About the Audit Committee Institute

The KPMG-sponsored Audit Committee Institute is a growing international network that provides complimentary guidance and resources. It is designed to help non-executive directors update and refresh the skills and knowledge that are essential for each member to fulfil their role within the board. From small, sector-specific forums to large key speaker dinners, the Audit Committee Institute offers non-executive directors a forum to network with their peers.

www.auditcommitteeinstitute.com
E: auditcommittee@kpmg.co.uk
INSIGHTS INTO IFRS: AN OVERVIEW

The move towards a single set of high-quality, global accounting standards continues to gather momentum. As of August 2012, over 120 countries and reporting jurisdictions require or allow the use of IFRS by publicly traded companies, and more are planning to do so in the near future.

For those companies reporting under IFRS, Audit Committees need to understand the standards; but more importantly, they need to understand the principles underpinning the preparation of the financial statements and the auditor’s judgements. They must be prepared to invest the time necessary to understand why critical accounting policies are chosen and how they are applied, and to satisfy themselves that the end result fairly reflects their understanding.

*Insights into IFRS: An overview* is designed to help Audit Committee members, and others, by providing a structured guide to the key issues arising from the standards. It offers an overview of the requirements of IFRS as at 1 August 2012. For a fuller understanding of these requirements, this overview should be read in conjunction with *Insights into IFRS*, KPMG’s practical guide to International Financial Reporting Standards, 9th edition 2012/13.

Audit Committee Institute
September 2012
CONTENTS

How to navigate this publication

1. Background
   1.1 Introduction
   1.2 The Conceptual Framework

2. General issues
   2.1 Form and components of financial statements
   2.2 Changes in equity
   2.3 Statement of cash flows
   2.4 Basis of accounting
   2.4A Fair value measurement: IFRS 13
   2.5 Consolidation
   2.5A Consolidation: IFRS 10
   2.6 Business combinations
   2.7 Foreign currency translation
   2.8 Accounting policies, errors and estimates
   2.9 Events after the reporting period

3. Specific statement of financial position items
   3.1 General
   3.2 Property, plant and equipment
   3.3 Intangible assets and goodwill
   3.4 Investment property
   3.5 Investments in associates and the equity method
   3.6 Investments in joint ventures and proportionate consolidation
   3.6A Investments in joint arrangements: IFRS 11
   3.7 [Not used]
   3.8 Inventories
   3.9 Biological assets
   3.10 Impairment of non-financial assets
   3.11 [Not used]
   3.12 Provisions, contingent assets and liabilities
   3.13 Income taxes

4. Specific statement of comprehensive income items
   4.1 General
   4.2 Revenue
   4.3 Government grants
   4.4 Employee benefits
4.4A Employee benefits: IAS 19 (2011)  
4.5 Share-based payments  
4.6 Borrowing costs  

5. Special topics  
5.1 Leases  
5.2 Operating segments  
5.3 Earnings per share  
5.4 Non-current assets held for sale and discontinued operations  
5.5 Related party disclosures  
5.6 [Not used]  
5.7 Non-monetary transactions  
5.8 Accompanying financial and other information  
5.9 Interim financial reporting  
5.10 [Not used]  
5.11 Extractive activities  
5.12 Service concession arrangements  
5.13 Common control transactions and Newco formations  

6. First-time adoption of IFRS  
6.1 First-time adoption of IFRS  

7. Financial instruments  
7.1 Scope and definitions  
7.2 Derivatives and embedded derivatives  
7.3 Equity and financial liabilities  
7.4 Classification of financial assets and financial liabilities  
7.5 Recognition and derecognition  
7.6 Measurement and gains and losses  
7.7 Hedge accounting  
7.8 Presentation and disclosure  
7.9 Financial instruments: IFRS 9  

8. Insurance contracts  
8.1 Insurance contracts  

Appendix I  
Summary of forthcoming requirements  

Appendix II  
Quick reference table: Currently effective requirements and forthcoming requirements  

Keeping you informed  

© 2012 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.
HOW TO NAVIGATE THIS PUBLICATION

You can read and navigate this book on a desktop or mobile device. However, for mobile devices you may need to open the book in a PDF reader or eBook application.

This publication provides a quick overview of the key requirements of IFRS, for easy reference. The overview is organised by topic, following the typical presentation of items in financial statements.

All references to sections in this book are hyperlinked. Click or tap on the text to visit that section. Click or tap on the ‘home’ icon at the bottom of each page to return to Contents.

This edition is based on IFRS in issue at 1 August 2012 that is applicable for entities with annual reporting periods beginning on 1 January 2012 (referred to as ‘currently effective requirements’). A list of the standards and interpretations that are currently effective is included in Appendix II.

When a significant change will occur as a result of a standard or interpretation that is in issue at 1 August 2012, but that is not required to be adopted by an entity with an annual reporting period ending 31 December 2012, it is referred to as a ‘forthcoming requirement’.

An overview of significant forthcoming requirements is included in Appendix I. In addition, sections 2.4A Fair value measurement: IFRS 13, 2.5A Consolidation: IFRS 10, 3.6A Investments in joint arrangements: IFRS 11, 4.4A Employee benefits: IAS 19 (2011) and 7A Financial instruments: IFRS 9 are included as forthcoming requirements in their entirety. Minor amendments to standards are not covered in Appendix I.

References to standards are hyperlinked to Appendix I and II, as appropriate. You can navigate back from the Appendices by clicking or tapping the relevant section number.

For some topics, we anticipate changes to IFRS in issue at 1 August 2012 – e.g. as a result of an IASB project – which are not dealt with in this book. If you are interested in following the four main joint IASB and FASB projects – financial instruments, insurance, leases and revenue – then you will find our IFRS Newsletter series helpful. Available at www.kpmg.com/ifrs, these newsletters provide an overview of the recent discussions, analysis of the potential impact of decisions, current status and anticipated timeline for completion.

1 This publication does not provide an overview of the requirements of IAS 26 Accounting and Reporting by Retirement Benefit Plans; or the IFRS for Small and Medium-sized Entities (IFRS for SMEs).
1. BACKGROUND

1.1 Introduction

Currently effective: IFRS Foundation Constitution, IASB Due Process Handbook, IFRIC Due Process Handbook, Preface to IFRSs, IAS 1
Forthcoming: Monitoring Board’s review

International Financial Reporting Standards

- ‘IFRS’ is the term used to indicate the whole body of IASB authoritative literature.
- IFRS is designed for use by profit-oriented entities.
- Both the bold and plain-type paragraphs of IFRS have equal authority.

Compliance with IFRS

- Any entity claiming compliance with IFRS complies with all standards and interpretations, including disclosure requirements, and makes an explicit and unreserved statement of compliance with IFRS.
- The overriding requirement of IFRS is for the financial statements to give a fair presentation (or a true and fair view).
1.2 The Conceptual Framework
Currently effective: IASB Conceptual Framework
Forthcoming: IFRS 13

Purpose
• The IASB and the Interpretations Committee use the Conceptual Framework when developing new or revised IFRSs and interpretations, or amending existing IFRSs.
• The Conceptual Framework is a point of reference for preparers of financial statements in the absence of specific guidance in IFRS.

Objective of general purpose financial reporting
• The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.

Qualitative characteristics of useful financial information
• The Conceptual Framework outlines the qualitative characteristics of financial information to identify the types of information that is likely to be most useful to users of financial statements.

Assets and liabilities
• The Conceptual Framework sets out the definitions of ‘assets’ and ‘liabilities’. The definitions of ‘equity’, ‘income’ and ‘expenses’ are derived from the definition of assets and liabilities.

Going concern
• Financial statements are prepared on a going concern basis, unless management intends or has no alternative other than to liquidate the entity or to stop trading.

Transactions with shareholders
• Transactions with shareholders in their capacity as shareholders are recognised directly in equity.
2. GENERAL ISSUES

2.1 Form and components of financial statements
Currently effective: IAS 1, IAS 27
Forthcoming: IFRS 10, IFRS 11, IAS 27 (2011), Amendments to IAS 1, Annual Improvements 2009–2011

Components of a complete set of financial statements

- The following are presented as a complete set of financial statements: a statement of financial position; a statement of comprehensive income; a statement of changes in equity; a statement of cash flows; and notes, including accounting policies.

- In addition, a statement of financial position as at the beginning of the earliest comparative period is presented when an entity restates comparative information following a change in accounting policy, the correction of an error, or the reclassification of items in the financial statements.

Reporting period

- The end of the annual reporting period may change only in exceptional circumstances.

Comparative information

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

Types of financial statements

- IFRS sets out the requirements that apply to consolidated, individual and separate financial statements.

Consolidated financial statements

- An entity with one or more subsidiaries presents consolidated financial statements unless specific criteria are met.
Individual financial statements

• An entity with no subsidiaries but with an associate or jointly controlled entity prepares individual financial statements unless specific criteria are met.

Separate financial statements

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

Presentation of pro forma information

• In our view, the presentation of pro forma information is acceptable if it is allowed by local regulations and stock exchange rules and if certain criteria are met.
2.2 Changes in equity
Currently effective: IAS 1
Forthcoming: Annual Improvements 2009–2011

General
• A statement of changes in equity (and related notes) reconciles opening to closing amounts for each component of equity.
• All owner-related changes in equity are presented in the statement of changes in equity, separately from non-owner changes in equity.

Entities with no equity
• Entities that have no equity as defined in IFRS may need to adopt the financial statement presentation of members’ or unit holders’ interests.

Changes in accounting policies and errors
• The total adjustment to each component of equity resulting from changes in accounting policies is presented separately from that resulting from the correction of errors in the statement of changes in equity.
2.3 Statement of cash flows
Currently effective: IAS 7

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

Operating, investing and financing activities
• The statement of cash flows presents cash flows during the period classified by operating, investing and financing activities.
• An entity chooses its own policy for classifying each of interest and dividends. The chosen presentation method should present the cash flows in the most appropriate manner for the business or industry, and should be applied consistently.
• Taxes paid are classified as operating activities unless it is practicable to identify them with, and therefore classify them as, financing or investing activities.

Direct vs indirect method
• Cash flows from operating activities may be presented under either the direct method or the indirect method.

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

Offsetting
• Generally, all financing and investing cash flows are reported gross. Cash flows are offset only in limited circumstances.
2.4 **Basis of accounting**

Currently effective: IAS 1, IAS 21, IAS 29, IFRIC 7

Forthcoming: IFRS 13

**Modified historical cost**

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

**Going concern**

- Even when the going concern assumption is not appropriate, IFRS is still applied.

**Hyperinflation**

- When an entity’s functional currency is hyperinflationary, its financial statements are adjusted to state all items in the measuring unit current at the end of the reporting period.

**Key judgements and estimations**

- Disclosure is required for judgements that have a significant impact on the financial statements and for key sources of estimation uncertainty.
2.4A Fair value measurement: IFRS 13
Forthcoming: IFRS 13

IFRS 13 *Fair Value Measurement* is not yet effective. It will be effective for annual periods beginning on or after 1 January 2013.

**Scope**
- IFRS 13 applies to most fair value measurements or disclosures (including measurements based on fair value) that are required or permitted by other IFRSs.

**Fair value principles**
- 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 – i.e. an exit price.
- Fair value measurement assumes that a transaction takes place in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability.

**Application issues**
- For liabilities or an entity’s own equity instrument, if a quoted price for a transfer of an identical or similar liability or own equity instrument is not available and the identical item is held by another entity as an asset, then the liability or own equity instrument is valued from the perspective of a market participant that holds the asset. Failing that, other valuation techniques are used to value the liability or own equity instrument from the perspective of a market participant that owes the liability.
- The fair value of a liability reflects non-performance risk. Non-performance risk is assumed to be the same before and after the transfer of the liability.
- When another IFRS requires or permits an asset or a liability to be measured initially at fair value, gains or losses arising on the difference between fair value at initial recognition and the transaction price are recognised in profit or loss, unless the other IFRS requires otherwise.
- Certain groups of financial assets and financial liabilities with offsetting market or credit risks may be measured based on the net risk exposure.
• The fair value of a non-financial asset is based on its highest and best use to market participants, which may be on a stand-alone basis or in combination with complementary assets or liabilities.

Valuation technique

• While IFRS 13 discusses three general approaches to valuation (the market, income, and cost approaches), it does not establish specific valuation standards. Several valuation techniques may be available under each approach.

