IAS 16 – PROPERTY, PLANT & EQUIPMENT

IAS 16 defines PPE as tangible items that:

- Are held for use in the production or supply of goods or services, for rental to others or for administrative purposes and
- Are expected to be used during more than one period.

Initial recognition: measured at its cost.
As with all assets, **recognition** depends on two criteria**.**
– It is probable that **future economic benefits** associated with the item will flow to the entity
– The cost of the item can be **measured reliably**
Cost includes all costs which are directly attributable to bringing the asset into working condition for intended use. These costs should be capitalized until the asset is physically ready for use.

They include:

- Purchase price, less trade discounts
- commissioning costs, site preparation
- installation and testing cost
- **Initial estimate** of the **costs of dismantling and removing the item** and **restoring the site** on which it is located.(IAS 37)
- Finance cost must be capitalized if they are directly attributable to the acquisition of the qualifying asset

The following costs are specifically **excluded:**

* Administration and general overheads.
* Abnormal costs (repairs, wastage, idle time
* Any further costs incurred before a machine is used at its full capacity

Note: Subsequent expenditure on PPE should be capitalised if it results in the total economic benefits expected from the asset to increase above expected on original recognition, e.g the cost of an extension to a building should be capitalised as economic benefits will increase with greater space.

Subsequent Measurement

A company can either use **cost** model or **revaluation** model to subsequently measure PPE.

Cost model

Asset is carried at cost less accumulated depreciation and impairment loss (if any)

Depreciation

* **All** assets with a **finite** useful life must be depreciated.

Review of useful lives and depreciation method

* The useful life of an asset and its residual value should be reviewed at least **annually**.
* Any adjustments made will be reflected in the current and future profit or loss for the periods as a **change in accounting estimate.** It is not a change in accounting policy and so it cannot be treated as a prior period adjustment.

Depreciation of separate components

Separate components of non-current assets should be recognized separately, and depreciated over their own lives.

Revaluation model

* Enterprises may revalue assets to their current fair value.
* Asset revalued must be adjusted to the new value and should be subsequently depreciated base on new value over its remaining useful life
* Any revaluation increase or gain should be recognized in other comprehensive income and should be reflected in equity under revaluation surplus.
* If the increase or gain is reversing an initial decrease on the same asset which was recognized in profit or loss for the period, the increase should be recognized in profit or loss for the period to the extent of the decrease and the excess if any should be recognized in other comprehensive income
* A revaluation decrease should be recognized in profit or loss for the period except there is an existing reserve on the same asset
* If an enterprise chooses to revalue an asset, then it must revalue all assets of the same class to avoid selective revaluation.
* Revaluation must be made with sufficient regularity to ensure that carrying amount does not materially differ from the fair value at each reporting date

Derecognition

- PPE should be derecognised if the initial recognition criteria are not complied with
- When an asset is disposed, profit or loss on disposal must be recognised in profit or loss for the period

IAS 40 – INVESTMENT PROPERTY

Investment property is property (i.e. Land or Building) **held to earn rentals or for capital appreciation or both,** rather than for use or for sale in the ordinary course of business.

Examples of investment property include:

(a) Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of business

(b) A building owned by the reporting entity (or held by the entity under a finance lease) and leased out under an operating lease

Following items are NOT investment properties:

(a) Owner occupied property (PPE)

(b)Property held for sale in the normal course of business (Inventories)

(c) Property being constructed for third parties (construction Contract)

(d) Property being constructed or developed for future use as investment property.

(WIP IAS 16 until the asset is finished and transferred to investment property).

Initial measurement: Investment property shall be measured at cost on recognition in line with the principles of IAS 16.

Subsequent measurement An entity can adopt either cost model or fair value model after initial measurement. The policy chosen must be applied to all investment property

- **Cost model**: investment property is carried at cost less accumulated depreciation
- **Fair value model**
  - The entity remeasures the investment property at fair value at each year
  - All gains or losses are reported as part of profit for the period
  - There is no depreciation charge once this model is adopted

TRANSFERS

Investment property to owners occupied property: Measure the property at fair value at the date of change and subsequently apply **IAS 16**

Investment property to inventory: Measure at fair value at the date of change and subsequently apply **IAS 2**

Owners-occupied to investment property: Measure at fair value at the date of change and subsequently apply **IAS 40**

IAS 23 – BORROWING COSTS

Borrowing costs. Interest and other costs incurred by an entity in connection with the borrowing of funds.

• **Qualifying asset**. An asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Accounting rules for capitalizing interest.

1. Interest is only permitted to be capitalized if it relates to the acquisition, construction or production of a qualifying asset i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.
2. Interest should only be capitalized while construction is in progress.
3. The interest capitalized should relate to the cost incurred on the project and the cost of enterprise's borrowings.

Capitalization period

Capitalization of borrowing costs should commence when **all** of these conditions are met:

- Expenditure for the asset is being incurred.
- Borrowing costs are being incurred
- Construction is in progress.

* Capitalization of borrowing cost should cease when the asset is substantially complete.
* Capitalization of borrowing costs should be suspended during extended periods in which active development is interrupted.

Interest rate

- Project funded by general borrowings –Weighted Average Borrowing Cost.
- Project funded by specific borrowings - The borrowing cost less any investment incomes from the borrowings.

Disclosure

• Accounting policy note.
• Amount of borrowing costs capitalised during the period.
• Capitalisation rate used to determine borrowing costs eligible for capitalisation

IAS 20 – ACCOUNTING FOR GOVERNMENT GRANTS

General principles

* Grants should not be recognized until the conditions for the receipt have been complied with and there is reasonable assurance that the grant will be received.
* Grants should be recognized in the profit or loss for the period so as to match them with the expenditure towards which they are intended to contribute.

