of the candles expected to be returned by customers, which is based on historical rates of returns.

4. Restriction on payment of dividend

Under the terms of the bank loan and bank overdraft agreements, dividends cannot be paid to the extent that they would reduce the balance of retained earnings below the sum of the outstanding balance of the bank loan and the bank overdraft.

5. Revenue

	20X2	**20X1**
	CU	**CU**
Sale of goods	6,715,832	5,665,275
Royalties—licensing of candle-making patents	130,205	120,000
	6,846,037	5,785,275

6. Other income

Other income includes dividends received from an associate of CU25,000 in both 20X1 and 20X2 and a gain on the disposal of property, plant and equipment of CU63,850 in 20X2.

7. Finance costs

	20X2	**20X1**
	CU	**CU**
Interest on bank loan and overdraft	(21,250)	(30,135)
Interest on finance leases	(5,116)	(6,577)
	(26,366)	(36,712)

8. Profit before tax

The following items have been recognised as expenses (income) in determining profit before tax:

	20X2	**20X1**
	CU	**CU**
Inventories recognised as an expense	5,157,249	4,404,400
Research and development cost (included in other expenses)	31,620	22,778
Foreign exchange loss on trade payables (included in other expenses)	1,000	–
Warranty expense (included in cost of sales*)	5,260	7,340
Impairment losses on trade receivables (included in other expenses)	70,807	71,108

*If the entity classified its expenses by nature in its income statement, this would say 'included in raw materials and consumables used'.

9. Income tax expense

	20X2	**20X1**
	CU	**CU**
Current tax	271,647	190,316
Deferred tax (note 15)	(1,397)	(757)
	270,250	189,559

Income tax is calculated at 40% (20X1: 40%) of the estimated assessable profit for the year.

Income tax expense for the year CU270,250 in 20X2 (CU189,559 in 20X1) differs from the amount that would result from applying the tax rate of 40% (both 20X2 and 20X1) to profit before tax because, under the tax laws of A Land, some employee compensation expenses (CU20,670 in 20X2 and CU16,750 in 20X1) that are recognised in measuring profit before tax are not tax-deductible.

10. Trade and other receivables

	20X2	**20X1**
	CU	**CU**
Trade debtors	528,788	528,384
Prepayments	56,760	45,478
	585,548	573,862

11. Inventories

	20X2	20X1
	CU	CU
Raw materials	60,776	36,450
Work in progress	1,140	900
Finished goods	13,640	10,570
Returns asset	21,281	18,175
	96,837	66,095

12. Investment in associate

The Group owns 35% of an associate whose shares are not publicly traded.

	20X2	20X1
	CU	CU
Cost of investment in associate	107,500	107,500
Dividend received from associate (included in other income)	25,000	25,000

13. Property, plant and equipment

	Land and buildings	Fixtures and equipment	Total
	CU	CU	CU
Cost			
1 January 20X2	1,960,000	1,102,045	3,062,045
Additions	–	485,000	485,000
Disposals	–	(241,000)	(241,000)
31 December 20X2	1,960,000	1,346,045	3,306,045

continued...

...continued

Accumulated depreciation and impairment			
1 January 20X2	390,000	270,590	660,590
Annual depreciation	30,000	240,360	270,360
Impairment	–	30,000	30,000
Less accumulated depreciation on assets disposed of	–	(204,850)	(204,850)
31 December 20X2	420,000	336,100	756,100
Carrying amount			
31 December 20X2	1,540,000	1,009,945	2,549,945

During 20X2 the Group noticed a significant decline in the efficiency of a major piece of equipment and so carried out a review of its recoverable amount. The review led to the recognition of an impairment loss of CU30,000.

The carrying amount of the Group's fixtures and equipment includes an amount of CU40,000 (20X1: CU60,000) in respect of assets held under finance leases.