• Appropriate valuation technique(s) should be used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

• A fair value hierarchy is established based on the inputs to valuation techniques used to measure fair value.

• The inputs are categorised into three levels (Levels 1, 2 and 3), with the highest priority given to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority given to unobservable inputs.

• A premium or discount may be an appropriate input to a valuation technique. A premium or discount should not be applied if it is inconsistent with the relevant unit of account.

• For fair value measurements of assets or liabilities having bid and ask prices, an entity uses the price within the bid-ask spread that is most representative of fair value in the circumstances. The use of bid prices for assets and ask prices for liabilities is permitted.

• Guidance is provided on measuring fair value when there has been a decline in the volume or level of activity in a market, and when transactions are not orderly.

Disclosures

• A comprehensive disclosure framework is set out in IFRS 13 to help users of financial statements assess the valuation techniques and inputs used in fair value measurements, and the effect on profit or loss or other comprehensive income of recurring fair value measurements that are based on significant unobservable inputs.
2.5 Consolidation
Currently effective: IAS 27, SIC-12
Forthcoming: IFRS 10, IFRS 12

Scope

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

Assessing control

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

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

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

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

Special purpose entities

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

Subsidiaries’ accounting periods and policies

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

• Uniform accounting policies are used throughout the group.
Non-controlling interests

- The acquirer in a business combination can elect, on a transaction-by-transaction basis, to measure ‘ordinary’ non-controlling interests (NCI) at fair value, or at their proportionate interest in the net assets of the acquiree, at the acquisition date. ‘Ordinary NCI’ are present ownership interests that entitle their holders to a proportionate share of the entity’s net assets in the event of liquidation. Other NCI are generally measured at fair value.
- An entity recognises a liability for the present value of the (estimated) exercise price of put options held by NCI, but there is no detailed guidance on the accounting for such put options.
- Losses in a subsidiary may create a deficit balance in NCI.
- NCI in the statement of financial position are classified as equity but are presented separately from the parent shareholders’ equity.
- Profit or loss and comprehensive income for the period are allocated between NCI and the shareholders of the parent.

Intra-group transactions

- Intra-group transactions are eliminated in full.

Loss of control

- On the loss of control of a subsidiary, the assets and liabilities of the subsidiary and the carrying amount of the NCI are derecognised. The consideration received and any retained interest (measured at fair value) are recognised. Amounts recognised in other comprehensive income are reclassified as required by other IFRSs. Any resulting gain or loss is recognised in profit or loss.

Changes in ownership interest while retaining control

- Changes in the parent’s ownership interest in a subsidiary without a loss of control are accounted for as equity transactions and no gain or loss is recognised.
2.5A Consolidation: IFRS 10
Forthcoming: IFRS 10, IFRS 12

IFRS 10 Consolidated Financial Statements and IFRS 12 Disclosure of Interests in Other Entities are not yet effective. They will be effective for annual periods beginning on or after 1 January 2013.

The single control model

- Control involves power, exposure to variability in returns and a linkage between the two. It is assessed on a continuous basis.

- The investor considers the purpose and design of the investee so as to identify its relevant activities, how decisions about such activities are made, who has the current ability to direct those activities and who receives returns therefrom.

- Control is usually assessed over a legal entity, but can also be assessed over only specified assets and liabilities of an entity (referred to as a ‘silo’) when certain conditions are met.

Step 1: Power over relevant activities

- There is a ‘gating’ question in the model, which is to determine whether voting rights or rights other than voting rights are relevant when assessing whether the investor has power over the relevant activities of the investee.

- Only substantive rights held by the investor and others are considered.

- If voting rights are relevant when assessing power, then substantive potential voting rights are taken into account. The investor assesses whether it holds voting rights sufficient to unilaterally direct the relevant activities of the investee, which can include de facto power.

- If voting rights are not relevant when assessing power, then the investor considers:
  - the purpose and design of the investee;
  - evidence that the investor has the practical ability to direct the relevant activities unilaterally;
  - indications that the investor has a special relationship with the investee; and
  - whether the investor has a large exposure to variability in returns.
Step 2: Exposure to variability in returns

- Returns are broadly defined and include:
  - distributions of economic benefits;
  - changes in the value of the investment; and
  - fees, remunerations, tax benefits, economies of scale, cost savings and other synergies.

Step 3: Linkage

- An investor that has decision-making power over an investee and exposure to variability in returns determines whether it acts as a principal or as an agent to determine whether there is a linkage between power and returns. When the decision maker is an agent, the link between power and returns is absent and the decision maker’s delegated power is treated as if it were held by its principal(s).

- To determine whether it is an agent, the decision maker considers:
  - substantive removal and other rights held by a single or multiple parties;
  - whether its remuneration is on arm’s length terms;
  - its other economic interests; and
  - the overall relationship between itself and other parties.

- An entity takes into account the rights of parties acting on its behalf when assessing whether it controls an investee.
2.6 Business combinations

Currently effective: IFRS 3
Forthcoming: IFRS 10, IFRS 13

Scope

- Business combinations are accounted for under the acquisition method, with limited exceptions.

Identifying a business combination

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

Identifying the acquirer

- The acquirer in a business combination is the combining entity that obtains control of the other combining business or businesses.

Determining the acquisition date

- The acquisition date is the date on which the acquirer obtains control of the acquiree.

Consideration transferred

- Consideration transferred by the acquirer, which is generally measured at fair value at the acquisition date, may include assets transferred, liabilities incurred by the acquirer to the previous owners of the acquiree and equity interests issued by the acquirer.

Determining what is part of the business combination

- Any items that are not part of the business combination transaction are accounted for outside of the acquisition accounting.

Identifiable assets acquired and liabilities assumed

- The identifiable assets acquired and the liabilities assumed are recognised separately from goodwill at the acquisition date if they meet the definition of assets and liabilities and are exchanged as part of the business combination. They are measured at the acquisition date at their fair values, with limited exceptions.
Measurement of non-controlling interests

- ‘Ordinary’ non-controlling interests (NCI) are measured at fair value, or at their proportionate interest in the net assets of the acquiree, at the acquisition date.
- ‘Other’ NCI are generally measured at fair value.

Goodwill or a gain on bargain purchase

- Goodwill is measured as a residual and is recognised as an asset. When the residual is a deficit (gain on a bargain purchase), it is recognised in profit or loss after re-assessing the values used in the acquisition accounting.

Subsequent measurement and accounting

- Adjustments to the acquisition accounting during the ‘measurement period’ reflect additional information about facts and circumstances that existed at the acquisition date.
- In general, items recognised in the acquisition accounting are measured and accounted for in accordance with the relevant IFRSs subsequent to the business combination.
2.7 Foreign currency translation
Currently effective: IAS 21, IAS 29

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

Translation of foreign currency transactions
• Transactions that are not denominated in an entity’s functional currency are foreign currency transactions; exchange differences arising on translation are generally recognised in profit or loss.

Translation of financial statements of a foreign operation
• The financial statements of foreign operations are translated as follows:
  – assets and liabilities are translated at the closing rate;
  – income and expenses are translated at actual rates or appropriate averages; and
  – equity components (excluding current-year movements, which are translated at actual rates) are translated at historical rates.
• Exchange differences arising on the translation of the financial statements of a foreign operation are recognised in other comprehensive income and accumulated in a separate component of equity. The amount attributable to any non-controlling interests (NCI) is allocated to and recognised as part of NCI.

Hyperinflation
• If the functional currency of a foreign operation is the currency of a hyperinflationary economy, then current purchasing power adjustments are made to its financial statements before translation into a different presentation currency; the adjustments are based on the closing rate at the end of the current period. However, if the presentation currency is not the currency of a hyperinflationary economy, then comparative amounts are not restated.
Translation from functional to presentation currency

- An entity may present its financial statements in a currency other than its functional currency (presentation currency). An entity that translates financial statements into a presentation currency other than its functional currency uses the same method as for translating financial statements of a foreign operation.

Sale or liquidation of a foreign operation

- If an entity disposes of an interest in a foreign operation, which includes losing control over a foreign subsidiary, then the cumulative exchange differences recognised in other comprehensive income are reclassified to profit or loss. A partial disposal of a foreign subsidiary (without the loss of control) leads to a proportionate reclassification to NCI, while other partial disposals result in a proportionate reclassification to profit or loss.

Convenience translations

- An entity may present supplementary financial information in a currency other than its presentation currency if certain disclosures are made.
2.8 Accounting policies, errors and estimates

Currently effective: IAS 1, IAS 8
Forthcoming: Annual Improvements 2009–2011

Selection of accounting policies

- Accounting policies are the specific principles, bases, conventions, rules and practices that an entity applies in preparing and presenting financial statements.
- When IFRS does not cover a particular issue, management uses its judgement based on a hierarchy of accounting literature.
- Unless otherwise specifically permitted by an IFRS, the accounting policies adopted by an entity are applied consistently to all similar items.

Changes in accounting policy and correction of prior-period errors

- An accounting policy is changed in response to a new or revised IFRS, or on a voluntary basis if the new policy is more appropriate.
- Generally, accounting policy changes and corrections of prior-period errors are made by adjusting opening equity and restating comparatives unless this is impracticable.

Changes in accounting estimates

- Changes in accounting estimates are accounted for prospectively.
- When it is difficult to determine whether a change is a change in accounting policy or a change in estimate, it is treated as a change in estimate.

Change in classification or presentation

- If the classification or presentation of items in the financial statements is changed, then comparatives are restated unless this is impracticable.

Presentation of a third statement of financial position

- A statement of financial position as at the beginning of the earliest comparative period is presented when an entity restates comparative information following a change in accounting policy, the correction of an error, or the reclassification of items in the financial statements.
2.9 Events after the reporting period
Currently effective: IAS 1, IAS 10

Overall approach
• The date on which the financial statements are authorised for issue is generally the date on which they are authorised for issue by management, either to the supervisory board or to the shareholders.

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

Non-adjusting events
• Financial statements are not adjusted for events that are a result of conditions that arose after the end of the reporting period, except when the going concern assumption is no longer appropriate.

Current vs non-current classification
• The classification of liabilities as current or non-current is based on circumstances at the end of the reporting period.

Earnings per share
• Earnings per share is restated to include the effect on the number of shares of certain share transactions that happen after the end of the reporting period.

Going concern
• If management determines that the entity is not a going concern after the end of the reporting period but before the financial statements are authorised for issue, then the financial statements are not prepared on a going concern basis.
Identifying the key event

• It is necessary to determine the underlying causes of an event and its timing to determine the appropriate accounting – i.e. as an adjusting or non-adjusting event.

Discovery of a fraud after the end of the reporting period

• In our view, if information about a fraud could not reasonably be expected to have been obtained and taken into account by an entity preparing financial statements when they were authorised for issue, then the subsequent discovery is not evidence of a prior-period error.
3. SPECIFIC STATEMENT OF FINANCIAL POSITION ITEMS

3.1 General
Currently effective: IAS 1
Forthcoming: Amendments to IAS 32

Format of the statement of financial position

• While IFRS requires certain items to be presented in the statement of financial position, there is no prescribed format.

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

Current vs non-current

• An asset is classified as current if it is expected to be realised in the normal operating cycle, is held for trading, is expected to be realised within 12 months, or it is cash or a cash equivalent.

• A liability is classified as current if it is expected to be settled in the normal operating cycle, is due within 12 months, or there are no unconditional rights to defer the settlement for at least 12 months.

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

• Assets and liabilities that are part of working capital are classified as current even if they are due to be settled more than 12 months after the end of the reporting period.

Offsetting

• A financial asset and a financial liability are offset if the criteria are met. However, non-financial assets and non-financial liabilities cannot be offset.
3.2 Property, plant and equipment

Currently effective: IAS 16, IFRIC 1, IFRIC 18
Forthcoming: IFRS 13

Initial recognition

• Property, plant and equipment is initially recognised at cost.
• Cost includes all expenditure directly attributable to bringing the asset to the location and working condition for its intended use.
• Cost includes the estimated cost of dismantling and removing the asset and restoring the site.

Subsequent measurement

• Subsequent expenditure is capitalised only when it is probable that it will give rise to future economic benefits.
• Changes to an existing decommissioning or restoration obligation are generally added to or deducted from the cost of the related asset.

Depreciation

• Property, plant and equipment is depreciated over its expected useful life.
• Estimates of useful life and residual value, and the method of depreciation, are reviewed as a minimum at the end of each reporting period. Any changes are accounted for prospectively as a change in estimate.

