



International Financial Reporting Standards



IFRS The Standards

The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.



International Financial Reporting Standards

IFRS 2 Share-based Payment

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IFRS 2

Share-based Payment

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Introduction

- The share based payment transaction is recognised when the entity obtains the goods or services. Goods or services received are recognised as assets or expenses as appropriate. The transaction is recognised as equity (if equity-settled) or as a liability (if cash-settled).



IFRS 2

Share-based Payment

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Measurement

- Equity-settled share-based payment transactions are measured at the fair value of the goods or services received. If the fair value of the goods or services cannot be estimated reliably, the fair value of the equity instruments at grant date is used.
- Cash-settled share-based payment transactions are measured at the fair value of the liability at the end of each reporting period.



IFRS 2

Share-based Payment

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Disclosures

- Information that enables users to understand the nature and extent of share-based payment arrangements.
- Information that enables users to understand how fair value of the goods or services received was determined.
- Information that enables users to understand the effect of share-based payment transactions on profit or loss and financial position.



Critical Estimates and Judgements

- Distinguishing equity-settled and cash-settled plans
- Understanding of plan terms
- Estimating the fair value of an options
- Estimating vesting periods and vesting conditions



IFRS 2

Share-based Payment

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Business Implications

- The scope of IFRS 2 is broader than employee share options. It applies to transactions in which shares or other equity instruments are issued in return for goods or services, and those in which the payment amount is based on the price of the entity's shares.
- Before IFRS 2, expenses associated with granting share options were often omitted or understated.
- IFRS financial statement users see relevant information about goods and services acquired and obligations arising from share-based payments.



International Financial Reporting Standards

IFRS 3 Business Combinations

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IFRS 3

Business Combinations

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Introduction

- A business combination is a transaction or other event in which a reporting entity (the acquirer) obtains control of one or more businesses (the acquiree).
- All business combinations are purchases
- (Common-control combinations are outside the scope of this standard)



IFRS 3

Business Combinations

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Principles

- The acquirer of a business recognises the identifiable assets acquired and liabilities assumed measured initially at their acquisition-date fair values and discloses information that enables users to evaluate the nature and financial effects of the acquisition.

Exceptions

- Particular requirements apply to contingent liabilities, income taxes, employee benefits, indemnification assets, reacquired rights, share-based payment awards and assets held for sale.



Recognition & Measurement

- Goodwill (an asset) is measured initially indirectly as the difference between the consideration transferred in exchange for the acquiree and the acquiree's identifiable assets and liabilities.
- If that difference is negative because the value of the acquired identifiable assets and liabilities exceeds the consideration transferred, the acquirer immediately recognises a gain from a bargain purchase.
- Goodwill is not amortised, but is subject to an impairment test.



IFRS 3

Business Combinations

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Recognition & Measurement continued

- If the acquirer acquires less than 100 per cent of the equity interests of another entity in a business combination it recognises non-controlling interest.
- The acquirer may choose in each business combination to measure non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.



Business Implications

- The recognition and measurement of assets and liabilities in the business combination determines their subsequent accounting.
- The fair value measurement of the acquiree's identifiable assets might result in higher amortisation and depreciation expenses when compared with the acquiree's expenses before the business combination.
- Users of IFRS financial statements have information to evaluate the nature and financial effects of acquisitions.



International Financial Reporting Standards

IFRS 4 Insurance Contracts

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Introduction

- IFRS 4 applies to insurance contracts issued by any entity, including entities that are not regulated as insurers.
- An **insurance contract** is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.



IFRS 4

Insurance Contracts

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Unbundling of deposit components

- Some insurance contracts contain both an insurance component and a deposit component. In some cases the entity must 'unbundle' the components and account for them separately.
- This requirement is particularly relevant for financial reinsurance.



Insurance liabilities

- The adequacy of insurance liabilities must be tested at the end of each reporting period. The liability adequacy test is based on current estimates of future cash flows. Any deficiency is recognised in profit or loss.
- Insurance liabilities are presented without offsetting them against related reinsurance assets.