Grants related to income

* Income grants given to subsidised expenditure should be matched to related costs.
* These grants can be recognized as **other income** or **netted off** against the related expenditure.

Grants related to assets

* Grants for purchases of non-current assets should be recognized over the expected useful lives of the related assets.

Treatment

- Deduct the grant from the cost of the asset and depreciate the net cost OR
- Treat the grant as deferred income. Release the grant to the profit or loss for the period over the life of the asset.

Repayment of government grants

Repayment of government grants should be accounted for as a **revision of an accounting estimate**. Provision should be made if it appears that the grant may have to be repaid.

- Income-based grants
  - Debit the repayment to any provision for deferred income.
  - Any excess repayment must be charged to the profit or loss for the period immediately.
- Capital-based grants deducted from cost.
  - Debit the cost of the asset with the repayment
  - Recognize and charge immediately the increase of depreciation which should have been charged in the past.

3. Capital –base grant treated as deferred income.
   - Debit the repayment to any provision for deferred income.
   - Any excess repayment must be charged to the profit or loss for the period immediately.

Other grants

Purpose of grant	When to recognize in profit or loss for the period
1. To give immediate financial support	- When receivable
2. To reimburse previously incurred cost	- When receivable
3. To compensate for a loss of income over a period	- when receivable

Disclosure

• Accounting policy note.
• Nature and extent of government grants and other forms of assistance received.
• Unfulfilled conditions and other contingencies attached to recognised government assistance

IFRS 5 NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

NON-CURRENT ASSET HELD FOR SALE

A non-current asset should be classified as "held for sale" if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

IFRS 5 requires the following conditions to be met for such a classification to be appropriate:

1. The asset is available for immediate sale
2. The sale is highly probable within 12 months of its classification
3. The asset is being actively marketed
4. Management is committed to the sale
5. The asset must be marketed for sale at a **price that is reasonable** in relation to its current fair value.

6It is unlikely that the plan to sell the asset will be significantly changed or withdrawn.

A non-current asset might be acquired exclusively with a view to its subsequent disposal, in which case it should be classified as "held for sale" from its acquisition date.

Assets that are to be abandoned or wound down gradually cannot be classified as held for sale, although they may qualify as discontinued once they have been abandoned.

An asset (or disposal group) can still be classified as held for sale, even if the sale has not actually taken place within one year. However, the delay must have been **caused by events or circumstances beyond the entity's control** and there must be sufficient evidence that the entity is still committed to sell the asset or disposal group. Otherwise the entity must cease to classify the asset as held for sale.

MEASUREMENT

At the time of being classified as held for sale, non-current assets should be:

- Measured at the lower of their carrying amount and fair value less costs to sell
- They are not to be depreciated even if they are still being used by the entity.
- Where fair value less cost to sell is lower than carrying amount, the item is written down and treated as impairment loss

-A gain can be recognised for any subsequent increase in fair value less cost to sell but not in excess of cumulative impairment loss that has already been recognised on the asset

PRESENTATION

- Presented separately on the face of statement of financial position

CHANGES TO A PLAN OF SALE

If the criteria for held for sale are no longer met, the entity must cease to classify the asset or disposal group as held for sale. The asset must be measured at the lower of:

- It carrying amount before it was classified as held for sale adjusted for any depreciation, amortization or revaluation that would have been recognised had it not been classified as held for sale
- Its recoverable amount at the date of subsequent decision not to sell

DISCLOSURES

- A description of the non-current asset (or disposal group)
- A description of the sale or expected sale
- Any impairment losses or reversals recognized
- If applicable, the segment in which the non-current asset (or disposal group) is presented in accordance with IFRS 8.

DISCONTINUED OPERATIONS

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

(a) represents a separate major line of business or geographical area of operations
(b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or
(c) is a subsidiary acquired exclusively with a view to resale

<u>Presentation of discontinued operations statement of comprehensive income</u>

- A single amount comprising the total post-tax profit or loss of discontinued operations and Post-tax gain/loss on the measurement to fair value less costs to sell.

Either on the face of or in the note to the profit or loss for the period

- An analysis of the single amount described above into:
  - The revenue, expenses and pre-tax profit/loss
  - The related tax expense
  - The gain/loss recognized on the measurement to fair valueless costs to sell.
  - The related tax expenses

<u>1AS 38 – INTANGIBLE ASSETS</u>

An intangible asset is an identifiable non-monetary asset without physical substances. These include: Computer software, patents, copyrights, advertising, training, customer lists and franchises. etc.

<u>Accounting treatment</u> .

- Initial measurement should be at cost.
- After recognition, an entity must choose either the cost model or the revaluation model.
- Accounting treatment for revaluation is the same as accounting for revaluation under IAS 16

- Finite life asset must be amortized over that life, while indefinite useful life is not amortized but subject to annual impairment review.

Recognition criteria

- Be separately identifiable i.e. being separated from others
- Be controlled by the entity.
- Generate probable future economic benefits for the entity.
- Have a cost that can be measured reliably.

Recognition of an internally generated asset

- Costs incurred in the **research** phase must be recognised in the profit or loss for the period.
- Costs incurred in the **development** phase must be capitalized if they meet the criteria below.
- Expenditure on an intangible item shall be recognised as an expense when it is incurred unless it forms part of the cost of an intangible asset that meets the recognition criteria

Criteria for capitalizing development expenditure

An entity must demonstrate **ALL** of the following:

- The project is technically feasible.
- It intends to complete the intangible asset, use it or sell it.
- It is able to use or sell the asset.
- The intangible asset will generate future economic benefits.
- It has adequate technical, financial and other resources to complete the project.
- It can reliably measure the attributable expenditure on the project.