Component accounting

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

Revaluations

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

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

• Compensation for the loss or impairment of property, plant and equipment is recognised in profit or loss when receivable.
3.3 Intangible assets and goodwill

Currently effective: IFRS 3, IAS 38, IFRIC 12, SIC-32
Forthcoming: IFRS 13

Definitions

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

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

Initial recognition and measurement

• In general, intangible assets are initially recognised at cost.

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

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

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

• Internal research expenditure is expensed as incurred.

• Expenditure relating to the following is expensed as incurred:
  – internally generated goodwill;
  – customer lists;
  – start-up costs;
  – training costs;
  – advertising and promotional activities; and
  – relocation or a re-organisation.

Indefinite useful lives

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

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

Subsequent expenditure

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

Revaluations

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

Retirements and disposals

• The gain or loss on disposal is the difference between the net proceeds received and the carrying amount of the asset.
3.4 Investment property
Currently effective: IAS 40, IAS 16, IAS 17
Forthcoming: IFRS 13

Scope
• ‘Investment property’ is property (land or building) held to earn rentals or for capital appreciation, or both.

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

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

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

Recognition and measurement
• Investment property is initially recognised at cost.

• Subsequent to initial recognition, all investment property is measured under either:
  – the fair value model (subject to limited exceptions); or
  – the cost model.

• When the fair value model is chosen, changes in fair value are recognised in profit or loss.

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

- Transfers to or from investment property can be made only when there has been a change in the use of the property.
- The intention to sell an investment property without redevelopment does not justify reclassification from investment property into inventory; the property continues to be classified as investment property until the time of disposal unless it is classified as held-for-sale.

Disclosure

- Disclosure of the fair value of all investment property is required, regardless of the measurement model used.
3.5 Investments in associates and the equity method

Currently effective: IAS 28
Forthcoming: IAS 28 (2011), IFRS 9

Definition

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

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

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

Exceptions from applying the equity method

• Generally, associates are accounted for under the equity method in the consolidated financial statements.

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

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

Applying the equity method

• In applying the equity method, an associate’s accounting policies should be consistent with those of the investor.

• The end of an associate’s reporting period may not differ from that of the investor by more than three months, and should be consistent from period to period. Adjustments are made for the effects of significant events and transactions between the two dates.

• When an equity-accounted investee incurs losses, the carrying amount of the investor’s interest is reduced but not to below zero. Further losses are recognised by the investor only to the extent that the investor has an obligation to fund losses or has made payments on behalf of the investee.

• Unrealised profits and losses on transactions with associates are eliminated to the extent of the investor’s interest in the investee.
Changes in the status of equity-accounted investees

- In our view, when an entity contributes a controlling interest in a subsidiary in exchange for an interest in an associate, the entity may choose either to recognise the gain or loss in full or to eliminate the gain or loss to the extent of the entity’s interest in the investee.

- On the loss of significant influence, the fair value of any retained investment is taken into account in calculating the gain or loss on the transaction, as if the investment were fully disposed of; this gain or loss is recognised in profit or loss. Amounts recognised in other comprehensive income are reclassified or transferred as required by other IFRSs.
3.6 Investments in joint ventures and proportionate consolidation
Currently effective: IAS 31, SIC-13
Forthcoming: IFRS 11, IAS 28 (2011)

Definition

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

Accounting for jointly controlled entities

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

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

• Proportionate consolidation is not applied to an investee that is acquired with a view to its subsequent disposal if the criteria are met for classification as held-for-sale.

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

• Gains and losses on non-monetary contributions, other than a subsidiary, in return for an equity interest in a jointly controlled entity are generally eliminated to the extent of the investor’s interest in the investee.

• In our view, when an entity contributes a controlling interest in a subsidiary in exchange for an interest in a jointly controlled entity, the entity may choose either to recognise the gain or loss in full or to eliminate the gain or loss to the extent of the entity’s interest in the investee.

• On the loss of joint control, the fair value of any retained investment is taken into account in calculating the gain or loss on the transaction; this gain or loss is recognised in profit or loss. Amounts recognised in other comprehensive income are reclassified or transferred as required by other IFRSs.
Accounting for jointly controlled assets

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

Accounting for jointly controlled operations

- The investor accounts for the assets it controls, the liabilities and expenses it incurs, and its share of any income from the joint operation.
3.6A Investments in joint arrangements: IFRS 11
Forthcoming: IFRS 11

IFRS 11 Joint Arrangements is not yet effective. It will be effective for annual periods beginning on or after 1 January 2013.

**Identifying joint arrangements**

- A joint arrangement is an arrangement over which two or more parties have joint control. There are two types of joint arrangements: a joint operation and a joint venture.

**Classifying joint arrangements**

- In a joint operation, the parties to the arrangement have rights to the assets and obligations for the liabilities, related to the arrangement.
- In a joint venture, the parties to the arrangement have rights to the net assets of the arrangement.
- A joint arrangement not structured through a separate vehicle is a joint operation.
- A joint arrangement structured through a separate vehicle may be either a joint operation or a joint venture. Classification depends on the legal form of the vehicle, contractual arrangements and ‘other facts and circumstances’.

**Accounting for joint arrangements**

- Generally, a joint venturer accounts for its interest in a joint venture under the equity method in accordance with IAS 28 (2011).
- A joint operator recognises, in relation to its involvement in a joint operation, its assets, liabilities and transactions, including its share in those arising jointly. The joint operator accounts for each item in accordance with the relevant IFRSs.
- A party to a joint operation, who does not have joint control, recognises its assets, liabilities and transactions, including its share in those arising jointly, if it has rights to the assets and obligations for the liabilities of the joint operation.
- A party to a joint venture, who does not have joint control, accounts for its interest in accordance with IAS 39, or IAS 28 (2011) if significant influence exists.
3.8 Inventories
Currently effective: IAS 2

Measurement

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

Recognition as an expense

- The cost of inventory is recognised as an expense when the inventory is sold.
3.9 Biological assets
Currently effective: IAS 41
Forthcoming: IFRS 13

Scope

- Biological assets (living animals or plants) are in the scope of the standard if they are subject to a process of management of biological transformation.

Measurement

- Biological assets are measured at fair value less costs to sell unless it is not possible to measure fair value reliably, in which case they are measured at cost.
- Gains and losses from changes in fair value less costs to sell are recognised in profit or loss.

Agricultural produce

- Agricultural produce harvested from a biological asset is measured at fair value less costs to sell at the point of harvest. Thereafter, the standard on inventories generally applies (see 3.8).
3.10 Impairment of non-financial assets

Currently effective: IAS 36, IFRIC 10
Forthcoming: IFRS 13, IFRS 11, IAS 27 (2011)

Scope

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

Identifying the level at which assets are tested for impairment

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

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

• Goodwill is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the business combination from which it arose. The allocation is based on the level at which goodwill is monitored internally, restricted by the size of the entity’s operating segments.

Determining when to test for impairment

• Impairment testing is required when there is an indication of impairment.

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

- An impairment loss is recognised if an asset’s or CGU’s carrying amount exceeds the greater of its fair value less costs to sell and value in use.
- Fair value less costs to sell is based on market participant assumptions.
- Estimates of future cash flows used in the value in use calculation are specific to the entity, and need not be the same as those of market participants. The discount rate used in the value in use calculation reflects the market’s assessment of the risks specific to the asset or CGU, as well as the time value of money.

Recognising an impairment loss

- An impairment loss for a CGU is allocated first to any goodwill and then pro rata to other assets in the CGU that are within the scope of IAS 36.
- An impairment loss is generally recognised in profit or loss.

Reversal of impairment

- Reversals of impairment are recognised, other than for impairments of goodwill.
- A reversal of an impairment loss is generally recognised in profit or loss.
3.12 Provisions, contingent assets and liabilities
Currently effective: IAS 37, IFRIC 1, IFRIC 5, IFRIC 6

Recognition of provisions

- A provision is recognised for a legal or constructive obligation arising from a past event, if there is a probable outflow of resources and the amount can be estimated reliably. ‘Probable’ in this context means more likely than not.
- A ‘constructive obligation’ arises when an entity’s actions create valid expectations of third parties that it will accept and discharge certain responsibilities.
- A provision is not recognised for future operating losses.
- A provision for restructuring costs is not recognised until there is a formal plan and details of the restructuring have been communicated to those affected by the plan.
- Provisions are not recognised for repairs or maintenance of own assets or for self-insurance before an obligation is incurred.
- A provision is recognised for a contract that is onerous.

Measurement of provisions

- A provision is measured at the ‘best estimate’ of the expenditure to be incurred.
- Provisions are discounted if the effect of discounting is material.

Reimbursements

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

Contingent liabilities

- ‘Contingent liabilities’ are present obligations with uncertainties about either the probability of outflows of resources or the amount of the outflows, and possible obligations whose existence is uncertain.
- Contingent liabilities are not recognised except for those that represent present obligations in a business combination.
- Details of contingent liabilities are disclosed in the notes to the financial statements unless the probability of an outflow is remote.
Contingent assets

- ‘Contingent assets’ are possible assets whose existence is uncertain.
- Contingent assets are not recognised in the statement of financial position. If an inflow of economic benefits is probable, then details are disclosed in the notes.
3.13 Income taxes
Currently effective: IAS 12, SIC-25

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

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

Deferred tax
• ‘Deferred tax’ is recognised for the estimated future tax effects of temporary differences, unused tax losses carried forward and unused tax credits carried forward.
• A deferred tax liability is not recognised if it arises from the initial recognition of goodwill.
• A deferred tax asset or liability is not recognised if:
  – it arises from the initial recognition of an asset or liability in a transaction that is not a business combination; and
  – at the time of the transaction, it affects neither accounting profit nor taxable profit.
• Deferred tax is not recognised in respect of investments in subsidiaries, associates and joint ventures if certain conditions are met.
• A deferred tax asset is recognised to the extent that it is probable that it will be realised.

Measurement
• Current and deferred tax are measured based on rates that are enacted or substantively enacted at the end of the reporting period.
• Deferred tax is measured based on the expected manner of settlement (liability) or recovery (asset).
• Deferred tax is measured on an undiscounted basis.
Classification and presentation

- The total income tax expense (income) recognised in a period is the sum of current tax plus the change in deferred tax assets and liabilities during the period, excluding tax recognised outside profit or loss (i.e. in other comprehensive income or directly in equity) or arising from a business combination.

- Income tax related to items recognised outside profit or loss is itself recognised outside profit or loss.

- Deferred tax is classified as non-current in a classified statement of financial position.

- An entity offsets current tax assets and current tax liabilities only when it has a legally enforceable right to offset current tax assets against current tax liabilities, and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.
4. SPECIFIC STATEMENT OF COMPREHENSIVE INCOME ITEMS

4.1 General

Currently effective: IAS 1
Forthcoming: Amendments to IAS 1, IFRS 9

Format of the statement of comprehensive income

• A statement of comprehensive income is presented either as a single statement or in the form of two statements, comprising an income statement (displaying components of profit or loss) and a separate statement of comprehensive income (beginning with profit or loss and displaying the components of other comprehensive income).

• While IFRS requires certain items to be presented in the statement of comprehensive income, there is no prescribed format.

• Additional line items are presented when they are relevant to understanding the entity’s financial performance.

Use of the description ‘unusual’ or ‘exceptional’

• In our view, use of the terms ‘unusual’ or ‘exceptional’ should be infrequent and reserved for items that justify a greater prominence.

Extraordinary items

• The presentation or disclosure of items of income and expense characterised as ‘extraordinary items’ is prohibited.

Alternative earnings measures

• The presentation of alternative earnings measures (e.g. EBITDA) in the statement of comprehensive income is not prohibited, although national regulators may have more restrictive requirements.

Offsetting

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

- Other comprehensive income comprises items of income and expenses, including reclassification adjustments, that are not recognised in profit or loss.
- Reclassification adjustments from other comprehensive income to profit or loss are disclosed in the statement of comprehensive income or in the notes.
4.2 Revenue

Currently effective: IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18
Forthcoming: IFRS 13

Overall approach

- Revenue is recognised only if it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably.
- When an arrangement includes more than one component, it may be necessary to account for the revenue attributable to each component separately.
- When two or more transactions are linked so that the individual transactions have no commercial effect on their own, they are analysed as one arrangement.