On 10 December 20X2 the directors resolved to dispose of a machine. The machine's carrying amount of CU1,472 is included in fixtures and equipment at 31 December 20X2, and trade payables includes the Group's remaining obligation of CU1,550 on the acquisition of this machine. Because the proceeds on disposal are expected to exceed the net carrying amount of the asset and related liability, no impairment loss has been recognised.

14. Intangible assets

Software:

	CU
Cost	
1 January 20X2	8,500
Additions	–
Disposals	–
31 December 20X2	8,500

continued...

...continued

Accumulated depreciation and impairment	
1 January 20X2	5,950
Annual amortisation (included in administrative expenses*)	1,700
31 December 20X2	7,650
Carrying amount	
31 December 20X2	850

* If the entity classified its expenses by nature in its income statement, this would say 'included in depreciation and amortisation expense'.

15. Deferred tax

Differences between amounts recognised in the income statement and amounts reported to tax authorities in connection with investments in the subsidiary and associate are insignificant.

The deferred tax assets are the tax effects of expected future income tax benefits relating to:

(a) the long-service benefit (note 19), which will not be tax-deductible until the benefit is actually paid, but which has already been recognised as an expense in measuring the Group's profit for the year.

(b) the foreign exchange loss on trade payables, which will not be tax-deductible until the payables are settled, but which has already been recognised as an expense in measuring the Group's profit for the year.

Management considers it probable that taxable profits will be available against which the future income tax deductions can be utilised.

The deferred tax liabilities (assets) recognised by the Group are:

	Software	**Foreign exchange loss**	**Long-service benefit**	**Total**
	CU	**CU**	**CU**	**CU**
1 January 20X1	1,700	–	(3,855)	(2,155)
Charge (credit) to profit or loss for the year	(680)	–	(77)	(757)
1 January 20X2	1,020	–	(3,932)	(2,912)
Charge (credit) to profit or loss for the year	(680)	(400)	(317)	(1,397)
31 December 20X2	340	(400)	(4,249)	(4,309)

The deferred tax assets for the foreign exchange loss and the long-service benefits and the deferred tax liability for software relate to income tax in the same jurisdiction, and the law allows net settlement. Consequently, they have been offset in the statement of financial position as follows:

	20X2	20X1
	CU	CU
Deferred tax liability	340	1,020
Deferred tax asset	(4,649)	(3,932)
	(4,309)	(2,912)

16. Bank overdraft and loan

	20X2	20X1
	CU	CU
Bank overdraft	83,600	115,507
Bank loan—fully repayable in 20X4, prepayable without penalty	50,000	150,000
	133,600	265,507

The bank overdraft and loan are secured by a floating lien over land and buildings owned by the Group with a carrying amount of CU266,000 at 31 December 20X2 (CU412,000 at 31 December 20X1).

Interest is payable on the bank overdraft at 200 points above the Sterling Overnight Index Average (Sonia). Interest is payable on the seven-year bank loan at a fixed rate of 5% of the principal amount.

17. Trade and other payables

	20X2	20X1
	CU	CU
Trade payables	454,858	420,520
Refund liability for expected returns	27,713	23,378
	482,571	443,898

Trade payables at 31 December 20X2 include CU42,600 denominated in foreign currencies (nil at 31 December 20X1).

18. Provision for warranty obligations

Changes in the provision for warranty obligations during 20X2 were:

	20X2
	CU
1 January 20X2	5,040
Additional accrual during the year	5,260
Cost of warranty repairs and replacement during the year	(6,100)
31 December 20X2	4,200

The obligation is classified as a current liability because the warranty is limited to 12 months.