Intangibles that do not meet the criteria

- If an intangible asset does not meet the criteria above then, it should be recognised in the profit or loss for the period as it is incurred.
- **Once the expenditure has been written off, it cannot be capitalized at a later date.**
- Research, advertising, start-up cost & training, do not meet the recognition criteria.
- Internally generated goodwill such as brands, publishing titles cannot be capitalized.

Computer Software

- Computer software that is an integral part of a related hardware will be capitalized as part of the hardware. This will be a tangible non-current asset.
- Stand- alone computer software (e.g. account packages) is an intangible asset.

Revaluation

Revaluation of intangible assets is **allowed** but only if the assets are traded on **an active market.**

An *active market* is a market in which all the following conditions exist:

(a) the items traded in the market are homogeneous;
(b) willing buyers and sellers can normally be found at any time; and
(c) prices are available to the public.

Amortisation period and amortisation method

An intangible asset with a **finite useful life** should be amortised over its **expected useful life**.

(a) Amortisation **should start** when the asset is **available for use**.
(b) Amortisation **should cease** at the earlier of the date that the asset is classified **as held for sale** in accordance with IFRS 5 *Non-current assets held for sale and discontinued operations* and the date that the asset is **derecognised**.
(c)The amortisation period and the amortisation method used for an intangible asset with a finite useful life should be **reviewed at each financial year-end**.

Intangible assets with indefinite useful lives

An intangible asset with an indefinite useful life shall not be amortised. (IAS 36 requires that such an
asset is tested for impairment at least annually.)

For **each class of intangible assets**, disclosure is required of the following.

• The **method of amortisation** used
• The **useful life** of the assets or the amortisation rate used
• The **gross carrying amount**, the **accumulated amortisation** and the **accumulated impairment losses** as at the beginning and the end of the period
• The carrying amount of **internally-generated intangible assets**
• The **effective date of the revaluation** (by class of intangible assets)
• The **carrying amount** of revalued intangible assets
• The carrying amount that would have been shown (by class of assets) **if the cost model had been used**, and the amount of amortisation that would have been charged
• The amount of any **revaluation surplus** on intangible assets

IFRS 3 *Business combinations*

Accounting Treatment of Purchased Goodwill

- Recognised as an asset
- It is not amortised.
- Tested for impairment at least annually, in accordance with IAS 36 *Impairment of assets*.
- Any negative goodwill or bargain purchase should be **recognised in profit or loss for the period**

IAS 36 – IMPAIRMENT OF ASSETS

An asset is **impaired** if its carrying value exceeds its recoverable amount.

* An impairment review is to be carried out annually whenever:
  - There is any indication that an asset may be impaired.
  - An intangible asset is not being amortized because it has an indefinite useful life or because its not yet ready for its intended use
  - Goodwill has arisen on a business combination
* Enterprises are only required to carry out detailed reviews if there is evidence that impairment may have occurred.

Indications of Possible Impairment

(i)A significant fall in the asset's market value.

(ii) A significant change in the technological, market, legal or economic environment of the business.

(iii) An increase in market interest rates or market rates of return on investments likely to affect the discount rate used in calculating value in use.

(iv) The carrying amount of the entity's net assets being more than its market capitalisation.

(v) Evidence of obsolescence or physical damage

(vi) Material reduction in the use of the asset

(vii) Evidence that the economic performance of the asset is worse or will be worse than expected

Calculating and accounting for an impairment

- An **i**mpairment occurs if the carrying value of an asset is greater than its **recoverable amount.**

* The **recoverable amount** is the higher of fair value less costs to sell and value in use.
* **Fair value less costs to sell** equals the sale proceeds obtainable less the costs of disposal.
* **Value in use** is the present value of future cash flows from using an asset, including its eventual disposal.

The cash flows used in the calculation of value in use should be **pre-tax cash flows** and a **pre-tax discount rate** should be applied to calculate the present value.

It is not always necessary to determine both an asset's fair value less costs to sell and its value in use. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount.

Recognising impairment loss

* Any impairment loss will be charged immediately in the profit or loss for the period.
* Any impairment of a revalued item may be taken to the revaluation reserve i.e. it shall be treated as a revaluation decrease until the surplus has been exhausted. The remaining impairment loss will be recognised in the profit or loss
* The asset will be subsequently depreciated base on the recoverable amount over its remaining useful life

Reversal of Impairment loss

- An impairment loss recognised in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.
- A reversal of an impairment loss for an asset other than goodwill shall be recognised immediately in profit or loss, unless the original impairment was charged against revaluation surplus. Then it will be recognized as other comprehensive income and credited to revaluation reserve.
- The reversal must not take the value of the asset above the amount it would have been if the original impairment had never been recorded
- Subsequent depreciation should be based on new value
- An impairment loss recognised for goodwill shall not be reversed in a subsequent period.

CASH GENERATING UNIT (CGU)

A CGU is defined as the smallest identifiable group of assets which generates cash inflows independent of those of other asset.

As a basic rule, the recoverable amount of an asset should be calculated for the asset individually. However, there will be occasion where it is not possible to estimate such a value for an individual asset particularly in the calculation of value in use. This is because cash flows (inflows and outflows) cannot be attributed to the individual asset. If it is not possible to calculate the recoverable amount for individual asset, the recoverable amount of the asset cash-generating unit should be measured instead.

CALCULATION OF IMPAIRMENT FOR CGU

(1) Assume the CGU is one asset
(2) Compare the carrying value of the CGU to the recoverable amount of CGU
(3) If CGU is impaired asset must be written down in a strict order:

- Any obviously impaired asset
- Goodwill allocated to CGU
- Other assets (pro-rata according to carrying value).