Measurement

- Revenue is measured at the fair value of consideration received, taking into account any trade discounts and volume rebates.
- Revenue recognition does not require cash consideration. However, when goods or services exchanged are similar in nature and value, the transaction does not generate revenue.

Sale of goods

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

Construction contracts

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

Service contracts

- Revenue from service contracts is recognised in the period during which the service is rendered, generally under the percentage-of-completion method.
Gross vs net presentation

• Revenue comprises the gross inflows of economic benefits received by an entity for its own account.

• In an agency relationship, amounts collected on behalf of the principal are not recognised as revenue by the agent.
4.3 Government grants
Currently effective: IAS 20, IAS 41, SIC-10
Forthcoming: IFRS 13

Definition
• ‘Government grants’ are transfers of resources to an entity by a government entity in return for compliance with certain conditions.

Recognition and measurement
• Unconditional government grants related to biological assets measured at fair value less costs to sell are recognised in profit or loss when they become receivable; conditional grants for such assets are recognised in profit or loss when the required conditions are met.

• Government grants that relate to the acquisition of an asset, other than a biological asset measured at fair value less costs to sell, are recognised in profit or loss as the related asset is depreciated or amortised.

• Other government grants are recognised in profit or loss when the entity recognises as expenses the related costs that the grants are intended to compensate.

• When a government grant is in the form of a non-monetary asset, both the asset and the grant are recognised either at the fair value of the non-monetary asset or at a nominal amount.

Presentation and disclosures
• Government grants related to assets are presented as deferred income or as a deduction from the carrying amount of the related asset.

• Government grants related to income are presented separately in the statement of comprehensive income, or as a deduction from the related expense.
4.4 Employee benefits
Currently effective: IAS 19, IFRIC 14
Forthcoming: IAS 19 (2011), IFRS 10, IFRS 13

Scope

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

Definitions

• ‘Post-employment benefits’ are employee benefits that are payable after the completion of employment (before or during retirement).

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

• ‘Short-term employee benefits’ are employee benefits that are due to be settled within 12 months of the end of the period in which the services have been rendered.

• ‘Other long-term employee benefits’ are employee benefits that are not due to be settled within 12 months of the end of the period in which the services have been rendered.

Recognition

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

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

• The costs of providing employee benefits are generally expensed unless other IFRSs permit or require capitalisation.

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

Recognition
• A liability is recognised for an employer’s obligation under a defined benefit plan.

Measurement
• The liability and expense are measured actuarially under the projected unit credit method.

Presentation
• Assets that meet the definition of plan assets, including qualifying insurance policies, and the related liabilities are presented on a net basis in the statement of financial position.

Actuarial gains and losses
• Actuarial gains and losses of defined benefit plans may be recognised in profit or loss, or immediately in other comprehensive income. Amounts recognised in other comprehensive income are not reclassified to profit or loss.

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

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

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

Asset ceiling
• If a defined benefit plan has assets in excess of the obligation, then the amount of any net asset recognised is limited to available economic benefits from the plan in the form of refunds from the plan or reductions in future contributions to the plan, and unrecognised actuarial losses and past service costs.
Minimum funding requirements give rise to a liability if a surplus arising from the additional contributions paid to fund an existing shortfall with respect to services already received is not fully available as a refund or reduction in future contributions.

**Multi-employer plans**

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

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

**Group plans**

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

**Other long-term employee benefits**

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

**Termination benefits**

- Redundancy costs are not recognised until the redundancy has been communicated to the group of affected employees.
4.4A Employee benefits: IAS 19 (2011)

Forthcoming: IAS 19 (2011)

IAS 19 (2011) Employee Benefits is not yet effective. It will be effective for annual periods beginning on or after 1 January 2013. Below is an overview of the significant changes to the currently effective requirements included in 4.4.

**Definitions**

- The distinction between short-term and other long-term employee benefits depends on when the entity expects the benefits to be settled.

**Defined benefit plans**

**Recognition**

- The corridor method is eliminated and actuarial gains and losses are recognised immediately in other comprehensive income.

- All changes in the value of the defined benefit obligation and the plan assets are recognised immediately, subject to the effect of the asset ceiling.

- All past service costs, including unvested amounts, are recognised immediately.

- Curtailments and other plan amendments are recognised at the same time as a related restructuring or related termination benefits when those occur before the curtailment or other plan amendments occur.

**Measurement**

- The total return on plan assets is determined by applying the liability discount rate rather than the long-term rate of expected return on plan assets.

- The costs of managing plan assets reduce returns on plan assets. Other administration costs are expensed through profit or loss immediately. The currently permitted inclusion of such costs within the measurement of the defined benefit obligation or their deduction from the return on plan assets is removed.

- Taxes payable by the plan on contributions relating to service are considered in measuring current service cost and the defined benefit obligation. All other taxes payable by the plan are included in the return on plan assets.
Presentation

• The cost of defined benefit plans includes the following components:
  – service cost – recognised in profit or loss;
  – net interest on net defined benefit liability (asset) – recognised in profit or loss; and
  – remeasurements of the net defined benefit liability (asset) – recognised in other comprehensive income.

Termination benefits

• A termination benefit is recognised at the earlier of:
  – the date on which the entity recognises costs for a restructuring within the scope of the provisions standard that includes the payment of termination benefits; and
  – the date on which the entity can no longer withdraw the offer of the termination benefits.
4.5 Share-based payments

Currently effective: IFRS 2
Forthcoming: IFRS 9, IFRS 10

Basic principles

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

• Equity-settled transactions with employees are generally measured based on the grant-date fair value of the equity instruments granted.

• Equity-settled transactions with non-employees are generally measured based on the fair value of the goods or services obtained.

Equity-settled transactions with employees

• For equity-settled transactions, an entity recognises a cost and a corresponding increase in equity. The cost is recognised as an expense unless it qualifies for recognition as an asset.

• Initial estimates of the number of equity-settled instruments that are expected to vest are adjusted to current estimates and ultimately to the actual number of equity-settled instruments that vest unless differences are due to market conditions.

Cash-settled transactions with employees

• For cash-settled transactions, an entity recognises a cost and a corresponding liability. The cost is recognised as an expense unless it qualifies for recognition as an asset.

• The liability is remeasured, until settlement date, for subsequent changes in the fair value of the liability. The remeasurements are recognised in profit or loss.

Employee transactions with a choice of settlement

• Grants in which the counterparty has the choice of equity or cash settlement are accounted for as compound instruments. Therefore, the entity accounts for a liability component and an equity component separately.

• Classification of grants in which the entity has the choice of equity or cash settlement depends on whether the entity has the ability and intent to settle in shares.
Modifications and cancellations of employee transactions

- Modification of a share-based payment results in the recognition of any incremental fair value but not any reduction in fair value. Replacements are accounted for as modifications.

- Cancellation of a share-based payment results in accelerated recognition of any unrecognised expense.

Group share-based payments arrangements

- A share-based payment transaction in which the receiving entity, the reference entity and the settling entity are in the same group from the perspective of the ultimate parent is a group share-based payment transaction and is accounted for as such by both the receiving and the settling entities.

- A share-based payment that is settled by a shareholder external to the group is also in the scope of IFRS 2 from the perspective of the receiving entity, as long as the reference entity is in the same group as the receiving entity.

- A receiving entity without any obligation to settle the transaction classifies a share-based payment transaction as equity-settled.

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

Share-based payments with non-employees

- Goods are recognised when they are obtained and services are recognised over the period that they are received.
4.6 Borrowing costs
Currently effective: IAS 23

Scope

• Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset generally form part of the cost of that asset.

Qualifying assets

• A ‘qualifying asset’ is one that necessarily takes a substantial period of time to be made ready for its intended use or sale.

Borrowing costs eligible for capitalisation

• Borrowing costs may include interest calculated under the effective interest method, certain finance charges and certain foreign exchange differences.

• Borrowing costs are reduced by interest income from the temporary investment of borrowings.

Period of capitalisation

• Capitalisation begins when an entity meets all of the following conditions:
  – expenditures for the asset are being incurred;
  – borrowing costs are being incurred; and
  – activities that are necessary to prepare the asset for its intended use or sale are in progress.

• Capitalisation ceases when the activities necessary to prepare the asset for its intended use or sale are substantially complete.
5. SPECIAL TOPICS

5.1 Leases

Currently effective: IAS 17, IFRIC 4, SIC-15, SIC-27
Forthcoming: IFRS 10

Definition

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

Classification of leases

• A lease is classified as either a finance lease or an operating lease.
• Lease classification depends on whether substantially all of the risks and rewards incidental to ownership of the leased asset have been transferred from the lessor to the lessee.
• Lease classification is made at inception of the lease and is not revised unless the lease agreement is modified.

Accounting for leases

• Under a finance lease, the lessor derecognises the leased asset and recognises a finance lease receivable; the lessee recognises the leased asset and a liability for future lease payments.
• Under an operating lease, both parties treat the lease as an executor contract. The lessor and the lessee recognise the lease payments as income/expense over the lease term. The lessor recognises the leased asset in its statement of financial position; the lessee does not.
• A lessee may classify a property interest held under an operating lease as an investment property. If this is done, then the lessee accounts for that lease as if it were a finance lease, measures investment property using the fair value model and recognises a lease liability for future lease payments.
• Lessors and lessees recognise incentives granted to a lessee under an operating lease as a reduction in lease rental income/expense over the lease term.

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

• In determining whether the lease of land is a finance lease or an operating lease, an important consideration is that land normally has an indefinite economic life.

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

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

• Special requirements for revenue recognition apply to manufacturer or dealer lessors granting finance leases.
5.2 Operating segments
Currently effective: IFRS 8

Scope

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

Management approach

• Segment disclosures are provided about the components of the entity that management monitors in making decisions about operating matters – i.e. they follow a ‘management approach’.

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

Aggregation of operating segments

• The aggregation of operating segments is permitted only when the segments have ‘similar’ economic characteristics and meet a number of other specified criteria.

Determination of reportable segments

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

Segment disclosure information

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

• Because disclosures of segment profit or loss, segment assets and segment liabilities as reported to the CODM are required, rather than as they would be reported under IFRS, disclosure of how these amounts are measured for each reportable segment is also required.
• Reconciliations between total amounts for all reportable segments and financial statements amounts are disclosed with a description of all material reconciling items.

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

**Comparative information**

• Comparative information is normally restated for changes in reportable segments.
5.3 Earnings per share

Currently effective: IAS 33
Forthcoming: IFRS 10

Scope

- Basic and diluted earnings per share (EPS) are presented by entities whose ordinary shares or potential ordinary shares are traded in a public market or that file, or are in the process of filing, their financial statements for the purpose of issuing any class of ordinary shares in a public market.

Basic EPS

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

Diluted EPS

- To calculate diluted EPS, profit or loss attributable to ordinary equity holders, and the weighted-average number of shares outstanding, are adjusted for the effects of all dilutive potential ordinary shares.
- Potential ordinary shares are considered dilutive only when they decrease EPS or increase loss per share from continuing operations. In determining if potential ordinary shares are dilutive, each issue or series of potential ordinary shares is considered separately rather than in aggregate.
- Contingently issuable ordinary shares are included in basic EPS from the date on which all necessary conditions are satisfied and, when they are not yet satisfied, in diluted EPS based on the number of shares that would be issuable if the end of the reporting period were the end of the contingency period.
- When a contract may be settled in either cash or shares at the entity’s option, the presumption is that it will be settled in ordinary shares and the resulting potential ordinary shares are used to calculate diluted EPS.
- When a contract may be settled in either cash or shares at the holder’s option, the more dilutive of cash and share settlement is used to calculate diluted EPS.
- For diluted EPS, diluted potential ordinary shares are determined independently for each period presented.
Retrospective adjustment

- When the number of ordinary shares outstanding changes, without a corresponding change in resources, the weighted-average number of ordinary shares outstanding during all periods presented is adjusted retrospectively for both basic and diluted EPS.

Presentation and disclosures

- Basic and diluted EPS for both continuing and total operations are presented in the statement of comprehensive income, with equal prominence, for each class of ordinary shares that has a differing right to share in the profit or loss for the period.

- Separate EPS information is disclosed for discontinued operations, either in the statement of comprehensive income or in the notes to the financial statements.