IFRS 4

Insurance Contracts

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Business Implications

- Some contracts that have the legal form of insurance contracts, or are described for other purposes as insurance contracts, may not be insurance contracts as defined in IFRS 4.
- If these contracts create financial assets and financial liabilities (deposits) IAS 39 *Financial Instruments: Recognition and Measurement* applies.



IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

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IFRS 5

Non-current Assets Held for Sale and Discontinued Operations

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Introduction

- Non-current assets held for sale and discontinued operations must be disclosed separately in the financial statements.



IFRS 5

Non-current Assets Held for Sale and Discontinued Operations

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Assets held for sale

- Non-current assets are reclassified as current assets when they are held for sale.
- A non-current asset is regarded as 'held for sale' if its carrying amount will be recovered principally through a sale transaction, rather than through continuing use.



IFRS 5

Non-current Assets Held for Sale and Discontinued Operations

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Assets held for sale

- Non-current assets held for sale are not depreciated.
- They are measured at the lower of fair value less costs to sell and carrying amount and presented separately on the statement of financial position.



IFRS 5

Non-current Assets Held for Sale and Discontinued Operations

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Discontinued operations

- A ‘discontinued operation’ is a component of an entity that either has been disposed of or is classified as held for sale.
- The component must be a major line of business, a geographical area of operations, or a subsidiary that was acquired exclusively for resale.
- Discontinued operations are presented separately within profit or loss in the statement of comprehensive income and the statement of cash flows.



IFRS 5

Non-current Assets Held for Sale and Discontinued Operations

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Business Implications

- Disclosures about non-current assets held for sale and discontinued operations are intended to assist readers of the financial statements in assessing the entity's future results and cash flows.
- The classification of an asset as 'held for sale' is based on actions taken by management at or before the end of the reporting period and management's expectation that a sale will be achieved.



International Financial Reporting Standards

IFRS 6

Exploration for and Evaluation of Mineral Resources

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IFRS 6

Exploration for and Evaluation of Mineral Resources

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Introduction

- IFRS 6 specifies the financial reporting for expenditures incurred in exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting the mineral resources is demonstrable.
- It does not specify the financial reporting for the development of mineral resources.



IFRS 6

Exploration for and Evaluation of Mineral Resources

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Recognition & Classification

- Exploration and evaluation assets are measured at cost. Subsequently they are measured using either the cost model or the revaluation model.
- Exploration and evaluation assets are classified as tangible or intangible assets according to their nature.



IFRS 6

Exploration for and Evaluation of Mineral Resources

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Business Implications

- In most respects, an entity may continue to use the accounting policies for exploration and evaluation expenditures that it applied immediately before adopting IFRS 6.
- Impairment is sometimes assessed at a higher level than would be required by IAS 36, ie the test in IFRS 6 is not as stringent.



International Financial Reporting Standards

IFRS 7 Financial Instruments: Disclosures

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Introduction

- IFRS 7 specifies disclosure for financial instruments.
- The presentation and recognition and measurement of financial instruments are the subjects of
 - IAS 32 *Financial Instruments: Presentation*; and
 - IAS 39 *Financial Instruments: Recognition and Measurement* respectively.
 - IFRS 9 *Financial Instruments* (being developed in phases) is intended to ultimately replace IAS 39.



Disclosure principles

- Information that enables users to evaluate the significance of financial instruments for the entity's financial position and performance
- Information (qualitative and quantitative) that enables users to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period.



IFRS 7

Financial Instruments: Disclosures

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Disclosure requirement

- Qualitative information about exposure to risks arising from financial instruments. The disclosures describe management's objectives, policies and processes for managing those risks



Disclosure requirement continued

- Quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk.
 - These disclosures provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel.



Business Implications

- Users of IFRS financial statements have information to evaluate the significance of financial instruments for the entity's financial position and performance.
- Users of IFRS financial statements have information to evaluate the nature and extent of the entity's exposure to and management of risks arising from financial instruments.



International Financial Reporting Standards

IFRS 8 Operating Segments

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IFRS 8

Operating Segments

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Introduction

- IFRS 8 requires disclosure of information about an entity's operating segments, its products and services, the geographical areas in which it operates, and its major customers.
- This information enables users of its financial statements to evaluate its business activities and the environment in which it operates.