NOTE: No individual asset should be written down below recoverable amount.

IAS 2 INVENTORIES

INVENTORIES should be measured at the **lower of cost** and **net realisable value**.

Cost

Cost includes all purchase costs, conversion costs and other costs incurred in bringing the inventories to their present condition and location.

Purchase costs include the purchase price (less discounts and rebates), import duties, irrecoverable taxes, transport and handling costs and any other directly attributably costs.

Conversion costs include all direct costs of conversion (materials, labour, expenses etc.) and a proportion of the fixed and variable production overheads.

The following costs must be **excluded** from the valuation; abnormal wastage, storage costs, administration costs and selling costs.

Net Realizable Value

NRV is the expected selling price less the estimated costs of completion and sale.

IAS 2 permits either the FIFO method or the weighted average method. The LIFO method is no longer permitted

Summary of disclosure

* The accounting policy and cost formula.
* Total carrying amount of inventories.
* Details of inventories carried at NRV.

IFRS 15- REVENUE FROM CONTRACTS WITH CUSTOMERS

Objective

The objective of IFRS 15 is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. Application of the standard is mandatory for annual reporting periods starting from 1 January 2018 onwards. Earlier application is permitted.

Scope

IFRS 15 Revenue from Contracts with Customers applies to all contracts with customers except for: leases within the scope of IAS 17 Leases; financial instruments and other contractual rights or obligations within the scope of IFRS 9 Financial Instruments, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures; insurance contracts within the scope of IFRS 4 Insurance Contracts; and non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.

A contract with a customer may be partially within the scope of IFRS 15 and partially within the scope of another standard. In that scenario:

if other standards specify how to separate and/or initially measure one or more parts of the contract, then those separation and measurement requirements are applied first. The transaction price is then reduced by the amounts that are initially measured under other standards; if no other standard provides guidance on how to separate and/or initially measure one or more parts of the contract, then IFRS 15 will be applied.

Accounting requirements for revenue

The five-step model framework

The core principle of IFRS 15 is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is delivered in a five-step model framework:

Identify the contract(s) with a customer
Identify the performance obligations in the contract
Determine the transaction price
Allocate the transaction price to the performance obligations in the contract
Recognise revenue when (or as) the entity satisfies a performance obligation.

Application of this guidance will depend on the facts and circumstances present in a contract with a customer and will require the exercise of judgment.

Step 1: Identify the contract with the customer
A contract with a customer will be within the scope of IFRS 15 if all the following conditions are met:
the contract has been approved by the parties to the contract; each party's rights in relation to the goods or services to be transferred can be identified; the payment terms for the goods or services to be transferred can be identified; the contract has commercial substance; and it is probable that the consideration to which the entity is entitled to in exchange for the goods or services will be collected.
If a contract with a customer does not yet meet all of the above criteria, the entity will continue to re-assess the contract going forward to determine whether it subsequently meets the above criteria. From that point, the entity will apply IFRS 15 to the contract.
The standard provides detailed guidance on how to account for approved contract modifications. If certain conditions are met, a contract modification will be accounted for as a separate contract with the customer. If not, it will be accounted for by modifying the accounting for the current contract with the customer. Whether the latter type of modification is accounted for prospectively or retrospectively depends on whether the remaining goods or services to be delivered after the modification are distinct from those delivered prior to the modification. Further details on accounting for contract modifications can be found in the Standard.

Step 2: Identify the performance obligations in the contract

At the inception of the contract, the entity should assess the goods or services that have been promised to the customer, and identify as a performance obligation:

a good or service (or bundle of goods or services) that is distinct; or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

A series of distinct goods or services is transferred to the customer in the same pattern if both of the following criteria are met: [

each distinct good or service in the series that the entity promises to transfer consecutively to the customer would be a performance obligation that is satisfied over time (see below); and a single method of measuring progress would be used to measure the entity's progress towards complete satisfaction of the performance obligation to transfer each distinct good or service in the series to the customer.

A good or service is distinct if both of the following criteria are met:

the customer can benefit from the good or services on its own or in conjunction with other readily available resources; and the entity's promise to transfer the good or service to the customer is separately idenitifable from other promises in the contract.

Factors for consideration as to whether a promise to transfer the good or service to the customer is separately identifiable include, but are not limited to:

the entity does not provide a significant service of integrating the good or service with other goods or services promised in the contract. the good or service does not significantly modify or customise another good or service promised in the contract. the good or service is not highly interrelated with or highly dependent on other goods or services promised in the contract.

Step 3: Determine the transaction price

The transaction price is the amount to which an entity expects to be entitled in exchange for the transfer of goods and services. When making this determination, an entity will consider past customary business practices.

Where a contract contains elements of variable consideration, the entity will estimate the amount of variable consideration to which it will be entitled under the contract.

Variable consideration can arise, for example, as a result of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other similar items. Variable consideration is also present if an entity's right to consideration is contingent on the occurrence of a future event.

The standard deals with the uncertainty relating to variable consideration by limiting the amount of variable consideration that can be recognised. Specifically, variable consideration is only included in the transaction price if, and to the extent that, it is highly probable that its inclusion will not result in a significant revenue reversal in the future when the uncertainty has been subsequently resolved.

However, a different, more restrictive approach is applied in respect of sales or usage-based royalty revenue arising from licences of intellectual property. Such revenue is recognised only when the underlying sales or usage occur.