- Adjusted basic and diluted EPS based on alternative earnings measures may be disclosed and explained in the notes to the financial statements.
5.4  Non-current assets held for sale and discontinued operations

Currently effective: IFRS 5, IFRIC 17
Forthcoming: IFRS 13, IFRS 11, IAS 28 (2011)

Held for sale: classification

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

Held for sale: measurement and presentation

- Assets classified as held-for-sale are not amortised or depreciated.
- Non-current assets and disposal groups held for sale are generally measured at the lower of their carrying amount and fair value less costs to sell, and are presented separately on the face of the statement of financial position.
- The comparative statement of financial position is not re-presented when a non-current asset or disposal group is classified as held-for-sale.

Held for distribution

- The classification, presentation and measurement requirements that apply to items that are classified as held-for-sale are also applicable to a non-current asset or disposal group that is classified as held-for-distribution.

Discontinued operations: classification

- A discontinued operation is a component of an entity that either has been disposed of or is classified as held-for-sale.
- Discontinued operations are limited to those operations that are a separate major line of business or geographical area, and subsidiaries acquired exclusively with a view to resale.
Discontinued operations: presentation

- Discontinued operations are presented separately on the face of the statement of comprehensive income, and related cash flow information is disclosed.
- The comparative statement of comprehensive income and cash flow information is represented for discontinued operations.
5.5 Related party disclosures
Currently effective: IAS 24

Identifying related parties

- ‘Related party relationships’ are those involving control (direct or indirect), joint control or significant influence.
- Key management personnel and their close family members are parties related to an entity.

Recognition and measurement

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

Disclosures

- The disclosure of related party relationships between a parent and its subsidiaries is required, even if there have been no transactions between them.
- No disclosure is required in consolidated financial statements of intra-group transactions eliminated in preparing those statements.
- Comprehensive disclosures of related party transactions are required for each category of related party relationship.
- Key management personnel compensation is disclosed in total and is analysed by component.
- In certain instances, government-related entities are allowed to provide less detailed disclosures on related party transactions.
5.7 Non-monetary transactions

Currently effective: IAS 16, IAS 18, IAS 38, IAS 40, IFRIC 18, SIC-31
Forthcoming: IFRS 13

Definition

• A ‘non-monetary transaction’ is an exchange of non-monetary assets, liabilities or services for other non-monetary assets, liabilities or services with little or no monetary consideration involved.

Exchanges of assets held for use

• Exchanges of assets held for use are measured at fair value and result in the recognition of gains or losses, unless the transaction lacks commercial substance.

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

Exchange of goods and services

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

Donated assets

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

Transfers of assets from customers

• Property, plant and equipment contributed from customers that is used to provide access to a supply of goods or services is recognised as an asset if it meets the definition of an asset and the recognition criteria for property, plant and equipment.
5.8 Accompanying financial and other information

Currently effective: IAS 1, IFRS Practice Statement Management Commentary

General

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

- Financial and non-financial information in addition to that required by IFRS is generally presented outside the financial statements as accompanying information, but may be presented within the financial statements if appropriate.

Types of financial and non-financial information

- IFRS Practice Statement Management Commentary provides a broad, non-binding framework for the presentation of management commentary.

Corporate governance disclosures

- Although they are not required by IFRS, corporate governance disclosures may need to be provided due to local legal or securities exchange requirements.
5.9  Interim financial reporting
Currently effective: IAS 34, IFRIC 10
Forthcoming: IFRS 13, IAS 19 (2011)

Scope and basis of preparation

• Interim financial statements contain either a complete or a condensed set of financial statements for a period shorter than an annual reporting period.

Form and content

• The following, as a minimum, are presented in condensed interim financial statements:
  – condensed statement of financial position;
  – condensed statement of comprehensive income – presented either as a condensed single statement, or a condensed income statement and a separate condensed statement of comprehensive income;
  – condensed statement of cash flows;
  – condensed statement of changes in equity; and
  – selected explanatory notes.

Recognition and measurement

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

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

Accounting policies

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

Currently effective: IFRS 6
Forthcoming: IFRS 13, IFRIC 20

Scope

- Entities identify and account for pre-exploration expenditure, exploration and evaluation (E&E) expenditure and development expenditure separately.

- There is no industry-specific guidance on the recognition or measurement of pre-exploration expenditure or development expenditure. Pre-exploration expenditure is generally expensed as incurred.

Exploration and evaluation expenditure

- Each type of E&E cost can be expensed as incurred or capitalised, in accordance with the entity’s selected accounting policy.

- Capitalised E&E costs are classified as either tangible or intangible assets, according to their nature.

Impairment

- Some relief is provided from the general requirements of IFRS in assessing whether there is any indication of impairment of E&E assets.

- The test for recoverability of E&E assets can combine several cash-generating units as long as the combination is not larger than an operating segment.
5.12 Service concession arrangements

Currently effective: IFRIC 12, SIC-29

Scope

- IFRIC 12 provides guidance on the accounting by private sector entities (operators) for public-to-private service concession arrangements.

- IFRIC 12 applies only to those service concession arrangements in which the public sector (the grantor) controls or regulates the services provided with the infrastructure and their prices, and controls any significant residual interest in the infrastructure.

The operator’s rights over the infrastructure

- For service concession arrangements within the scope of IFRIC 12, the operator does not recognise public service infrastructure as its property, plant and equipment if the infrastructure is existing infrastructure of the grantor, or if the infrastructure is built or acquired by the operator as part of the service concession arrangement.

Items provided by the grantor

- If the grantor provides other items to the operator that the operator may retain or sell at its option, then the operator recognises those items as its assets, with a liability for unfulfilled obligations.

Recognition of construction or upgrade revenue

- The operator recognises and measures revenue for providing construction or upgrade services in accordance with IAS 11 and revenue for other services in accordance with IAS 18.

Recognition of consideration receivable for construction or upgrade services

- The operator recognises consideration receivable from the grantor for construction or upgrade services, including upgrades of existing infrastructure, as a financial asset and/or an intangible asset.

- The operator recognises a financial asset to the extent that it has an unconditional right to receive cash (or another financial asset) irrespective of the use of the infrastructure.
• The operator recognises an intangible asset to the extent that it has a right to charge for use of the infrastructure.

Subsequent accounting for financial and intangible assets

• Any financial asset recognised is accounted for in accordance with the relevant financial instruments standards, and any intangible asset in accordance with IAS 38. There are no exemptions from these standards for operators.

Maintenance obligations and upgrade services

• The operator recognises and measures obligations to maintain or restore infrastructure, except for any construction or upgrade element, in accordance with IAS 37.

Borrowing costs

• The operator generally capitalises attributable borrowing costs incurred during construction or upgrade periods to the extent that it has a right to receive an intangible asset. Otherwise, the operator expenses borrowing costs as they are incurred.
5.13 Common control transactions and Newco formations

Currently effective: not explicitly covered; but IFRS 3, IAS 27 and IFRIC 17 are relevant
Forthcoming: IFRS 10

Common control transactions

• In our view, the acquirer in a common control transaction has a choice of applying either book value accounting or acquisition accounting in its consolidated financial statements.

• In our view, the transferor in a common control transaction that is a demerger has a choice of applying either book value accounting or fair value accounting in its consolidated financial statements. In other disposals, in our view judgement is required in determining the appropriate consideration transferred in calculating the gain or loss on disposal.

• In our view, an entity generally has a choice of accounting for a common control transaction using book value accounting, fair value accounting or exchange amount accounting in its separate financial statements when investments in subsidiaries are accounted for at cost.

• Common control transactions are accounted for using the same accounting policy to the extent that the substance of the transactions is similar.

• If a new parent is established within a group and certain criteria are met, then the cost of the acquired subsidiaries in the separate financial statements of the new parent is determined with reference to its share of total equity of the subsidiaries acquired.

Newco formations

• Newco formations generally fall into one of two categories: a formation to effect a business combination involving a third party; or a formation to effect a restructuring among entities under common control.

• In a Newco formation to effect a business combination involving a third party, acquisition accounting generally applies.

• In a Newco formation to effect a restructuring among entities under common control, in our view it will often be appropriate to account for the transaction using book values.
6. **FIRST-TIME ADOPTION OF IFRS**

6.1 **First-time adoption of IFRS**

*Currently effective: IFRS 1*

*Forthcoming: IFRS 9, IFRS 10, IFRS 11, IFRS 13, IAS 19 (2011)*

**General requirements**

- IFRS includes a specific standard that sets out all transitional requirements and exemptions available on the first-time adoption of IFRS.

- An opening statement of financial position is prepared at the date of transition, which is the starting point for accounting in accordance with IFRS.

- The ‘date of transition’ is the beginning of the earliest comparative period presented on the basis of IFRS.

- At least one year of comparative financial statements is presented on the basis of IFRS, together with the opening statement of financial position.

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

**Selection of accounting policies**

- Accounting policies are chosen from IFRS effective at the first annual IFRS reporting date.

- Generally, those accounting policies are applied retrospectively in preparing the opening statement of financial position and in all periods presented in the first IFRS financial statements.

**Mandatory exceptions**

- Retrospective application of changes in accounting policy is prohibited in some cases, generally when doing so would require hindsight.
Optional exemptions

- A number of exemptions are available from the general requirement for retrospective application of IFRS accounting policies.

Presentation and disclosures

- Detailed disclosures on the first-time adoption of IFRS include reconciliations of equity and profit or loss from previous GAAP to IFRS.
7. **FINANCIAL INSTRUMENTS**

7.1 **Scope and definitions**

Currently effective: IAS 32, IAS 39, IFRS 7
Forthcoming: IFRS 9, IFRS 13, IAS 28 (2011)

**Scope**

- The standards on financial instruments apply generally to all financial instruments. They also apply to a contract to buy or sell a non-financial item if the contract can be settled net in cash – including if the non-financial item is readily convertible to cash – unless the contract is held for delivery of the item in accordance with the entity’s expected purchase, sale or usage requirements.

- Financial instruments subject to scope exclusions include certain loan commitments and financial guarantee contracts as well as financial instruments within the scope of other specific standards (e.g. investments in subsidiaries and associates, insurance contracts, employee benefits).

**Definition**

- A ‘financial instrument’ is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity.

- Financial instruments include a broad range of financial assets and financial liabilities. They include both primary financial instruments (such as cash, receivables, debt, shares in another entity) and derivative financial instruments (e.g. options, forwards, futures, interest rate swaps, currency swaps).
7.2 Derivatives and embedded derivatives

Currently effective: IAS 39, IFRIC 9
Forthcoming: IFRS 9, IFRS 13

Derivatives

- A ‘derivative’ is a financial instrument or other contract within the scope of IAS 39, the value of which changes in response to some underlying variable, that has an initial net investment smaller than would be required for other instruments that have a similar response to the variable and that will be settled at a future date.

Embedded derivatives

- An ‘embedded derivative’ is a component of a hybrid contract that affects the cash flows of the hybrid contract in a manner similar to a stand-alone derivative instrument.
- A hybrid instrument also includes a non-derivative host contract that may be a financial or a non-financial contract.
- An embedded derivative is not accounted for separately from the host contract if it is closely related to the host contract or if the entire contract is measured at fair value through profit or loss. In other cases an embedded derivative is accounted for separately as a derivative.
7.3 **Equity and financial liabilities**

**Currently effective: IAS 32, IAS 39, IFRIC 2, IFRIC 17, IFRIC 19**

**Forthcoming: IFRS 9, IFRS 13**

**Classification**

- An instrument, or its components, is classified on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument.

- A financial instrument is classified as a financial liability if:
  - it contains a contractual obligation to transfer cash or other financial assets; or
  - it will or may be settled in a variable number of the entity’s own equity instruments.

- An obligation for an entity to acquire its own equity instruments gives rise to a financial liability, unless certain conditions are met.

- As an exception to the general principle, certain puttable instruments and instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation are classified as equity instruments if certain conditions are met.

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

- The contractual terms of preference shares and similar instruments are evaluated to determine whether they have the characteristics of a financial liability.

**Recognition and measurement**

- Gains and losses on transactions in an entity’s own equity instruments are reported directly in equity.

**Reclassification of instruments between liability and equity**

- The classification of an instrument is made at initial recognition and is generally not revised as a result of subsequent changes in circumstances. However, a reclassification between equity and liability or vice versa may be required if:
  - an entity amends the contractual terms of an instrument; or
– the effective terms of an instrument change without any amendment of the contractual terms; or
– there is a relevant change in the composition of the reporting entity.

**Treasury shares**

- Treasury shares are presented as a deduction from equity.