IFRS 8

Operating Segments

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Operating segments

- An entity must report financial and descriptive information about its operating segments that meet specified criteria.
- Operating segments are components of an entity about which separate financial information is available and which the chief operating decision maker regularly evaluates in deciding how to allocate resources and in assessing performance.
- The financial information reported is the same as the chief operating decision maker uses.



IFRS 8

Operating Segments

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Disclosure

- An entity must give descriptive information about:
 - the way the operating segments were determined
 - the products and services provided by the segments
 - differences between the measurements used in reporting segment information and those used in the entity's financial statements
 - changes in the measurement of segment amounts from period to period



IFRS 8

Operating Segments

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Disclosure continued

- An entity must report a measure of operating segment profit or loss and of segment assets. It must also report a measure of segment liabilities and particular income and expense items.
- An entity must report information about the revenues derived from its products or services, about the countries in which it earns revenues and holds assets, and about major customers.



IFRS 8

Operating Segments

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Business Implications

- Many entities are diversified and/or multinational operations. Their products and services, or the geographical areas in which they operate, may differ in profitability, future prospects and risks.
- Segment information may be more relevant than consolidated or aggregated data for users in assessing risks and returns.



IFRS 10 Consolidated Financial Statements

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Introduction

- IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.
- It supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation—Special Purpose Entities*.
- Effective date: 1 January 2013
- Earlier application is permitted



Reasons for issuing the IFRS

- Perceived inconsistencies between the consolidation guidance in IAS 27 and SIC-12 resulted in diversity in practice.
 - IAS 27 used control as the basis for consolidation, while SIC-12 focused more on risks and rewards.
- The global financial crisis highlighted the importance of enhancing disclosure requirements, in particular for special purpose or structured entities.



Control

- IFRS 10 defines the principle of control and establishes control as the basis for consolidation.
- Principle of control sets out the following three elements of control:
 - power over the investee;
 - exposure, or rights, to variable returns from involvement with the investee; and
 - the ability to use power over the investee to affect the amount of the investor's returns.



Application of the control principle

- IFRS 10 sets out requirements on how to apply the control principle:
 - An investor can control an investee with less than 50 per cent of the voting rights of the investee.
 - Potential voting rights need to be considered in assessing control, but only if they are substantive
 - IFRS 10 contains specific application guidance for agency relationships



Presentation of consolidated financial statements

- An entity that has one or more subsidiaries (a parent) must present consolidated financial statements.
 - A subsidiary is an entity, including an unincorporated entity such as a partnership that is controlled by the parent.
- The consolidated financial statements include all entities under the parent's control, and are presented as financial statements of a single economic entity.



Presentation of consolidated financial statements continued

- One exception is that a parent need not prepare consolidated financial statements if:
 - it is itself a wholly-owned subsidiary (or a partly owned subsidiary and its other owners have been informed about and do not object to the parent not presenting consolidated financial statements),
 - its securities are not publicly traded or in the process of becoming publicly traded, and
 - its parent publishes IFRS-compliant financial statements that are available to the public.



Non-controlling interest

- When a parent owns less than 100 per cent of a subsidiary it recognises non-controlling interest.
- Non-controlling interest is the equity in a subsidiary that is not attributable, directly or indirectly, to the parent.
- It is presented in the consolidated statement of financial position within equity, separately from the parent shareholders' equity.



Business Implications

- Judgement in the context of all available information is required to determine whether control exists.
- A subsidiary is not excluded from consolidation because its business activities are dissimilar from those of the other entities within the group.



Business Implications

- When the end of the reporting period of the parent and a subsidiary differ the subsidiary usually prepares additional financial statements as of the same date as the parent, for consolidation purposes.
- Uniform accounting policies are used in the consolidated financial statements.



IFRS 11 Joint Arrangements

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IFRS 11

Joint Arrangements

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Introduction

- IFRS 11 *Joint Arrangements* establishes principles for financial reporting by parties to a joint arrangement.
- It supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities—Non-Monetary Contributions by Venturers*.
- Effective date: 1 January 2013
- Earlier application is permitted



IFRS 11

Joint Arrangements

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Principle

- A party to a joint arrangement recognises its rights and obligations arising from the arrangement.



