



# IFRS: An overview

International Financial  
Reporting Standards

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# About this publication

*IFRS: An overview* is an executive summary of the key requirements of IFRSs. This edition is based on IFRSs in issue at 1 August 2007 that are applicable for financial periods beginning on or after 1 January 2007. A list of these standards and interpretations is included in Appendix I. When a significant change will occur as a result of a standard or interpretation that is in issue at 1 August 2007, but which is not required to be adopted by an entity with an annual period ending 31 December 2007, the impact of these “forthcoming requirements” is discussed briefly. In addition, sections 5.2A and 5.12 are included as forthcoming requirements in their entirety.

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

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

## Other ways KPMG member firm professionals can help

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

Technical information and a briefing on KPMG's IFRS conversion support are available at [www.kpmgifrg.com](http://www.kpmgifrg.com).

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# 1. Background

## 1.1 Introduction

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

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

IFRSs are designed for use by profit-oriented entities.

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

Both the bold- and plain-type paragraphs of IFRSs have equal authority and must be complied with.

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

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

## 1.2 The Framework (IASB Framework, IAS 8)

The IASB uses its conceptual framework as an aid to drafting new or revised IFRSs.

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

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

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

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

## 2. General issues

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

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

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

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

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

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

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

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

## 2.2 Changes in equity

(IAS 1, IAS 8)

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

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

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

## 2.3 Statement of cash flows (IAS 7)

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

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

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

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

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

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

## 2.4 Basis of accounting

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

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

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

## 2.5 Consolidation (IAS 27, SIC-12, IFRS 3)

Consolidation is based on control, which is the power to govern 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.

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

Special purpose entities are consolidated in many cases when benefits flow back to the sponsor.

Venture capitalists must consolidate all subsidiaries.

All subsidiaries controlled by a parent are consolidated even if they are acquired exclusively with the intention of disposal.

Uniform accounting policies are used throughout the group.

The difference between the reporting date of a parent and that of a subsidiary cannot be more than three months. Adjustments must be made for the effects of significant transactions and events between the two dates.

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

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

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

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

Intra-group transactions are eliminated in full.

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

## 2.6 Business combinations (IFRS 3, IAS 38)

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

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

In some cases the legal subsidiary is identified as the acquirer for accounting purposes (“reverse acquisition”).

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

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

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

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

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

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

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

When the acquirer’s interest in the net fair value of the assets acquired and liabilities and contingent liabilities assumed exceeds the cost of acquisition

(negative goodwill), any excess is recognised in profit or loss immediately after reassessing the identification and measurement of the assets acquired.

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

When an acquisition is achieved in successive share purchases, the assets acquired and liabilities and contingent liabilities assumed are recognised at full fair value when control is obtained, i.e., the share of the identifiable assets, liabilities and contingent liabilities acquired in previous transactions is revalued. Each exchange transaction is considered separately in determining goodwill.

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

## 2.7 Foreign currency translation

(IAS 21, IAS 29)

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

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

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

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

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

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

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

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

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

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

Changes in accounting estimates are accounted for prospectively.

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

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

## 2.9 Events after the reporting date

(IAS 1, IAS 10)

The financial statements are adjusted to reflect events that occur after the reporting date if those events provide evidence of conditions that existed at the reporting date.

Generally, financial statements are not adjusted for events that are indicative of conditions that arose after the reporting date.

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

## 3. Specific balance sheet items

### 3.1 General (IAS 1, IAS 32)

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

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

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

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

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

Property, plant and equipment is recognised initially at cost.

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

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

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

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

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

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

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

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

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

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

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

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

### **Forthcoming requirements**

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

IFRIC 12 provides guidance on the accounting by private sector entities (operators) for public-to-private service concession arrangements. Under IFRIC 12, the operator does not recognise the infrastructure under such arrangements as its property, plant and equipment if the infrastructure is existing infrastructure of the grantor, or if the infrastructure is constructed or purchased by the operator as part of the service concession arrangement. See section 5.12.

### 3.3 Intangible assets and goodwill (IFRS 3, IAS 38, SIC-32)

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

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

Intangible assets generally are recognised initially at cost.

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

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

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

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

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

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

The following costs cannot be capitalised as intangible assets: internally generated goodwill, internal research costs, costs to develop customer lists, start-up costs, and expenditure incurred on training, advertising and promotional activities, or on relocation or reorganisation.

## **Forthcoming requirements**

IFRIC 12 provides guidance to private sector entities on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements.