**Costs of an equity transaction**

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

**Equity presentation**

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

**Dividends**

- Dividends and other distributions to the holders of equity instruments, in their capacity as owners, are recognised directly in equity.
7.4 Classification of financial assets and financial liabilities

Currently effective: IAS 39
Forthcoming: IFRS 9, IFRS 13

Classification

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

- Financial assets and financial liabilities classified at fair value through profit or loss are further subcategorised as held-for-trading (which includes derivatives) or designated as at fair value through profit or loss on initial recognition.

Reclassification of financial assets

- Items may not be reclassified into the fair value through profit or loss category after initial recognition.

- An entity may reclassify a non-derivative financial asset out of the held-for-trading category in certain circumstances if it is no longer held for the purpose of being sold or repurchased in the near term.

- An entity may also reclassify a non-derivative financial asset from the available-for-sale category to loans and receivables if certain conditions are met.

- Other reclassifications of non-derivative financial assets may be permitted or required if certain criteria are met.

- Reclassifications or sales of held-to-maturity assets may require other held-to-maturity assets to be reclassified as available-for-sale.
7.5 Recognition and derecognition

Currently effective: IAS 39
Forthcoming: IFRS 9, IFRS 10, IFRS 13

Initial recognition

- Financial assets and financial liabilities, including derivative instruments, are recognised in the statement of financial position at trade date. However, ‘regular-way’ purchases and sales of financial assets are recognised either at trade date or at settlement date.

Derecognition of financial assets

- A financial asset is derecognised only when the contractual rights to the cash flows from the financial asset expire or when the financial asset is transferred and the transfer meets certain specified conditions.
- A financial asset is transferred when an entity transfers the contractual rights to receive the cash flows from the financial asset or enters into a qualifying ‘pass-through’ arrangement. If a financial asset is transferred, then an entity evaluates whether it has retained the risks and rewards of ownership of the transferred financial asset.
- An entity derecognises a transferred financial asset: if it has transferred substantially all the risks and rewards of ownership; or if it has neither retained nor transferred substantially all the risks and rewards of ownership and it has not retained control of the financial asset.
- An entity continues to recognise a financial asset to the extent of its continuing involvement if it has neither retained nor transferred substantially all the risks and rewards of ownership, and it has retained control of the financial asset.

Derecognition of financial liabilities

- A financial liability is derecognised when it is extinguished or when its terms are substantially modified.
7.6 Measurement and gains and losses

Currently effective: IAS 18, IAS 21, IAS 39
Forthcoming: IFRS 9, IFRS 13

Measurement on initial recognition

• All financial assets and financial liabilities are initially measured at fair value plus directly attributable transaction costs, except for financial instruments classified as at fair value through profit or loss, which are initially measured at fair value.

Subsequent measurement

• Financial assets are subsequently measured at fair value, except for loans and receivables and held-to-maturity investments (which are measured at amortised cost) and investments in unlisted equity instruments (which are measured at cost in the rare circumstances in which fair value cannot be measured reliably).

• Changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income, except for foreign exchange gains and losses on available-for-sale monetary items and impairment losses which are recognised in profit or loss. On derecognition, any gains or losses accumulated in other comprehensive income are reclassified to profit or loss.

• Financial liabilities, other than those classified at fair value through profit or loss, are generally measured at amortised cost subsequent to initial recognition.

• Changes in the fair value of financial assets and financial liabilities at fair value through profit or loss are recognised in profit or loss.

• All derivatives (including separated embedded derivatives) are measured at fair value.

Fair value

• A published price quotation in an active market is the best indicator of the fair value of a financial asset or financial liability.

• Regardless of the level of activity, transaction prices that do not represent distressed transactions cannot be ignored.

• The objective of using a valuation technique is to establish what a transaction price would have been on the measurement date in an arm’s length exchange motivated by normal business conditions.
Amortised cost

- Interest income and interest expense are calculated under the effective interest method, based on estimated cash flows that consider all contractual terms of the financial instrument at the date on which the instrument is initially recognised or at the date of any modification.

Impairment of financial assets

- An entity assesses whether there is objective evidence of impairment of financial assets not measured at fair value through profit or loss. When there is objective evidence of impairment, any impairment loss is recognised in profit or loss.

- Objective evidence of impairment arises from loss events that have occurred after initial recognition that have an impact on the estimated future cash flows of the asset(s).

- For investments in equity instruments, a significant or prolonged decline in fair value below cost is also objective evidence of impairment. Impairment losses on equity instruments cannot be reversed.

- Impairment should be assessed individually for assets that are individually significant. Collective assessment of impairment is performed for assets that have not been identified as impaired on an individual basis.
Hedge accounting

Currently effective: IAS 39, IFRIC 16
Forthcoming: IFRS 9, IFRS 13

Introduction

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

- Hedge accounting is voluntary; however, it is permitted only when strict documentation and effectiveness requirements are met.

Hedge accounting models

- There are three hedge accounting models:
  - fair value hedges of fair value exposures;
  - cash flow hedges of cash flow exposures; and
  - net investment hedges of currency exposures on net investments in foreign operations.

Qualifying hedged items

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

Qualifying hedging instruments

- In general, only derivative instruments entered into with an external party qualify as hedging instruments.

- However, for hedges of foreign exchange risk only, non-derivative financial instruments may qualify as hedging instruments.
Qualifying hedged risks

• The hedged risk should be one that could affect profit or loss.

Effectiveness testing

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

Discontinuing hedge accounting

• Hedge accounting is discontinued prospectively if:
  – the hedged transaction is no longer highly probable;
  – the hedging instrument expires, is sold, terminated or exercised;
  – the hedged item is sold, settled or otherwise disposed of; or
  – the hedge is no longer highly effective.
7.8 Presentation and disclosure

Currently effective: IFRS 7, IAS 1, IAS 32
Forthcoming: IFRS 9, IFRS 13, Amendments to IAS 32 and IFRS 7

Offsetting

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

Significance of financial instruments for financial position and performance

- Disclosure is required in respect of:
  - the significance of financial instruments for the entity’s financial position and performance; and
  - the nature and extent of risks arising from financial instruments and how the entity manages those risks.

- For disclosure of the significance of financial instruments, the overriding principle is to disclose sufficient information to enable users of financial statements to evaluate the significance of financial instruments for an entity’s financial position and performance. Specific details required include disclosure of:
  - information on items designated at fair value through profit or loss;
  - information on reclassification of financial assets between categories;
  - accounting policies; and
  - fair values and assumptions behind the calculations.

Nature and extent of risks arising from financial instruments

- Risk disclosures require both qualitative and quantitative information.
- Qualitative disclosures describe management’s objectives, policies and processes for managing risks arising from financial instruments.
- Quantitative data about the exposure to risks arising from financial instruments is based on information provided internally to key management. However, certain disclosures about the entity’s exposures to credit risk, liquidity risk and market risk arising from financial instruments are required, irrespective of whether this information is provided to management.
IFRS 9 Financial Instruments is not yet effective. It will be effective for annual periods beginning on or after 1 January 2015.

Scope

- IFRS 9 will supersede IAS 39. IFRS 9 currently does not deal with impairment of financial assets and hedge accounting.
- IFRS 9 as issued in 2009 (IFRS 9 (2009)) applies only to classification and measurement of financial assets within the scope of IAS 39.
- IFRS 9 issued in October 2010 (IFRS 9 (2010)) expands on IFRS 9 (2009) by adding guidance from IAS 39; it has a significant impact on the accounting for most financial liabilities designated under the fair value option.

Classification of financial assets

- There are two primary measurement categories for financial assets: amortised cost and fair value.
- The IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale are eliminated.
- A financial asset is measured at amortised cost if both of the following conditions are met:
  - the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
  - the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest.
- All other financial assets are measured at fair value.
- Entities have an option to classify financial assets that meet the amortised cost criteria as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.
Classification of financial liabilities

- The classification requirements for financial liabilities in IFRS 9 are similar to those in IAS 39.
- Entities have an irrevocable option to classify financial liabilities that meet the amortised cost criteria as at fair value through profit or loss similar to the fair value option in IAS 39.
- Generally, a split presentation of changes in the fair value of financial liabilities designated as at fair value through profit or loss is required. The portion of the fair value changes that is attributable to changes in the financial liability’s credit risk is recognised directly in other comprehensive income. The remainder is recognised in profit or loss. The amount presented in other comprehensive income is never reclassified to profit or loss.

Embedded derivatives

- Embedded derivatives with host contracts that are financial assets within the scope of IFRS 9 are not separated; instead the hybrid financial instrument is assessed as a whole for classification under IFRS 9.
- Hybrid instruments with host contracts that are not financial assets within the scope of IFRS 9 (e.g. financial liabilities and non-financial host contracts) are assessed to determine whether the embedded derivative(s) are required to be separated from the host contract.

Reclassification

- The classification of a financial asset or a financial liability is determined on initial recognition.
- Reclassifications of financial assets are made only on a change in an entity’s business model that is significant to its operations. These are expected to be very infrequent.
- No other reclassifications are permitted.

Measurement

- If a financial asset is measured at fair value, then all changes in fair value are generally recognised in profit or loss.
• For investments in equity instruments that are not held for trading, an entity has the irrevocable option, on an instrument-by-instrument basis, to recognise gains and losses in other comprehensive income with no reclassification of gains and losses into profit or loss and no impairments recognised in profit or loss. If an equity investment is so designated, then dividend income is generally recognised in profit or loss.

• There is no exemption that allows unquoted equity investments and related derivatives to be measured at cost. However, guidance is provided on the limited circumstances in which the cost of such an instrument may be an appropriate approximation of fair value.
8. INSURANCE CONTRACTS

8.1 Insurance contracts

Currently effective: IFRS 4
Forthcoming: IFRS 9, IFRS 13

Scope

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

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

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

• In some cases, a deposit element should be ‘unbundled’ (separated) from an insurance contract and accounted for as a financial instrument.

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

Recognition and measurement

• Generally, entities that issue insurance contracts are required to continue their existing accounting policies with respect to insurance contracts except when IFRS 4 requires or permits changes in accounting policies.

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

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

• A liability adequacy test is required to ensure that the measurement of an entity’s insurance liabilities considers all contractual cash flows, using current estimates.
• The application of ‘shadow accounting’ for insurance liabilities is permitted for consistency with the treatment of unrealised gains or losses on assets.

**Insurance contracts acquired in a business combination**

• An expanded presentation of the fair value of insurance contracts acquired in a business combination or portfolio transfer is permitted.

**Presentation and disclosures**

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

Summary of forthcoming requirements
Below is a summary of significant forthcoming requirements in issue at 1 August 2012 that are effective for annual reporting periods beginning after 1 January 2012. This summary does not cover minor amendments to standards.

New or revised standards

New requirements for financial instruments

<table>
<thead>
<tr>
<th>Standard</th>
<th>Effective date</th>
<th>Overview section</th>
<th>Impacted sections</th>
</tr>
</thead>
</table>
| IFRS 9 Financial Instruments   | 1 January 2015 | 7A               | 3.5, 4.1, 4.5, 6.1, 7.1,  
|                                 |                |                  | 7.2, 7.3, 7.4, 7.5, 7.6,  
|                                 |                |                  | 7.7, 7.8, 8.1             |

IFRS 9 replaces the currently effective requirements in IAS 39 for classification and measurement of financial assets and financial liabilities. IFRS 9 also incorporates, without substantive amendment, the requirements of IAS 39 on:
- the recognition and derecognition of financial assets and financial liabilities; and
- how to measure fair value.

IFRS 9 also specifies whether certain items can be recognised in other comprehensive income, and whether items recognised in other comprehensive income can be reclassified to profit or loss. Additionally, IFRS 9 amends presentation and disclosure requirements for financial instruments contained in IAS 1 and IFRS 7.