19. Employee benefit obligation—Long-service payments

The Group's employee benefit obligation for long-service payments under a government-mandated plan is based on a comprehensive actuarial valuation as of 31 December 20X2 and is as follows:

	20X2
	CU
Obligation at 1 January 20X2	9,830
Additional accrual during the year	7,033
Benefit payments made in year	(6,240)
Obligation at 31 December 20X2	10,623

The obligation is classified as:

	20X2	20X1
	CU	CU
Current liability	4,944	4,754
Non-current liability	5,679	5,076
Total	10,623	9,830

20. Obligations under finance leases

The Group holds one piece of specialised machinery with an estimated useful life of five years under a five-year finance lease. The future minimum lease payments are:

	20X2	20X1
	CU	CU
Within one year	25,000	25,000
Later than one year, but within five years	25,000	50,000
Later than five years	–	–
	50,000	75,000

The obligation is classified as:

	20X2	20X1
	CU	CU
Current liability	21,461	19,884
Non-current liability	23,163	44,624
	44,624	64,508

21. Commitments under operating leases

The Group rents several sales offices under operating leases. The leases are for an average period of three years, with fixed rentals over the same period.

	20X2	20X1
	CU	CU
Minimum lease payments under operating leases recognised as an expense during the year	26,100	26,100

At year-end, the Group has outstanding commitments under non-cancellable operating leases that fall due as follows:

	20X2	20X1
	CU	CU
Within one year	13,050	26,100
Later than one year, but within five years	–	13,050
Later than five years	–	–
	13,050	39,150

22. Share capital

Balances as at 31 December 20X2 and 20X1 of CU30,000 comprise 30,000 ordinary shares with par value CU1 fully paid, issued and outstanding. An additional 70,000 shares are legally authorised, but unissued.

23. Cash and cash equivalents

	20X2	20X1
	CU	CU
Cash on hand	38,905	22,075
Overdrafts	(83,600)	(115,507)
	(44,695)	(93,432)

24. Reconciliation of liabilities arising from financing activities

	Bank loan	Finance leases	Total
	CU	CU	CU
1 January 20X1	(150,000)	(82,931)	(232,931)
Cash payments	30,135	25,000	55,135
Interest	(30,135)	(6,577)	(36,712)
31 December 20X1	(150,000)	(64,508)	(214,508)
Cash payments	121,250	25,000	146,250
Interest	(21,250)	(5,116)	(26,366)
31 December 20X2	(50,000)	(44,624)	(94,624)

25. Contingent liabilities

During 20X2 a customer initiated proceedings against XYZ (Trading) Limited for a fire caused by a faulty candle. The customer asserts that its total losses are CU50,000 and has initiated litigation claiming this amount.

The Group's legal counsel takes the view that the claim has no merit and the Company intends to contest the claim. No provision has been recognised in these financial statements as the Group's management has not deemed it probable that a loss will arise.

26. Events after the end of the reporting period

On 25 January 20X3 there was a flood in one of the candle storage rooms. The cost of refurbishment is expected to be CU36,000. The reimbursements from insurance are estimated to be CU16,000.

On 14 February 20X3 the directors voted to declare a dividend of CU1 per share (CU30,000 total) payable on 15 April 20X3 to registered shareholders on 31 March 20X3. Because the obligation arose in 20X3, a liability is not shown in the statement of financial position at 31 December 20X2.

27. Related party transactions

Transactions between the Company and its subsidiary, which is a related party, have been eliminated in consolidation.

The Group sells goods to its associate (see note 12), which is a related party, as follows:

	Sales of goods		Amounts owed to the Group by the related party and included in trade receivables at year-end	
	20X2	**20X1**	**20X2**	**20X1**
	CU	**CU**	**CU**	**CU**
Associate	10,000	8,000	800	400

The payments under the finance lease (see note 20) are personally guaranteed by a principal shareholder of the Company. No charge has been requested for this guarantee.

The total remuneration of directors and other members of key management in 20X2 (including salaries and benefits) was CU249,918 (20X1: CU208,260).

28. Approval of financial statements

These financial statements were approved by the board of directors and authorised for issue on 10 March 20X3.

IFRS® Foundation

Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD, UK

Tel +44 (0) 20 7246 6410
Email customerservices@ifrs.org

ifrs.org

SET ISBN 978-1-914113-66-6
9 781914 113666
PART B ISBN 978-1-914113-68-0