IFRIC 12 addresses how service concession operators should apply to existing IFRSs in accounting for the obligations that they undertake and the rights that they receive in service concession arrangements. IFRIC 12 focuses on arrangements in which the private sector entity (the operator) incurs expenditure in the early years of the arrangement as it constructs or upgrades public service infrastructure.

Under IFRIC 12 the operator recognises consideration receivable from the grantor for construction services, including upgrades of existing infrastructure, as a financial asset and / or an intangible asset. If an intangible asset is recognised, then the guidance provided in this section is relevant. A more detailed outline of the key requirements of IFRIC 12 is given in section 5.12.

## 3.4 Investment property (IAS 17, IAS 40)

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

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

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

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

Investment property is recognised initially at cost.

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

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

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

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

## **Forthcoming requirements**

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

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

The definition of an associate is based on significant influence, which is the power to 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 exercisable currently are taken into account in assessing significant influence.

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

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

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

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

An associate's or jointly controlled entity's accounting policies must be consistent with those of its investor, and annual reporting dates may not differ by more than three months.

When an associate or a jointly controlled entity accounted for under the equity method incurs losses, the carrying amount of the investor's interest is reduced, but not below zero. At that point, further losses are recognised by the investor only to the extent that the investor has an obligation to fund losses.

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

Equity accounting or proportionate consolidation is not applied if the investee is classified as held for sale.

Venture capital organisations, venture trusts and similar entities may elect to account for investments in associates and jointly controlled entities at fair value through profit or loss.

## 3.6 Financial instruments (IAS 21, IAS 32, IAS 39, IFRIC 9)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## 3.7 Hedge accounting (IAS 39)

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

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

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

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

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

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

## 3.8 Inventories (IAS 2)

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

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

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

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

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

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

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

### **Forthcoming requirements**

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

## 3.9 Biological assets (IAS 41)

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

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

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

### **Forthcoming requirements**

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

## 3.10 Impairment

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## 3.11 Equity and financial liabilities

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

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

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

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

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

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

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

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

Treasury shares are presented as a deduction from equity.

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

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

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

## 3.12 Provisions

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

A provision is recognised on the basis of 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.

A provision is not recognised for future operating losses.

A provision is measured at the best estimate of the anticipated outflow of resources.

Provisions are discounted if the effect of discounting is material.

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.

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

## 3.13 Income taxes

(IAS 12, SIC–21, SIC–25)

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

The total income tax expense recognised in a period is the sum of current tax plus the change in deferred tax assets and liabilities during the period.

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

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

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

A deferred tax liability (asset) is recognised unless it arises from:

- the initial recognition of goodwill; or
- the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction affects neither accounting profit nor taxable profit.

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

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

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

Deferred tax is measured on an undiscounted basis.

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

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

## 3.14 Contingent assets and liabilities

(IAS 37, IFRS 3)

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

Contingent liabilities assumed in a business combination are recognised if they can be measured reliably. Other contingent liabilities are not recognised in the balance sheet.

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

Contingent assets are possible assets whose existence is uncertain.

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

## 4. Specific income statement items

### 4.1 General (IAS 1, IAS 8)

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

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

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

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

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

Items may not be presented net of tax unless required specifically.

## 4.2 Revenue

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

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

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

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

Revenue from rendering services and construction contracts is recognised in the period that the service is rendered.

There is no specific guidance on software revenue recognition.

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

### **Forthcoming requirements**

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

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

The interpretation requires an entity to recognise award credits as a separately identifiable component of revenue and to defer consequently the recognition of revenue for any award credits. The interpretation also requires the consideration received or receivable from the customer to be allocated by reference to fair values but does not prescribe a certain allocation method, i.e., relative fair value.

If a third party supplies the awards, then an assessment is required as to whether the entity acts as an agent or as a principal. If the entity acts as an agent, then the net amount retained is recognised as revenue. Generally revenue from award credits is recognised when the entity has fulfilled its obligations.

## 4.3 Government grants

(IAS 20, IAS 41, SIC-10)

Government grants related to biological assets measured at fair value are recognised as income when they are unconditionally receivable.

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

Government grants that relate to the acquisition of an asset may be recognised either as a reduction in the cost of the asset or as deferred income, and are amortised as the related asset is depreciated or amortised.

## 4.4 Employee benefits (IAS 19)

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

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

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

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

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

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

The fair value of any qualifying plan assets of defined benefit plans, including qualifying insurance policies, is offset against the obligation.