New ‘consolidation’ suite of standards

<table>
<thead>
<tr>
<th>Standard</th>
<th>Effective date</th>
<th>Overview section</th>
<th>Impacted sections</th>
</tr>
</thead>
</table>
| IFRS 10 Consolidated Financial        | 1 January 2013 | 2.5A             | 2.1, 2.5, 2.6, 4.4, 4.5,  
| Statements                            |                |                  | 5.1, 5.3, 5.13, 6.1, 7.5 |
| IFRS 11 Joint Arrangements            | 1 January 2013 | 3.6A             | 2.1, 3.6, 3.10, 5.4,  
<p>|                                       |                |                  | 6.1, 7A                  |</p>
<table>
<thead>
<tr>
<th>Standard</th>
<th>Effective date</th>
<th>Overview section</th>
<th>Impacted sections</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFRS 12 Disclosure of Interests in Other Entities</td>
<td>1 January 2013</td>
<td>2.5A</td>
<td>2.5</td>
</tr>
<tr>
<td>IAS 28 (2011) Investments in Associates and Joint Ventures</td>
<td>1 January 2013</td>
<td>3.6A</td>
<td>3.5, 3.6, 5.4, 7.1, 7A</td>
</tr>
<tr>
<td>IAS 27 (2011) Separate Financial Statements</td>
<td>1 January 2013</td>
<td>-</td>
<td>2.1, 3.10</td>
</tr>
</tbody>
</table>

IFRS 10 replaces the currently effective requirements in IAS 27 and SIC-12 with respect to the definition of control and related consolidation guidance.

Under IFRS 10, the definition of a group (i.e. a parent and its subsidiaries) remains unchanged. However, the standard changes the definition of control and introduces a number of changes from the control model in IAS 27; the concept of a special purpose entity (SPE) no longer exists. Therefore, under IFRS 10 the population of subsidiaries in a group may be different from that under IAS 27 and the consolidation conclusion for entities that are currently SPEs in the scope of SIC-12 will need to be reconsidered.

IFRS 11 replaces IAS 31 and SIC-13 with respect to the classification and accounting requirements for investments in joint arrangements (currently joint ventures). Under IFRS 11, joint ventures (currently jointly controlled entities) will be accounted for using the equity method, and the option of using proportionate consolidation will be eliminated.

IFRS 12 requires disclosures about an entity’s interests in unconsolidated structured entities. The disclosures include qualitative and quantitative information about the entity’s involvement with (e.g. sponsorship of) such entities.

IAS 28 (2011) removes the option of using proportionate consolidation, but retains the exception for venture capital organisations and similar entities. However, it is characterised as a measurement exemption that is an accounting policy choice rather than an investment-by-investment designation. Additionally, IAS 28 (2011) contains more specific guidance on accounting for changes in ownership interests and on the classification as held-for-sale of investments in joint ventures (currently jointly controlled entities).

IAS 27 (2011) includes requirements for the accounting for investments in subsidiaries, associates and joint ventures (currently jointly controlled entities) in separate financial statements. The accounting policy choice to account for these investments at cost remains unchanged.
New standard on fair value measurement

<table>
<thead>
<tr>
<th>Standard</th>
<th>Effective date</th>
<th>Overview section</th>
<th>Impacted sections</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFRS 13  <em>Fair Value Measurement</em></td>
<td>1 January 2013</td>
<td>2.4A</td>
<td>1.2, 2.4, 2.6, 3.2, 3.3, 3.4, 3.9, 3.10, 4.2, 4.3, 4.4, 5.4, 5.7, 5.9, 5.11, 6.1, 7.1, 7.2, 7.3, 7.4, 7.5, 7.6, 7.7, 7.8, 7A, 8.1</td>
</tr>
</tbody>
</table>

IFRS 13 replaces most of the fair value measurement guidance contained in individual IFRSs with a single definition of fair value; provides fair value application guidance; and establishes a comprehensive disclosure framework for fair value measurements.

Revised employee benefits requirements

<table>
<thead>
<tr>
<th>Standard</th>
<th>Effective date</th>
<th>Overview section</th>
<th>Impacted sections</th>
</tr>
</thead>
<tbody>
<tr>
<td>IAS 19 (2011)  <em>Employee Benefits</em></td>
<td>1 January 2013</td>
<td>4.4A</td>
<td>4.4, 5.9, 6.1</td>
</tr>
</tbody>
</table>

IAS 19 (2011) eliminates the corridor method, by requiring the immediate recognition of actuarial gains and losses in other comprehensive income; and requires the immediate recognition of all past service costs, including unvested amounts. Therefore, under IAS 19 (2011), all changes in the value of the defined benefit obligation and the plan assets will be recognised immediately, subject to the effect of the asset ceiling.

Amendments to standards and interpretations

**Offsetting of financial assets and financial liabilities**

<table>
<thead>
<tr>
<th>Amendment</th>
<th>Effective date</th>
<th>Impacted sections</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32</td>
<td>1 January 2014</td>
<td>3.1, 7.8</td>
</tr>
<tr>
<td>Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7</td>
<td>1 January 2013</td>
<td>7.8</td>
</tr>
</tbody>
</table>

Amendments to IAS 32 address inconsistencies that the IASB has identified in the application of some of the offsetting criteria by providing additional application guidance.
The amendments clarify the meaning of ‘currently has a legally enforceable right of offset’, and that some gross settlement systems may be considered equivalent to net settlement.

Amendments to IFRS 7 expand the required disclosures. They will now include information that will enable users to evaluate the actual or potential effect of netting arrangements relating to financial assets and financial liabilities on the entity’s financial position. The amendments will provide greater comparability between IFRS and US GAAP reporters.

**Presentation of other comprehensive income**

<table>
<thead>
<tr>
<th>Amendment</th>
<th>Effective date</th>
<th>Impacted sections</th>
</tr>
</thead>
<tbody>
<tr>
<td>Presentation of Other Comprehensive Income – Amendments to IAS 1</td>
<td>1 July 2012</td>
<td>2.1, 4.1</td>
</tr>
</tbody>
</table>

Amendments to IAS 1:

- require an entity to present the items of other comprehensive income that may be reclassified to profit or loss in the future if certain conditions are met, separately from those that would never be reclassified to profit or loss. Consequently, an entity that presents items of other comprehensive income before related tax effects would also have to allocate the aggregated tax amount between these sections; and

- change the title of the statement of comprehensive income to the ‘statement of profit or loss and other comprehensive income’. However, an entity will still be allowed to use other titles.

**Annual Improvements to IFRSs 2009–2011 Cycle**

All amendments included in the *Annual Improvements to IFRSs 2009–2011 Cycle* will be effective for the annual periods beginning on or after 1 January 2013. The following table briefly explains those amendments that impact the requirements specifically highlighted in this Overview; details of all of the amendments are included in our publication *Insights into IFRS*. 
<table>
<thead>
<tr>
<th>Amendment</th>
<th>Overview</th>
<th>Impacted sections</th>
</tr>
</thead>
<tbody>
<tr>
<td>IAS 1 <em>Presentation of Financial Statements – Comparative Information</em></td>
<td>When an entity presents comparative information in addition to the minimum required by IFRS, the related notes will be required but not a complete set of financial statements. The third statement of financial position at the beginning of the preceding period will be presented only if a change in accounting policy, retrospective restatement or reclassification will have a <em>material</em> effect on the information in the statement of financial position.</td>
<td>2.1, 2.2, 2.8</td>
</tr>
</tbody>
</table>

**Stripping costs**

<table>
<thead>
<tr>
<th>Interpretation</th>
<th>Effective date</th>
<th>Impacted sections</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFRIC 20 <em>Stripping Costs in the Production Phase of a Surface Mine</em></td>
<td>1 January 2013</td>
<td>5.11</td>
</tr>
</tbody>
</table>

IFRIC 20 sets out principles for the recognition of production stripping costs in the statement of financial position. It recognises that some production stripping in surface mining activity will benefit production in future periods, and sets out criteria for capitalising such costs. The approach to recognition and subsequent measurement of a non-current asset for improved access to ore is based on an identified component of the ore body.

**Monitoring Board’s review**

The Monitoring Board has performed a review of the IFRS Foundation’s governance structure. Its report included the following decisions, for which implementation will begin in 2012.

- The membership of the Monitoring Board will be expanded by the appointment of four additional members chosen from major emerging markets.
• Two rotating seats for members from all other markets will be created and filled following a selection process, and using criteria to be developed by the Monitoring Board in consultation with IOSCO (International Organization of Securities Commissions).

• Membership of the Monitoring Board will require the domestic use of IFRS in the relevant jurisdiction and a financial contribution by the jurisdiction to the IFRS Foundation. The criteria for evaluating the domestic use of IFRS in a jurisdiction will be developed by the Monitoring Board.

• The Basel Committee on Banking Supervision will retain its observer status.
# APPENDIX II

## Quick reference table: Currently effective requirements and forthcoming requirements

Below is a list of standards and interpretations, including the latest revisions or amendments to the standards and interpretations, in issue at 1 August 2012 that are effective for annual reporting periods beginning on 1 January 2012.

This list notes the principal section(s) within which the requirements are discussed. It also notes forthcoming requirements in issue at 1 August 2012 that are effective for annual reporting periods beginning after 1 January 2012.

This list does not include revisions or amendments to standards that became effective before 1 January 2012 or minor consequential amendments to standards or interpretations made as a result of a new or an amended IFRS.