Step 4: Allocate the transaction price to the performance obligations in the contracts
Where a contract has multiple performance obligations, an entity will allocate the transaction price to the performance obligations in the contract by reference to their relative standalone selling prices. If a stand alone selling price is not directly observable, the entity will need to estimate it. IFRS 15 suggests various methods that might be used, including:
Adjusted market assessment approach Expected cost plus a margin approach Residual approach (only permissible in limited circumstances).
Any overall discount compared to the aggregate of standalone selling prices is allocated between performance obligations on a relative standalone selling price basis. In certain circumstances, it may be appropriate to allocate such a discount to some but not all of the performance obligations.
Where consideration is paid in advance or in arrears, the entity will need to consider whether the contract includes a significant financing arrangement and, if so, adjust for the time value of money. A practical expedient is available where the interval between transfer of the promised goods or services and payment by the customer is expected to be less than 12 months.

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation
Revenue is recognised as control is passed, either over time or at a point in time.
Control of an asset is defined as the ability to direct the use of and obtain substantially all of the remaining benefits from the asset. This includes the ability to prevent others from directing the use of and obtaining the benefits from the asset. The benefits related to the asset are the potential cash flows that may be obtained directly or indirectly. These include, but are not limited to:
using the asset to produce goods or provide services; using the asset to enhance the value of other assets; using the asset to settle liabilities or to reduce expenses; selling or exchanging the asset; pledging the asset to secure a loan; and holding the asset.
An entity recognises revenue over time if one of the following criteria is met:
the customer simultaneously receives and consumes all of the benefits provided by the entity as the entity performs; the entity's performance creates or enhances an asset that the customer controls as the asset is created; or the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.
If an entity does not satisfy its performance obligation over time, it satisfies it at a point in time. Revenue will therefore be recognised when control is passed at a certain point in time. Factors that may indicate the point in time at which control passes include, but are not limited to:
The entity has a present right to payment for the asset; the customer has legal title to the asset; the entity has transferred physical possession of the asset; the customer has the significant risks and rewards related to the ownership of the asset; and the customer has accepted the asset.

Contract costs
The incremental costs of obtaining a contract must be recognised as an asset if the entity expects to recover those costs. However, those incremental costs are limited to the costs

that the entity would not have incurred if the contract had not been successfully obtained (e.g. 'success fees' paid to agents). A practical expedient is available, allowing the incremental costs of obtaining a contract to be expensed if the associated amortisation period would be 12 months or less.
Costs incurred to fulfil a contract are recognised as an asset if and only if all of the following criteria are met:
the costs relate directly to a contract (or a specific anticipated contract); the costs generate or enhance resources of the entity that will be used in satisfying performance obligations in the future; and the costs are expected to be recovered.
These include costs such as direct labour, direct materials, and the allocation of overheads that relate directly to the contract.
The asset recognised in respect of the costs to obtain or fulfil a contract is amortised on a systematic basis that is consistent with the pattern of transfer of the goods or services to which the asset relates.

OTHER KEY REVENUE ISSUES

Bill and hold arrangement

This is a contract for supply of goods where the buyer accepts title to the goods but does not take physical delivery of them until later date. Revenue should be recognised when the buyer accept the title provided the goods are available for delivery and the buyer gives explicit instruction to delay delivery

Payment for goods in advance

Revenue should be recognised when delivery of goods take place. Until then, any payment in advance should be treated as liability.

Payment for goods by instalment

Revenue should be recognised when all risk and reward have been transferred, usually when delivery is made

Sale or return

Revenue is recognized when goods are delivered. The seller should reduce revenue by an estimate of returns base on past experience.

Principal and agency relationship

Principal should recognise gross amount receivable as revenue
Agent should only recognize commission receivable on the transaction as revenue.

IAS 24 – RELATED PARTY TRANSACTIONS

Parties are related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

The following are related parties regulated by IAS 24:
(a) Enterprises that control or are controlled by, the reporting enterprise
(b) Enterprises under common control with the reporting enterprise
(c) Enterprises with joint control over the reporting enterprise
(d) Associates
(e) Joint ventures
(f) Key management personnel
(g) Close family members of management
(h) Enterprises in which a substantial interest is held by persons in (f) and (g) above
(i) Post-employment benefit plans of the reporting enterprise.

Two companies which have a director in common would **not** be deemed to be related parties unless it could be shown that the director is able to influence the policies of both companies.

RELATED PARTY TRANSACTIONS

This is a transfer of resources, services or obligation between related parties, regardless of whether or not a price is charged.

IAS 24 states that related party transaction MUST be disclosed.

NEED FOR DISCLOSURE

The reason why related party transactions must be disclosed is that users need to be made aware of them. Otherwise they will assume that the entity has entered into all its transaction on the same terms that it could have obtained from a third party (on an arm's length basis) and that it has acted in its own interest throughout the period. They will then assess the entity's results and position on this basis and may be misled as a result of this.

DISTORTION OF FINANCIAL STATEMENT

A related party relationship can affect the financial position and operating results of an entity in a number of ways:

- Transactions are entered into with a related party which may not have occurred without the relationship existing.

- Transactions may be entered into on terms different to those with an unrelated party

- Transaction with third parties may be affected by the existence of the related party relationship e.g. a parent company instruct a subsidiary to sell goods to a particular customer.

Disclosures Required

1. Disclosure of control and relationship
2. Disclosure of management compensation
3. Disclosure of transactions and balances

Dealing with related party transaction

(a) Assume it was carried out on an arm's length basis
(b) Disclose only.

IAS 37 - PROVISIONS, CONTINGENT LIABILITIES & ASSETS

Provisions are liabilities for which the amount or timing of the expenditure that will be undertaken is uncertain.

- A provision only exists if there is a legal or constructive obligation to transfer economic benefits as a result of past transactions or events.