Application of the principle

- Parties that have rights to the assets and obligations for the liabilities relating to the arrangement are parties to a **joint operation**. A joint operator accounts for assets, liabilities and corresponding revenues and expenses arising from the arrangement.
- Parties that have rights to the net assets of the arrangement are parties to a **joint venture**. A joint venturer accounts for an investment in the arrangement using the equity method.



Business Implications

- IFRS financial statement users have access to relevant information about joint arrangements:
 - Reflects the rights and obligations of the parties arising from the arrangements in which they were involved.
 - Irrespective of their legal form arrangement that entitle the parties to similar rights and obligations are accounted for in the same way (ie joint operation or joint venture).



IFRS 12 Disclosure of Interests in Other Entities

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IFRS 12

Disclosure of Interests in Other Entities

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Introduction

- IFRS 12 applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity.
- Effective date: 1 January 2013
- Earlier application is permitted



Reasons for issuing the IFRS

- Users have consistently requested improvements to the disclosure of a reporting entity's interests in other entities.
- The global financial crisis also highlighted a lack of transparency about the risks to which a reporting entity was exposed from its involvement with structured entities.
- In response to input received from users and others, the Board decided to address in IFRS 12 the need for improved disclosure of a reporting entity's interests in other entities.



IFRS 12

Disclosure of Interests in Other Entities

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Objective

- The IFRS requires an entity to disclose information that enables users of financial statements to evaluate:
 - the nature of, and risks associated with, its interests in other entities; and
 - the effects of those interests on its financial position, financial performance and cash flows.



IFRS 12

Disclosure of Interests in Other Entities

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General requirement

- An entity shall disclose information that enables users of its consolidated financial statements
 - (a) to understand:
 - (i) the composition of the group; and
 - (ii) the interest that non-controlling interests have in the group's activities and cash flows; and



General requirement continued

- (b) to evaluate:
 - (i) the nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, of the group;
 - (ii) the nature of, and changes in, the risks associated with its interests in consolidated structured entities;
 - (iii) the consequences of changes in its ownership interest in a subsidiary that do not result in a loss of control; and
 - (iv) the consequences of losing control of a subsidiary during the reporting period.



IAS 1 Presentation of Financial Statements

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IAS 1

Presentation of Financial Statements

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Introduction

- IAS 1 sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for content.



IAS 1

Presentation of Financial Statements

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Financial statements

- A set of financial statements comprises a statement of financial position, statement of profit or loss and comprehensive income, statement of changes in equity, statement of cash flows, and notes.
- Financial statements must present fairly the financial position, financial performance and cash flows of an entity.



IAS 1

Presentation of Financial Statements

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Materiality

- Each material class of similar items is presented separately.
- Dissimilar items are presented separately, unless they are immaterial.
- Materiality is determined by the potential of the information, or its omission, to influence economic decisions made by users of the financial statements.



IAS 1

Presentation of Financial Statements

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Judgment & Estimates

- Preparation of financial statements requires judgment and the use of estimates.
- Explanation in the notes is required of the most significant judgments made by management in applying its accounting policies and the basis of estimates used in the financial statements.



IAS 1

Presentation of Financial Statements

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Business Implications

- Information about management's most significant judgements and bases for estimations will be available to users of the entity's financial statements.



IAS 2 Inventories

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IAS 2

Inventories

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Introduction

- IAS 2 defines inventories and specifies requirements for the recognition of inventory as an asset and an expense, the measurement of inventories, and disclosures about inventories.



IAS 2

Inventories

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Measurement

- Inventories are initially measured at cost.
- The cost of inventory includes costs of purchase and production or conversion.
 - Cost does not include abnormal wastage, administrative overheads that are not production costs, and selling costs.
- Cost is assigned to each item of inventory that is unique or segregated for specific projects, by using an allowable cost formula, such as FIFO or weighted average cost. LIFO is prohibited.