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

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

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

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

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

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

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

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

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

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

## **Forthcoming requirements**

IFRIC 14 clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements on such assets. It also addresses when a minimum funding requirement might give rise to a liability. This interpretation applies to all post-employment and other long-term employee

defined benefit plans. The interpretation also may be applicable for entities that have plan deficits.

The interpretation confirms that it is not necessary for a refund or a reduction in future contributions to be immediately realisable for the economic benefit to be considered available. In accordance with IFRIC 14 an economic benefit is available to an entity if, in accordance with the terms of the plan and applicable statutory requirements, it is realisable during the life of the plan or on the settlement of the plan liabilities.

The interpretation also requires a liability to be recognised for minimum funding requirement contributions to cover an existing plan shortfall in respect of services already received if the contribution payable is not expected to be available as a refund or reduction in future contributions after it is paid into a plan.

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

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

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

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

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

Cash-settled grants are remeasured, until settlement date, for subsequent changes in the value of the liability.

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

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

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

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

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

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

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

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

### **Forthcoming requirements**

IFRIC 11 confirms that an arrangement in which an entity grants rights to its own equity instruments to employees should be classified as equity-settled regardless of whether the entity either chooses, or is required to, purchase equity instruments (i.e., treasury shares) from another party to satisfy its obligations.

IFRIC 11 also clarifies that equity-settled classification may be appropriate even if the rights to the equity instruments were granted by an entity's shareholders.

Under IFRIC 11, when a parent grants rights to its equity instruments directly to employees of a subsidiary, the transaction is classified as an equity-settled arrangement in the financial statements of the subsidiary provided that it is classified as equity-settled in the consolidated financial statements of the parent.

The interpretation also requires that a transaction in which a subsidiary grants to its employees rights to equity instruments of its parent (or another group entity) be classified by the subsidiary as a cash-settled arrangement.

IFRIC 11 provides guidance in relation to employees who transfer within the group during the vesting period of a share-based payment arrangement. The guidance relates specifically to arrangements in which a parent (or another group entity) grants rights to its equity instruments to employees of a subsidiary and those rights are conditional on the employee providing service within the group for a specified period of time.

IFRIC 11 clarifies that each subsidiary measures the services received from the employee by reference to the parent's grant date fair value of the equity instruments. If an employee subsequently fails to satisfy a vesting condition other than a market condition, such that there is true up of the share-based payment at the group level, then each subsidiary adjusts the amount previously recognised in its financial statements. If the employee transfers between two group entities during the vesting period, then this is not deemed to be a forfeiture from the perspective of the former employer.

## 4.6 Financial income and expense

(IAS 18, IAS 23, IAS 39)

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

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

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

### **Forthcoming requirements**

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

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

## 5. Special topics

### 5.1 Leases

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

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

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

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

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

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

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

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

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

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

Immediate gain recognition from the sale and leaseback of an asset depends on whether or not the sale takes place at fair value, and whether the leaseback is classified as an operating lease or a finance lease.

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.

### **Forthcoming requirements**

IFRIC 12 provides guidance to private sector entities on certain recognition and measurements issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12 amends IFRIC 4 to exclude from the scope of IFRIC 4 arrangements that are within the scope of IFRIC 12. See section 5.12.

## 5.2 Segment reporting (IAS 14)

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

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

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

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

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

Comparative information normally is restated for changes in reportable segments.

### **Forthcoming requirements**

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

## 5.2A Operating segments (IFRS 8)

### **Forthcoming requirements**

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

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

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

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

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

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

IFRS 8 does not define, but requires an explanation of how segment profit or loss, segment assets and segment liabilities are measured for each reportable segment.

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

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

Comparative information normally is restated for changes in operating segments.

## 5.3 Earnings per share (IAS 33)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Comparatives are not re-presented when a non-current asset (or disposal group) is classified as held for sale.

An operation is discontinued when it is disposed of or is classified as held for sale, whichever is earlier.

Generally the separate presentation of discontinued operations is limited to those operations that are a separate major line of business or geographical area and controlled entities acquired exclusively with a view to resale.

Discontinued operations are presented separately on the face of the income statement.

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

## 5.5 Related party disclosures (IAS 24)

Related party relationships include those between entities when direct or indirect control exists, for example subsidiaries, parents, and entities (including state-controlled entities) under common control. Investments involving joint control or significant influence also create related party relationships.