Recognition criteria

- There is a legal or constructive obligation as a result of past event
- It is probable that there will be an outflow of economic benefits.
- It is possible to make a reliable estimate of the amount of the obligation.

Measurement

- It should be best estimate of the expenditure required to settle the obligation.
- The estimate should be on prudent basis and should take into account:
  * Cash flows risk
  * Expected future events
  * The time value of money
  * If the time value of money is material then the provision should be discounted.
- The unwinding of the discount is a finance cost and it should be disclosed separately on the face of the profit or loss for the period.
- Provision should be reviewed and adjusted at each reporting period to reflect the current and best estimate

Disclosure

1. A brief description of nature of the obligation
2. The carrying amount opening and closing
3. The fact that the amount has been discounted where this is the case
4. The amount of any anticipated recovery
5. The uncertainties relating to the amount and timing if any.
6. The movements in the year.

Future Operating Losses

Provisions should not be recognized for future operating losses.

Reasons

1. They relate to future events
2. There is no obligation to a third party

Onerous Contract

An onerous contract is a contract in which the unavoidable costs of meeting the contract exceed the economic benefits expected to be received under it. e.g. a lease on a surplus factory.

The least net cost should be recognised as a provision.

The least net cost is the lower of

* The cost of fulfilling the contract or
* Terminating it and suffering any penalty payments.

Assets bought specifically for the onerous contract should be reviewed for impairment before any separate provision is made for the contract itself.

Warranties: should be provided for as there is clear legal obligation in this case.

Future repairs: IAS 37 argues future repairs should not be provided for as there is no obligation to do so and the assets can be disposed in the meantime.

Environmental Provisions

These are often referred to as **clean-up costs** because they usually relate to the cost of decontaminating and restoring an industrial site when production has ceased.

Environmental contamination. If the company has an environment policy such that other parties would expect the company to clean up any contamination or if there is a legal requirement to clean then a provision for environmental damage can be made

Merely causing damage or intending to clean-up a site will not create an obligation.

Generally, a provision will only be recognized if there is a legal or constructive obligation to repair environmental damage.

- Clean-up costs should be provided for at present value as soon as an obligation arises and
- The costs can often be capitalized (that is part of the asset cost).

Restructuring

IAS 37 restricts the recognition of restructuring provisions to situations where an enterprise has a constructive obligation to restructure.

* A constructive obligation will only arise if:
  - there is a detailed formal plan for restructuring
  - those affected have a valid expectation that the restructuring will be carried out
  - the obligation must exist at the year end
* A Board decision alone will not create a constructive obligation unless:
  - the plan is already being implemented
  - the plan has been announced to those affected by it
  - the Board itself contains representatives of employees or other groups affected by the decision.

* An announcement to sell an operation will not create a constructive obligation unless a purchaser is found and there is a binding sale agreement.

* A restructuring provision should only include the direct costs of restructuring. The following costs must not be provided for:
  - retraining or relocating staff
  - marketing
  - investment in new systems
  - future operating losses
  - profits on disposal of assets

Contingent asset

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise.

A contingent asset should not be recognised. It may be disclosed if the future inflow of economic benefits is probable.

If the future inflow of benefits is virtually certain, then it ceases to be a contingent asset. It will be recognized as a normal asset.

Contingent Liabilities

There are 2 types of contingent liabilities:

(1) Possible obligations that have yet to be confirmed e.g. legal action.
(2) Present obligations that do not meet the recognition criteria for provisions because,
- an outflow of economic benefits is not probable e.g. guarantee yet to crystallize
- it is not possible to make a reliable estimate of the obligation e.g. oil spillage clean up.

* A contingent liability should not be recognised. It must be disclosed unless the possibility is remote.
* If it becomes probable then it must be reclassified as provisions
* Contingent liabilities should be reviewed regularly.

Probable means more than 50% likely. If an obligation is probable, it is not a contingent liability – instead, a provision is needed.

IAS 10 – EVENTS AFTER THE REPORTING PERIOD

Events occurring after the reporting period are those events, both favourable and unfavourable, that occur after the reporting period (the statement of financial position date) and the date on which the financial statements are authorised for issue.

Two types of Events after statement of financial position:
* Adjusting Events
* Non - Adjusting Events.

Adjusting events: These events provide additional evidence of conditions existing after the reporting period. Examples:

* The sale of inventory after reporting date which gives evidence about its net realisable value at the reporting date

* Discovery of fraud or errors that shows that financial statement are incorrect
* The settlement after the reporting period of a court case that confirm that the entity had a present obligation at reporting date

Non- adjusting events: These are events that do not relate to conditions existing at the reporting date. They are indicative of conditions that arose subsequent to the reporting period. However, if the events are material then they must be disclosed.

Examples: The issue of new share or loan capital; purchase, disposal or closure of business, financial consequences of fires or floods.

Proposed equity dividend

Equity dividends declared or proposed after the year end is not a liability at the year end (because no obligation to pay a dividend exists at that time). These dividends should be disclosed in a note to the financial statements.

Disclosure requirements for material non- adjusting events

- The nature of the events
- An estimate of the financial effect or a statement that such an estimate cannot be made.

Going concern – if event after reporting period indicates that the enterprises is no longer a going concern, then the financial statement should be redrawn on a break-up basis.

IAS 8 - ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

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

Selection of Accounting Policies

- Where a standard/interpretation exists in respect of a transaction, the accounting policy applied should be determined by applying the standard or interpretation.
- In the absence of an applicable standard or interpretation, management should choose an accounting policy that result in relevant and reliable financial information.
- Management may also wish to consider the pronouncements of other standard-setting bodies or accepted industry practice in general.

An entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless an IFRS specifically requires or permits categorisation of items for which different policies may be appropriate.

Changes in Accounting Policies – Affects Recognition, Presentation and Measurement

An entity shall only change its accounting policies if:

(a) the change is required by a standard or interpretation or
(b) the change results in more relevant and reliable information.

- A change in accounting policy arising from a standard should be accounted for in accordance with that standard.

- Otherwise, the change should be applied <u>**retrospectively**</u>**.** The entity must adjust the opening balance of each affected component of equity and the comparative figures presented.

<u>Changes in Accounting Estimates</u>

A change in an accounting estimate is <u>**not**</u> a change in accounting policy. The effect of a change in an accounting estimate must be recognized <u>**prospectively**</u>**,** by including it in the profit or loss for the period for the period of the change and any future periods that are also affected.

<u>The Correction of Prior Period Errors</u>

Prior period errors are omission from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use information that was available when the financial statements were authorized for issue and could reasonably be expected to have been taken into account. e.g. mistakes in applying accounting policies, oversights and the effects of frauds.

Material current period's errors should be corrected before the financial statements are authorizesd for issue. Material prior period errors should be corrected retrospectively.

Disclosures

Details of any changes to accounting policies need to be disclosed in the financial statements. these details include:
(i) the reasons for the change;
(ii) the amount of the adjustment recognised in net profit for the period; and
(iii) the amount of the adjustment in each period for which pro-forma information is presented and the amount of the adjustment relating to periods prior to those included in the financial statements.

<u>IAS 17 – LEASES</u>

<u>Two types of Lease</u>

- **Finance Lease** – is a lease that transfers substantially all the risks and reward incident to ownership of an asset.
- **Operating lease** – is a lease other than a finance lease. It runs for considerably less than the useful life of the asset.

<u>Conditions for finance lease</u>

1. Ownership transferred to the lessee at the end of the lease.
2. Lessee has the option to buy the asset for less than its fair value.

3. The lease is for major part of the asset's life even if title is not transferred.
4. The present value of the minimum lease payments amounts to at least substantially all of the fair value of the assets (e.g. 90%).
5. The leased assets are of a specialized nature so that only the lessee can use them without major modification.
6. The lessee will compensate the lessor if the lease is cancelled.
7. Gain or losses in the fair value of the asset are borne by the lessee.
8. The lessee can continue the lease for a secondary period at a below market rent.

Accounting for Operating lease by the lessee

- No asset is recognized
- The lease payments will be charged to the profit or loss for the period on straight line basis.
- Any difference between amount charged and amounts paid should be adjusted to prepayments or accruals.
- Any incentives given by the lessor should be recognized over the life of the lease on a straight-line basis. E.g. free-rent period.

Accounting for Finance leases by the lessee

1. Leased asset is recognised as **asset** and **liability** in the statement of financial position.
2. The value at inception will be the **lower of**
    - The fair value of the leased property and
    - The present value of the minimum lease payments.
3. The lease payments will be split between a finance charge and a repayment of the liability.

4. The leased assets is depreciated over the **shorter of**
    - Its useful economic life and
    - The life of the lease.

Operating leases in the book lessor

- The lessor will continue to recognize the leased asset.
- Rental income will be recognized in the profit or loss for the period on a straight-line basis.
- Any difference between amounts charged and amounts paid should be adjusted to receivables or deferred income.
- The initial direct cost of the lease may be spread over the life of the lease or charged when incurred.
- Any incentive given by the lessor should be recognized over the life of the lease on a straight-line basis.

Finance leases in the books of the lessor

1. The lessor should recognize the lease as a receivable.
2. The carrying value will be the lessor's net investment in the lease.

- PV of the minimum lease payments receivable plus,
- PV of any unguaranteed residual value accruing to the lessor.

- In practice, the lessor's net investment in the lease will be the same as the lessee's lease liability.

- The lease receipts will be split between finance income and a repayment of the principal.

Manufacturer or dealer lessors.

a) If the supplier / manufacturer also provide the finance, then there are two transactions.

- a sale on normal terms
- the provision of finance, giving rise to financial income.

b) The sales proceeds will be measured at the lower of

- fair value (i.e. the normal sales price)
- PV of the minimum leased payments.

Land and building

Land should be treated as operating lease except the title passes to the lease at the end of the lease term. Building element may be classified as either a finance lease or an operating lease depending on the nature of the lease contract

Sale and leaseback

The accounting treatment of a sale and leaseback transaction depends upon the type of lease involved.

- A sale and **finance** lease back is treated as a **secured loan**. Hence,
    - The company will continue to recognize the original asset
    - Credit the proceeds of the sales to a finance lease liability account.
- A sale and **operating** leaseback should be treated as a **sale**. The seller/lease should derecognised the asset and recognise lease rentals in the profit or loss. However, any profit must be based on fair value.
- If the sales price is below the fair value, any profit or loss should be recognized immediately except it is apparent that the loss is compensated for future lease payment at a rate below the market rate, then it should be amortized over the period the asset is expected to be used
- If the sales price is above fair value, the excess over fair value should be deferred and amortised over the period in which the asset is expected to be used
- If the fair value is less than the carrying amount, the loss should be recognised immediately

IFRS 2 –SHARE BASED PAYMENT

Share-based payment occurs when an entity buys goods or services from other parties and settles the amount payable by issuing shares or share options to them.

Categories of Transaction

1. **Equity-settled share-based payment:** The entity receives goods/services as consideration for equity instruments of the entity (e.g. shares or share options).