<table>
<thead>
<tr>
<th>Standard</th>
<th>Related section(s)</th>
<th>Latest effective amendments or revisions</th>
<th>Forthcoming requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFRS 1 First-time Adoption of International Financial Reporting Standards</td>
<td>6.1</td>
<td>Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1</td>
<td>Government Loans – Amendments to IFRS 1</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Issued: December 2010</td>
<td>Effective: 1 January 2013</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Effect: 1 July 2011</td>
<td>Annual Improvements to IFRSs 2009–2011 Cycle</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Issued: May 2011</td>
<td>Effective: 1 January 2013</td>
</tr>
<tr>
<td>IFRS 2 Share-based Payment</td>
<td>4.5</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>IFRS 3 Business Combinations</td>
<td>2.6, 3.3, 5.13</td>
<td>-</td>
<td>IFRS 13 Fair Value Measurement</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Issued: May 2011</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Effective: 1 January 2013</td>
</tr>
<tr>
<td>IFRS 4 Insurance Contracts</td>
<td>8.1</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Standard</td>
<td>Related section(s)</td>
<td>Latest effective amendments or revisions</td>
<td>Forthcoming requirements</td>
</tr>
<tr>
<td>----------------------------------------------</td>
<td>--------------------</td>
<td>------------------------------------------</td>
<td>------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>IFRS 5 Non-current Assets Held for Sale and Discontinued Operations</td>
<td>5.4</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>IFRS 6 Exploration for and Evaluation of Mineral Resources</td>
<td>5.11</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Mandatory Effective Date of IFRS 9 and Transition Disclosures – Amendments to IFRS 9 and IFRS 7 Issued: December 2011 Effective: 1 January 2015</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Disclosures — Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7 Issued: December 2011 Effective: 1 January 2013</td>
</tr>
<tr>
<td>IFRS 8 Operating Segments</td>
<td>5.2</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>IFRS 9 Financial Instruments</td>
<td>7A</td>
<td>-</td>
<td>Mandatory Effective Date of IFRS 9 and Transition Disclosures – Amendments to IFRS 9 and IFRS 7 Issued: December 2011 Effective: 1 January 2015</td>
</tr>
<tr>
<td>Standard</td>
<td>Related section(s)</td>
<td>Latest effective amendments or revisions</td>
<td>Forthcoming requirements</td>
</tr>
<tr>
<td>---------------------------------------------------------</td>
<td>--------------------</td>
<td>------------------------------------------</td>
<td>-----------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>IFRS 10 Consolidated Financial Statements</td>
<td>2.5A</td>
<td>-</td>
<td>Issued: May 2011&lt;br&gt;Effective: 1 January 2013</td>
</tr>
<tr>
<td>IFRS 11 Joint Arrangements</td>
<td>3.6A</td>
<td>-</td>
<td>Issued: May 2011&lt;br&gt;Effective: 1 January 2013</td>
</tr>
<tr>
<td>IFRS 12 Disclosure of Interests in Other Entities</td>
<td>2.5A, 3.6A</td>
<td>-</td>
<td>Issued: May 2011&lt;br&gt;Effective: 1 January 2013</td>
</tr>
<tr>
<td>IFRS 13 Fair Value Measurement</td>
<td>2.4A</td>
<td>-</td>
<td>Issued: May 2011&lt;br&gt;Effective: 1 January 2013</td>
</tr>
<tr>
<td>IAS 1 Presentation of Financial Statements</td>
<td>1.1, 2.1, 2.2, 2.4, 2.8, 2.9, 3.1, 4.1, 5.8, 7.8</td>
<td>-</td>
<td>Presentation of Items of Other Comprehensive Income – Amendments to IAS 1&lt;br&gt;Issued: June 2011&lt;br&gt;Effective: 1 July 2012&lt;br&gt;Annual Improvements to IFRSs 2009–2011 Cycle&lt;br&gt;Issued: May 2012&lt;br&gt;Effective: 1 January 2013</td>
</tr>
<tr>
<td>IAS 2 Inventories</td>
<td>3.8</td>
<td>-</td>
<td>Annual Improvements to IFRSs 2009–2011 Cycle&lt;br&gt;Issued: May 2012&lt;br&gt;Effective: 1 January 2013</td>
</tr>
<tr>
<td>IAS 7 Statement of Cash Flows</td>
<td>2.3</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors</td>
<td>2.8</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>IAS 10 Events after the Reporting Period</td>
<td>2.9</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>IAS 11 Construction Contracts</td>
<td>4.2</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Standard</td>
<td>Related section(s)</td>
<td>Latest effective amendments or revisions</td>
<td>Forthcoming requirements</td>
</tr>
<tr>
<td>-----------------------------------------------</td>
<td>---------------------</td>
<td>--------------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------</td>
</tr>
</tbody>
</table>
| IAS 12 Income Taxes                           | 3.13                | *Deferred Tax: Recovery of Underlying Assets – Amendments to IAS 12*  
*Issued: December 2010*  
*Effective: 1 January 2012* | -                                                                           |
| IAS 16 Property, Plant and Equipment          | 3.2, 3.4, 5.7       | -                                                                              | IFRS 13 *Fair Value Measurement*  
*Issued: May 2011*  
*Effective: 1 January 2013*  
Annual Improvements to IFRSs 2009–2011 Cycle  
*Issued: May 2012*  
*Effective: 1 January 2013* |
| IAS 17 Leases                                 | 3.4, 5.1            | -                                                                              | -                                                                           |
| IAS 18 Revenue                                | 4.2, 5.7, 7.6       | -                                                                              | -                                                                           |
| IAS 19 Employee Benefits                     | 4.4, 4.4A           | -                                                                              | Revised IAS 19  
*Issued: June 2011*  
*Effective: 1 January 2013* |
<p>| IAS 20 Accounting for Government Grants and Disclosure of Government Assistance | 4.3                 | -                                                                              | -                                                                           |
| IAS 21 The Effects of Changes in Foreign Exchange Rates | 2.4, 2.7, 7.6       | -                                                                              | -                                                                           |
| IAS 23 Borrowing Costs                        | 4.6                 | -                                                                              | -                                                                           |
| IAS 24 Related Party Disclosures              | 5.5                 | -                                                                              | -                                                                           |
| IAS 26 Accounting and Reporting by Retirement Benefit Plans | Not covered; see section <em>How to navigate this publication.</em> | -                                                                              | -                                                                           |</p>
<table>
<thead>
<tr>
<th>Standard</th>
<th>Related section(s)</th>
<th>Latest effective amendments or revisions</th>
<th>Forthcoming requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>IAS 27 Consolidated and Separate Financial Statements</td>
<td>2.1, 2.5, 2.5A, 5.13</td>
<td>-</td>
<td>IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements Issued: May 2011 Effective: 1 January 2013</td>
</tr>
<tr>
<td>IAS 28 Investments in Associates</td>
<td>3.5</td>
<td>-</td>
<td>IAS 28 Investments in Associates and Joint Ventures Issued: May 2011 Effective: 1 January 2013</td>
</tr>
<tr>
<td>IAS 29 Financial Reporting in Hyperinflationary Economies</td>
<td>2.4, 2.7</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>IAS 31 Interests in Joint Ventures</td>
<td>3.6, 3.6A</td>
<td>-</td>
<td>Replaced by IFRS 11 Joint Arrangements Issued: May 2011 Effective: 1 January 2013</td>
</tr>
<tr>
<td>IAS 33 Earnings per Share</td>
<td>5.3</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Standard</td>
<td>Related section(s)</td>
<td>Latest effective amendments or revisions</td>
<td>Forthcoming requirements</td>
</tr>
<tr>
<td>----------</td>
<td>-------------------</td>
<td>------------------------------------------</td>
<td>--------------------------</td>
</tr>
</tbody>
</table>
| IAS 36  | 3.10              | -                                        | IFRS 13 Fair Value Measurement  
Issued: May 2011  
Effective: 1 January 2013 |
| IAS 37  | 3.12              | -                                        | -                        |
| IAS 38  | 3.3, 5.7          | -                                        | IFRS 13 Fair Value Measurement  
Issued: May 2011  
Effective: 1 January 2013 |
| IAS 39  | 7.1–7.7           | -                                        | IFRS 9 Financial Instruments  
Issued: October 2010  
Effective: 1 January 2015  
IFRS 13 Fair Value Measurement  
Issued: May 2011  
Effective: 1 January 2013 |
| IAS 40  | 3.4, 5.7          | -                                        | IFRS 13 Fair Value Measurement  
Issued: May 2011  
Effective: 1 January 2013 |
| IAS 41  | 3.9, 4.3          | -                                        | IFRS 13 Fair Value Measurement  
Issued: May 2011  
Effective: 1 January 2013 |
<p>| IFRIC 1 | 3.2, 3.12         | -                                        | -                        |</p>
<table>
<thead>
<tr>
<th>Standard</th>
<th>Related section(s)</th>
<th>Latest effective amendments or revisions</th>
<th>Forthcoming requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFRIC 2 Members’ Shares in Co-operative Entities and Similar Instruments</td>
<td>7.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IFRIC 4 Determining whether an Arrangement contains a Lease</td>
<td>5.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</td>
<td>3.12</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IFRIC 6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment</td>
<td>3.12</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies</td>
<td>2.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IFRIC 9 Reassessment of Embedded Derivatives</td>
<td>7.2</td>
<td></td>
<td>IFRS 9 Financial Instruments Issued: October 2010 Effective: 1 January 2015</td>
</tr>
<tr>
<td>IFRIC 10 Interim Financial Reporting and Impairment</td>
<td>3.10, 5.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IFRIC 12 Service Concession Arrangements</td>
<td>3.3, 5.12</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IFRIC 13 Customer Loyalty Programmes</td>
<td>4.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Standard</td>
<td>Related section(s)</td>
<td>Latest effective amendments or revisions</td>
<td>Forthcoming requirements</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------</td>
<td>--------------------</td>
<td>------------------------------------------</td>
<td>--------------------------</td>
</tr>
<tr>
<td>IFRIC 14 <em>The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</em></td>
<td>4.4</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>IFRIC 15 <em>Agreements for the Construction of Real Estate</em></td>
<td>4.2</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>IFRIC 16 <em>Hedges of a Net Investment in a Foreign Operation</em></td>
<td>7.7</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>IFRIC 17 <em>Distributions of Non-cash Assets to Owners</em></td>
<td>5.4, 5.13, 7.3</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>IFRIC 18 <em>Transfers of Assets from Customers</em></td>
<td>3.2, 4.2, 5.7</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>IFRIC 19 <em>Extinguishing Financial Liabilities with Equity Instruments</em></td>
<td>7.3</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
| IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*  | 5.11               | -                                        | **Issued**: October 2011  
**Effective**: 1 January 2013 |
<p>| SIC-7 <em>Introduction of the Euro</em>                                        | None               | -                                        | -                        |
| SIC-10 <em>Government Assistance – No Specific Relation to Operating Activities</em> | 4.3                | -                                        | -                        |</p>
<table>
<thead>
<tr>
<th>Standard</th>
<th>Related section(s)</th>
<th>Latest effective amendments or revisions</th>
<th>Forthcoming requirements</th>
</tr>
</thead>
</table>
| SIC-12 Consolidation – Special Purpose Entities | 2.5 | - | Replaced by IFRS 10 Consolidated Financial Statements  
Issued: May 2011  
Effective: 1 January 2013 |
| SIC-13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers | 3.6 | - | Replaced by IFRS 11 Joint Arrangements  
Issued: May 2011  
Effective: 1 January 2013 |
| SIC-15 Operating Leases – Incentives | 5.1 | - | - |
Issued: December 2010  
Effective: 1 January 2012 | - |
| SIC-25 Income Taxes – Changes in the Tax Status of an Entity or its Shareholders | 3.13 | - | - |
| SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease | 5.1 | - | - |
| SIC-29 Service Concession Arrangements: Disclosures | 5.12 | - | - |
| SIC-31 Revenue – Barter Transactions Involving Advertising Services | 5.7 | - | - |
| SIC-32 Intangible Assets – Web Site Costs | 3.3 | - | - |
| IFRS for Small and Medium-sized Entities | Not covered; see section How to navigate this publication. |
KEEPING YOU INFORMED

Visit www.kpmg.com/ifrs to keep up to date with the latest developments in IFRS and browse our suite of publications. Whether you are new to IFRS or a current user of IFRS, you can find digestible summaries of recent developments, detailed guidance on complex requirements, and practical tools such as illustrative financial statements and checklists. For a local perspective, follow the links to the IFRS resources available from KPMG member firms around the world.

All of these publications are relevant for those involved in external IFRS reporting. The In the Headlines series provides a high level briefing for audit committees and boards.

<table>
<thead>
<tr>
<th>Your need</th>
<th>Publication series</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>Briefing</td>
<td>In the Headlines</td>
<td>Provides a high-level summary of significant accounting, auditing and governance changes together with their impact on entities.</td>
</tr>
<tr>
<td></td>
<td>IFRS Newsletters</td>
<td>Highlights recent IASB and FASB discussions on the financial instruments, insurance, leases and revenue projects. Includes an overview, an analysis of the potential impact of decisions, current status and anticipated timeline for completion.</td>
</tr>
<tr>
<td></td>
<td>The Balancing Items</td>
<td>Focuses on narrow-scope amendments to IFRS.</td>
</tr>
<tr>
<td></td>
<td>New on the Horizon</td>
<td>Considers the requirements of due process documents such as exposure drafts and provides KPMG’s insight. Also available for specific sectors.</td>
</tr>
<tr>
<td></td>
<td>First Impressions</td>
<td>Considers the requirements of new pronouncements and highlights the areas that may result in a change in practice. Also available for specific sectors.</td>
</tr>
<tr>
<td>Your need</td>
<td>Publication series</td>
<td>Purpose</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>---------------------------------------------------</td>
<td>------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Application issues</td>
<td>IFRS Practice Issues</td>
<td>Addresses practical application issues that an entity may encounter when applying IFRS. Also available for specific sectors.</td>
</tr>
<tr>
<td></td>
<td>IFRS Handbooks</td>
<td>Includes extensive interpretative guidance and illustrative examples to elaborate or clarify the practical application of a standard.</td>
</tr>
<tr>
<td>Interim and annual reporting</td>
<td>Illustrative financial statements</td>
<td>Illustrates one possible format for financial statements prepared under IFRS, based on a fictitious multinational corporation. Available for annual and interim periods, and for specific sectors.</td>
</tr>
<tr>
<td></td>
<td>Disclosure checklist</td>
<td>Identifies the disclosures required for currently effective requirements for both annual and interim periods.</td>
</tr>
<tr>
<td>GAAP comparison</td>
<td>IFRS compared to US GAAP</td>
<td>Highlights significant differences between IFRS and US GAAP. The focus is on recognition, measurement and presentation; therefore, disclosure differences are generally not discussed.</td>
</tr>
<tr>
<td>Sector-specific issues</td>
<td>IFRS Sector Newsletters</td>
<td>Provides a regular update on accounting and regulatory developments that directly impact specific sectors.</td>
</tr>
<tr>
<td></td>
<td>Application of IFRS</td>
<td>Illustrates how entities account for and disclose sector-specific issues in their financial statements.</td>
</tr>
<tr>
<td></td>
<td>Accounting under IFRS</td>
<td>Focuses on the practical application issues faced by entities in specific sectors and explores how they are addressed in practice.</td>
</tr>
<tr>
<td></td>
<td>Impact of IFRS</td>
<td>Provides a high-level introduction to the key IFRS accounting issues for specific sectors and discusses how the transition to IFRS will affect an entity operating in that sector.</td>
</tr>
</tbody>
</table>

For access to an extensive range of accounting, auditing and financial reporting guidance and literature, visit KPMG’s Accounting Research Online. This web-based subscription service can be a valuable tool for anyone who wants to stay informed in today’s dynamic environment. For a free 15-day trial, go to aro.kpmg.com and register today.