Key management and their close family members also are related parties.

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

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

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

## 5.6 Financial instruments: presentation and disclosure

(IFRS 7, IAS 1, IAS 32)

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

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

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

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

Quantitative data about the exposure to risks arising from financial instruments should be based on information provided internally to key management.

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

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

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

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

## 5.7 Non-monetary transactions (IAS 16, IAS 18, IAS 38, IAS 40, SIC-13, SIC-31)

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

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

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

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

### **Forthcoming requirements**

IFRIC 12 provides guidance to private sector entities on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. See section 5.12.

## 5.8 Accompanying financial and other information (IAS 1)

A financial and operational review is encouraged, but not required.

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

## 5.9 Interim financial reporting (IAS 34, IFRIC 10)

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

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

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

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

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

### **Forthcoming requirements**

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

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

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

Also, see section 5.2A.

## 5.10 Insurance contracts (IFRS 4)

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

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

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

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

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

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

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

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

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

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

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

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

## 5.11 Extractive activities (IFRS 6)

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

E&E costs can be expensed as incurred or capitalised, in accordance with the entity's selected accounting policy.

Capitalised E&E costs must be segregated and classified as either tangible or intangible assets, according to their nature.

The test for recoverability of E&E assets can combine several cash-generating units, as long as the combination is not larger than a segment.

There is no specific guidance on the recognition or measurement of pre-exploration costs or post-exploration development expenditure.

### **Forthcoming requirements**

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

## 5.12 Service concession arrangements (IFRIC 12)

### **Forthcoming requirements**

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.

In these circumstances the operator does not recognise the infrastructure as its property, plant and equipment if the infrastructure is existing infrastructure of the grantor, or if the infrastructure is constructed or purchased by the operator as part of the service concession arrangement. The operator recognises either a financial asset or an intangible asset, or both, at fair value as compensation for any construction services that it provides.

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 together with a liability for unfulfilled obligations.

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.

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 irrespective of the usage of the infrastructure.

The operator recognises an intangible asset to the extent that it has a right to charge for usage of the infrastructure.

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.

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

The operator expenses borrowing costs as incurred, unless it has a right to receive an intangible asset and adopts a policy of capitalisation under IAS 23, in which case it capitalises attributable borrowing costs during construction periods. However, if an entity early adopts the revised version of IAS 23, then it is generally required to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. The revised IAS 23 generally does not permit the option of immediately recognising all borrowing costs as an expense.

## 6. First-time adoption of IFRSs

### 6.1 First-time adoption (IFRS 1)

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

An opening balance sheet is prepared at the date of transition to IFRSs, which is the beginning of the earliest comparative period presented on the basis of IFRSs.

Accounting policies are chosen from IFRSs in effect at the reporting date.

Generally those accounting policies must be applied retrospectively in preparing the opening balance sheet and in all periods presented on the basis of IFRSs.

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

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

At least one year of comparative financial statements must be presented on the basis of IFRSs.

The first-time adoption of IFRSs may be reported initially in either annual or interim financial statements.

#### **Forthcoming requirements**

An additional exemption is added as a consequential amendment to IFRS 1 by IFRIC 12. A first-time adopter of IFRSs may apply the transitional provisions of IFRIC 12. See section 5.12.

An additional exemption is added as a consequential amendment to IFRS 1 by IAS 23. A first-time adopter of IFRSs may apply the transitional provisions of IAS 23. See section 4.6.

# Appendix I

## Currently effective requirements

Below is a list of standards and interpretations in issue at 1 August 2007 that are effective for annual reporting periods beginning on 1 January 2007. The list highlights the most recent changes to the relevant IFRS.

- IFRS 1**      *First-time Adoption of International Financial Reporting Standards*  
Issue date: June 2003  
Most recently amended: in August 2005 by IFRS 7  
Effective date of latest amendment: 1 January 2007
- IFRS 2**      *Share-based Payment*  
Issue date: February 2004  
Effective date: 1 January 2005
- IFRS 3**      *Business Combinations*  
Issue date: March 2004  
Effective date: 1 January 2005
- IFRS 4**      *Insurance Contracts*  
Issue date: March 2004  
Most recently amended: in August 2005 by the Amendments to  
*IAS 39 and IFRS 4: Financial Guarantee Contracts*  
Effective date of latest amendment: 1 January 2006
- IFRS 5**      *Non-current Assets Held for Sale and Discontinued Operations*  
Issue date: March 2004  
Effective date: 1 January 2005
- IFRS 6**      *Exploration for and Evaluation of Mineral Resources*  
Issue date: December 2004  
Most recently amended: in June 2005 by the Amendments to  
*IFRS 1 and IFRS 6*  
Effective date of latest amendment: 1 January 2006