2. **Cash-Settled share-based payment:** The entity acquires goods or services by incurring liabilities to the supplier for amounts based on the entity's share price.

Arguments Against Recognition

- No cost therefore no charge i.e. the enterprise does not have to sacrifice cash or other assets.

  This argument ignores the fact that transaction has occurred and not recognising share base payment will fail to reflect the economic transaction that has occurred.

- EPS would be hit twice i.e. the charge to the profit or loss for the period for the employee service consumed reduced the enterprise earnings while there is also increase in the number of shares issued.

  However, the double impact on earnings per share simply reflects the two economic events that has occurred. Recognising the transaction ensures that its economic consequences are reported

- Adverse economic consequences – recognition of employee share based payment might discourage entities from introducing or continuing employee share plans.

Requirements of IFRS 2

All share-based payment transactions must be recognized in the financial statements.

A. Measurement of equity settled share base payment

- Share-based payment must be measured at **fair value**.
- If the fair value of the goods and service can be measured reliably, the transaction should be accounted for using the fair value of the goods received at the **date they were received**
- If the fair value of the goods and service can not be measured reliably, the transaction should be accounted for using the fair value of the equity option granted at the **grant date**

-If the equity instrument **vest immediately**, the transaction should be accounted for in full on the **grant date**

- If certain **conditions needs** to be complied with before the holder is entitled to the shares then it should be recognised over the **vesting period**

B. <u>Measurement Principles for Cash-Settled Transactions</u>

- Cash settled transactions should be measured at the fair value of the liability incurred.
- Until the liability is settled, the entity must re-measure the fair value of the liability at each reporting date until the liability is settled
- Changes is fair value must be recognised in the profit or loss for the period

<u>Recognition</u>

1. Goods or services received or acquired in a share-based payment transaction should be recognised as expenses unless they qualify for recognition as assets.

2. If the goods/services were received or acquired in an **equity-settled trasaction,** the entity should recognise a corresponding increase **in equity (reserves)**

3. If the goods/services were received or acquired in a **cash-settled transaction,** the entity should recognise a **liability.**

Summary

- **Equity settled transaction – DEBIT Asset/Expense CREDIT Equity**
- **Cash settled transaction – DEBIT Asset/Expense CREDIT Liability**
- **Transactions are recognised when goods/services are obtained/received (usually over the performance period)**
- **Transactions are measured at fair value.**

IAS 19 EMPLOYEE BENEFITS

The objective of this Standard is to prescribe the accounting and disclosure for employee benefits. The Standard requires an entity to recognise:

(a) A liability when an employee has provided service in exchange for employee benefits to be paid in the future; and

(b) An expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment. *Post-employment benefit plans* are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees. Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans, depending on the economic substance of the plan as derived from its principal terms and conditions.

Post-employment benefits: defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Under defined contribution plans:

(a) The entity's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund. Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an entity (and perhaps also the employee) to a post-employment benefit plan or to an insurance company, together with investment returns arising from the contributions; and

(b) In consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall on the employee.

Post-employment benefits: defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans. Under defined benefit plans:

(a) The entity's obligation is to provide the agreed benefits to current and former employees; and

(b) Actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the entity. If actuarial or investment experience are worse than expected, the entity's obligation may be increased.

Accounting by an entity for defined benefit plans involves the following steps:

(a) Using actuarial techniques to make a reliable estimate of the amount of benefit that employees have earned in return for their service in the current and prior periods. This requires an entity to determine how much benefit is attributable to the current and prior periods and to make estimates (actuarial assumptions) about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries and medical costs) that will influence the cost of the benefit

(b) Discounting that benefit using the Projected Unit Credit Method in order to determine the present value of the defined benefit obligation and the current service cost

(c) Determining the fair value of any plan assets

(d) Determining the total amount of actuarial gains and losses and the amount of those actuarial gains and losses to be recognised

(e) Where a plan has been introduced or changed, determining the resulting past service cost

(f) Where a plan has been curtailed or settled, determining the resulting gain or loss

Termination benefits

Termination benefits are employee benefits payable as a result of either:

(a) An entity's decision to terminate an employee's employment before the normal retirement date; or

(b) An employee's decision to accept voluntary redundancy in exchange for those benefits.

An entity shall recognise termination benefits as a liability and an expense when, and only when, the entity is demonstrably committed to either:

(a) Terminate the employment of an employee or group of employees before the normal retirement date; or

(b) Provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

Where termination benefits fall due more than 12 months after the balance sheet date, they shall be discounted.
In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

IFRS 2 – OPERATING SEGMENTS

Scope
IFRS 8 applies to the separate or individual financial statements of an entity (and to the consolidated financial statements of a group with a parent):
whose debt or equity instruments are traded in a public market or that files, or is in the process of filing, its (consolidated) financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market.
However, when both separate and consolidated financial statements for the parent are presented in a single financial report, segment information need be presented only on the basis of the consolidated financial statements.

Operating segments
IFRS 8 defines an operating segment as follows. An operating segment is a component of an entity:
that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity) whose operating results are reviewed regularly by the entity's chief operating

decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available
Reportable segments
IFRS 8 requires an entity to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria:
its reported revenue, from both external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments, or the absolute measure of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss, or its assets are 10 per cent or more of the combined assets of all operating segments.
Two or more operating segments may be aggregated into a single operating segment if aggregation is consistent with the core principles of the the standard, the segments have similar economic characteristics and are similar in various prescribed respects.

If the total external revenue reported by operating segments constitutes less than 75 per cent of the entity's revenue, additional operating segments must be identified as reportable segments (even if they do not meet the quantitative thresholds set out above) until at least 75 per cent of the entity's revenue is included in reportable segments.