Net realisable value (NRV)

- Inventories are reduced to NRV when this is lower than cost.
 - NRV is estimated selling price less estimated costs of completion and of making the sale (entity specific value).
- The write-down is made item by item, or by groups of items when those items have similar uses, are produced or marketed in the same area and cannot be practicably evaluated separately from other items in that product line.
- Write-downs can be reversed.



IAS 2

Inventories

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Judgement and Estimates

- Cost of inventory
 - Allocating overheads
 - Allocating joint costs to joint products.
- Impairment
 - Identifying impaired inventories
 - Estimating net realisable value.



Business Implications

- IFRS financial statement users have access to relevant information about inventories and the cost of goods.
- The same cost formula must be used for all inventories having a similar nature and use.
 - A difference in geographical location or in tax rules does not justify use of a different formula for similar inventories.



IAS 7 Statement of Cash Flows

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IAS 7

Statement of Cash Flows

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Introduction

- IAS 7 requires disclosures about the historical changes in cash and cash equivalents of an entity
- It also assists users to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows.



IAS 7

Statement of Cash Flows

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Activities

- Cash flows are classified by activities: operating; investing; and financing.
- Operating activities are the revenue-producing activities of the entity, and all activities that are not investing or financing.
- Investing activities are the acquisition and disposal of long-term assets and investments that are not cash equivalents.
- Financing activities are changes in the equity capital and borrowings of the entity.



IAS 7

Statement of Cash Flows

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Direct / Indirect method

- There is a choice of ways of presenting cash flows from operating activities:
 - the direct method – gross cash receipts and gross cash payments are shown
 - the indirect method – profit or loss is adjusted to determine operating cash flow



IAS 7

Statement of Cash Flows

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Business Implications

- The information conveyed by a statement of cash flows depends on the items treated as 'cash and cash equivalents'.
 - Cash equivalents have a short maturity (three months at most) and exclude equity investments.



IAS 7

Statement of Cash Flows

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Business Implications

- Cash flow information is important to users of financial statements. There should be an explanation of cash flows in any management commentary issued with the annual financial statements.



IAS 8

Accounting Policies, Changes in Accounting Estimates and Errors

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IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors

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Introduction

- IAS 8 sets out the criteria for selecting and changing accounting policies, and specifies the accounting treatment when an accounting policy is changed.
- It also requires specific disclosures about changes in accounting policies, changes in accounting estimates and corrections of prior period errors.



IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors

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Accounting policies

- When no IFRS is applicable to a transaction or event, management uses judgment in developing and applying an accounting policy that results in information that is relevant and reliable.
- Management considers standards that deal with similar issues, the definitions, recognition criteria and measurement concepts in the *Framework*, and recent pronouncements of standard-setters that use a similar conceptual framework.



IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors

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Changes in an accounting policies

- A new or amended standard or interpretation may require a change in an accounting policy and may include specific transitional provisions.
- In other cases, changes in accounting policies are applied retrospectively
 - as if the new policy had always been applied. Prior period amounts are adjusted. Disclosure is made about the change and its effect on the financial statements.



IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors

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Accounting estimates

- Many items in financial statements cannot be measured with precision and can only be estimated.
- Estimates are based on the latest available, reliable information.
 - They are revised as a result of new information or changed circumstances.
- A change in an estimate is recognised in the current period and any future periods affected.
 - Prior period amounts are not adjusted.



IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors

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Errors

- Errors can arise from mistakes and oversights or misinterpretations of available information.
- Errors are corrected in the first set of financial statements issued after their discovery.
- Prior period amounts are restated as if the error had never occurred.
- The error and the effect of its correction on the financial statements are disclosed.



IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors

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Business Implications

- Profit or loss for the current period does not include the effects of changes in accounting policies and correction of errors. Prior periods are adjusted so that they are comparable with the current period.
- The effect of new standards must be considered early. An entity must disclose the impact of standards that have been issued but are not yet effective.

Questions or comments?

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Expressions of individual views by members of the IASB and its staff are encouraged.

The views expressed in this presentation are those of the presenter. Official positions of the IASB on accounting matters are determined only after extensive due process and deliberation.