- IFRS 7**      *Financial Instruments: Disclosures*  
Issue date: August 2005  
Effective date: 1 January 2007
- IAS 1**      *Presentation of Financial Statements*  
Issue date: revised in December 2003  
Most recently amended: in August 2005 by the Amendments to IAS 1: *Capital Disclosures*  
Effective date of latest amendment: 1 January 2007
- IAS 2**      *Inventories*  
Issue date: revised in December 2003  
Effective date: 1 January 2005
- IAS 7**      *Cash Flow Statements*  
Issue date: revised in December 1992  
Most recently amended: in December 2003 by IAS 8 and IAS 21  
Effective date of latest amendment: 1 January 2005
- IAS 8**      *Accounting Policies, Changes in Accounting Estimates and Errors*  
Issue date: revised in December 2003  
Effective date: 1 January 2005
- IAS 10**     *Events after the Balance Sheet Date*  
Issue date: revised in December 2003  
Most recently amended: in March 2004 by IFRS 5  
Effective date of latest amendment: 1 January 2005
- IAS 11**     *Construction Contracts*  
Issue date: revised in December 1993  
Effective date: 1 January 1995
- IAS 12**     *Income Taxes*  
Issue date: revised in October 2000  
Most recently amended: in March 2004 by IFRS 3  
Effective date of latest amendment: 1 January 2005

- IAS 14**      *Segment Reporting*  
Issue date: revised in August 1997  
Most recently amended: in March 2004 by IFRS 3 and IFRS 5  
Effective date of latest amendment: 1 January 2005
- IAS 16**      *Property, Plant and Equipment*  
Issue date: revised in December 2003  
Most recently amended: in December 2004 by IFRS 6  
Effective date of latest amendment: 1 January 2006
- IAS 17**      *Leases*  
Issue date: revised in December 2003  
Most recently amended: in August 2005 by IFRS 7  
Effective date of latest amendment: 1 January 2007
- IAS 18**      *Revenue*  
Issue date: revised in 1993  
Most recently amended: in March 2004 by IFRS 4  
Effective date of latest amendment: 1 January 2005
- IAS 19**      *Employee Benefits*  
Issue date: revised in 2000  
Most recently amended: in December 2004 by the Amendment to *IAS 19 Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures*  
Effective date of latest amendment: 1 January 2006
- IAS 20**      *Accounting for Government Grants and Disclosure of Government Assistance*  
Issue date: consequential amendment in January 2001  
Most recently amended: in December 2003 by IAS 8  
Effective date of latest amendment: 1 January 2005

- IAS 21**      *The Effects of Changes in Foreign Exchange Rates*  
Issue date: revised in December 2003  
Most recently amended: in December 2005 by the Amendments to IAS 21: *The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation*  
Effective date of latest amendment: 1 January 2006
- IAS 23**      *Borrowing Costs*  
Issue date: revised in December 1993  
Most recently amended: in December 2003 by IAS 8  
Effective date of latest amendment: 1 January 2005
- IAS 24**      *Related Party Disclosures*  
Issue date: revised in December 2003  
Most recently amended: in December 2004 by the Amendment to IAS 19 *Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures*  
Effective date of latest amendment: 1 January 2006
- IAS 26**      *Accounting and Reporting by Retirement Benefit Plans*  
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- IAS 27**      *Consolidated and Separate Financial Statements*  
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- IAS 28**      *Investments in Associates*  
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- IAS 29**      *Financial Reporting in Hyperinflationary Economies*  
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- IAS 31**      *Interests in Joint Ventures*  
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- IAS 32**      *Financial Instruments: Presentation*  
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- IAS 33**      *Earnings per Share*  
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- IAS 34**      *Interim Financial Reporting*  
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- IAS 36**      *Impairment of Assets*  
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Effective date of latest amendment: 1 January 2005
- IAS 37**      *Provisions, Contingent Liabilities and Contingent Assets*  
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*IAS 39 and IFRS 4: Financial Guarantee Contracts*  
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- IAS 38**      *Intangible Assets*  
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- IAS 39**      *Financial Instruments: Recognition and Measurement*  
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*IAS 39 and IFRS 4: Financial Guarantee Contracts*  
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- IAS 40**      *Investment Property*  
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- IAS 41**      *Agriculture*  
Issue date: February 2001  
Most recently amended: in March 2004 by IFRS 5  
Effective date of latest amendment: 1 January 2005
- IFRIC 1**      *Changes in Existing Decommissioning, Restoration and Similar  
Liabilities*  
Issue date: May 2004  
Effective date: 1 September 2004
- IFRIC 2**      *Members' Shares in Co-operative Entities and Similar Instruments*  
Issue date: November 2004  
Effective date: 1 January 2005
- IFRIC 4**      *Determining whether an Arrangement contains a Lease*  
Issue date: December 2004  
Effective date: 1 January 2006
- IFRIC 5**      *Rights to Interests arising from Decommissioning, Restoration  
and Environmental Rehabilitation Funds*  
Issue date: December 2004  
Effective date: 1 January 2006

- IFRIC 6**     *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment*  
Issue date: September 2005  
Effective date: 1 December 2005
- IFRIC 7**     *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*  
Issue date: November 2005  
Effective date: 1 March 2006
- IFRIC 8**     *Scope of IFRS 2*  
Issue date: January 2006  
Effective date: 1 May 2006
- IFRIC 9**     *Reassessment of Embedded Derivatives*  
Issue date: March 2006  
Effective date: 1 June 2006
- IFRIC 10**    *Interim Financial Reporting and Impairment*  
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Effective date: 1 November 2006
- SIC-7**        *Introduction of the Euro*  
Issue date: May 1998  
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Effective date of latest amendment: 1 January 2005
- SIC-10**      *Government Assistance – No Specific Relation to Operating Activities*  
Issue date: July 1998  
Effective date: 1 August 1998

- SIC-12**      *Consolidation – Special Purpose Entities*  
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Amendment to *SIC-12 – Scope of SIC-12 Consolidation – Special Purpose Entities*  
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- SIC-13**      *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*  
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- SIC-15**      *Operating Leases – Incentives*  
Issue date: December 1998  
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Effective date of latest amendment: 1 January 2005
- SIC-21**      *Income Taxes – Recovery of Revalued Non-Depreciable Assets*  
Issue date: July 2000  
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Effective date of latest amendment: 1 January 2005
- SIC-25**      *Income Taxes – Changes in the Tax Status of an Entity or its Shareholders*  
Issue date: July 2000  
Most recently amended: in March 2004 by IFRS 3  
Effective date of latest amendment: 1 January 2005
- SIC-27**      *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*  
Issue date: December 2001  
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- SIC-29**      *Disclosure – Service Concession Arrangements*  
Issue date: December 2001  
Most recently amended: in December 2003 by IAS 1  
Effective date of latest amendment: 1 January 2005
- SIC-31**      *Revenue – Barter Transactions Involving Advertising Services*  
Issue date: December 2001  
Most recently amended: in December 2003 by IAS 8  
Effective date of latest amendment: 1 January 2005
- SIC-32**      *Intangible Assets – Web Site Costs*  
Issue date: March 2002  
Most recently amended: in March 2004 by IFRS 3  
Effective date of latest amendment: 1 January 2005

## Appendix II

### Forthcoming requirements

Below is a list of standards and interpretations in issue at 1 August 2007 that are effective for annual reporting dates beginning *after* 1 January 2007. The list highlights the effective date of the requirements.

- |                       |   |
|-----------------------|---|
| <b>IFRS 8</b>         | <i>Operating Segments</i><br>Issue date: November 2006<br>Effective date: 1 January 2009  |
| <b>Revised IAS 23</b> | <i>Borrowing Costs</i><br>Issue date: March 2007<br>Effective date: 1 January 2009  |
| <b>IFRIC 11</b>       | <i>IFRS 2 – Group and Treasury Share Transactions</i><br>Issue date: November 2006<br>Effective date: 1 March 2007  |
| <b>IFRIC 12</b>       | <i>Service Concession Arrangements</i><br>Issue date: November 2006<br>Effective date: 1 January 2008   |
| <b>IFRIC 13</b>       | <i>Customer Loyalty Programmes</i><br>Issue date: June 2007<br>Effective date: 1 July 2008  |
| <b>IFRIC 14</b>       | <i>IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i><br>Issue date: July 2007<br>Effective date: 1 January 2008 |

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