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IAS 10
Events after the Reporting Period

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Introduction

- Specifies accounting and reporting for events (favourable and unfavourable) that occur between the end of the reporting period and the date when the financial statements are authorised for issue.
- Is the event indicative of a condition that existed at the end of the reporting period?

Principle for adjusting events

- Adjust financial statements for those events after the reporting period that provide evidence of conditions that existed at the end of the reporting period.
  - settlement of a court case that confirms the entity had a present obligation at the end of the reporting period and removes uncertainties about the amount
  - receipt of information that indicates an asset was impaired at the end of the reporting period.

Principle for non-adjusting events

- Disclose the nature and estimated financial effect of events that are indicative of conditions that arose after the reporting period. Do not adjust for such events.
  - changes in the market value of investments after the reporting period
  - changes in currency exchange rates after the reporting period.

Business Implications

- Users of IFRS financial statements have information about material non-adjusting events even though they the events are indicative of conditions that arose after the reporting period
- Dividends declared after the reporting period are not recognised as a liability at the end of the reporting period.

International Financial Reporting Standards

IAS 11
Construction Contracts

Introduction

- IAS 11 sets out the accounting treatment of revenue and costs associated with construction contracts.

Scope

- Determining whether an agreement for the construction of real estate is within the scope of IAS 11 or IAS 18 *Revenue* depends on the terms of the agreement and all the surrounding facts and circumstances.
- It is within the scope of IAS 11 when the buyer is able to specify the major structural elements of the design of the real estate before construction begins and/or specify major structural changes once construction is in progress (whether or not it exercises that ability).

Recognition of revenue and expenses

- When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised as the work is performed using the percentage of completion method
- The work performed determines the recognition of contract revenue, expense and thus profit.
  - Progress payments and advances received from customers often do not reflect the work performed.

Recognition of revenue and expenses continued

- When the outcome of a construction contract cannot be estimated reliably, all contract costs are recognised as expenses when incurred.
- Contract revenue is recognised to the extent that costs incurred are recoverable.
- Any expected loss is recognised as an expense immediately.

Business Implications

- The effect of IAS 11 is to recognise contract profit as the work is performed, rather than on completion of the contract. Expected losses are recognised immediately.
- Judgement is needed to determine the stage of completion of a contract; which costs are recoverable; and uncertainties such as variations, claims, cost escalation clauses, penalties, and incentive payments.

International Financial Reporting Standards

IAS 12
Income Taxes

Introduction

- IAS 12 specifies the accounting treatment for income taxes, including how to account for the current and future tax consequences.

Principles

- Deferred tax relates to all differences between the carrying amount of assets and liabilities in the statement of financial position, and the tax base of assets and liabilities.
- A deferred tax asset or liability arises if recovery (settlement) of assets (liabilities) affects the amount of future tax payments.

Recognition

- Deferred tax assets are recognised only if it is probable that future taxable profit will be available to absorb the losses or credits or deductible differences.
- The existence of unused tax losses may indicate that future taxable profit is not probable.

Recognition continued

- The tax consequences of transactions and events are recognised in the same financial statement as the transaction or event—ie either in the statement of comprehensive income or directly in equity.
- Recognition of deferred tax assets or liabilities in a business combination affects the amount of goodwill.

Measurement

- Deferred tax is measured at tax rates expected to apply when the deferred tax asset (liability) is realised (settled) and reflect the tax consequences that would follow from the manner in which the entity expects, at the end of the reporting period, to recover (settle) the carrying amount of its assets (liabilities).
  - Exceptions when revaluation model used for non-depreciable asset and fair value model used for investment property
- Deferred tax assets and liabilities are not discounted.

Measurement continued

- The tax rate expected to apply in future is generally indicated by the tax rate that is in force at end of the reporting period.
- Deferred tax assets or liabilities are adjusted when a new tax rate is substantively enacted.
  - The adjustment is accounted for as a revision to an accounting estimate, ie it affects that period's profit or loss.

International Financial Reporting Standards

IAS 16
Property, Plant and Equipment

Introduction

- IAS 16 defines property, plant and equipment (PPE), sets out criteria for its recognition and measurement, and specifies disclosures about PPE.

Definition

- Property, plant and equipment (PPE) are tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administration purposes AND are expected to be used during more than one period.
  - Specified exclusions include: investment property, PPE classified as held for sale and biological assets related to agricultural activity.

Recognition

- Cost of an item of PPE is recognised as an asset if:
  - it is probable that there will be future economic benefits from the asset; and
  - the cost of the asset can be reliably measured.
- PPE is measured initially at its cost.

Measurement

- After initial recognition entity chooses to measure PPE either at cost less accumulated depreciation and accumulated impairment (cost model) or at fair value less subsequent accumulated depreciation and accumulated impairment (revaluation model).
- If an item of PPE is revalued
  - all assets within that class of PPE must be revalued
  - valuations must be updated regularly.
- Revaluation increases are usually credited to other comprehensive income (ie outside profit or loss) in the statement of comprehensive income.

Measurement continued

- PPE with a finite useful life is depreciated.
- Land usually has an indefinite useful life and consequently land is not usually depreciated.
- For impairment testing see IAS 36

International Financial Reporting Standards

IAS 17 Leases

Introduction

- A lease is an agreement that conveys to the lessee a right to use an asset for a period of time.
- For accounting purposes, leases are classified as finance leases or operating leases.
- Leases are classified at the date there is substantial commitment to lease terms, ie at the inception of the lease

Classification of leases

- A finance lease transfers to the lessee substantially all the risks and rewards incidental to ownership of the leased asset.
- All other leases are operating leases.
- When a lease includes both land and buildings elements, the classification of the land and building elements are considered separately.
  – In determining whether the land element is an operating or finance lease, an important consideration is that land normally has an indefinite economic life.

Operating leases

- Operating lease payments are usually recognised in profit or loss on a straight-line basis.
- The leased asset remains in the statement of financial position of the lessor.

Finance leases

- In accordance with their economic substance finance leases are accounted for by lessees as a borrowing to acquire an asset.
- The lessee recognises a finance lease as an asset and liability in its statement of financial position. Lease payments are apportioned between a reduction in the lease liability and interest expense.
- The lessor recognises a receivable, and apportions receipts between a reduction in the receivable and interest income.

Business Implications

- Judgement is required to determine whether a lease is a finance lease or an operating lease.
- Recognition of a finance lease in the statement of financial position affects the entity's gearing (debt to equity ratio) and return on total assets.

International Financial Reporting Standards

IAS 18
Revenue

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Introduction

- IAS 18 prescribes accounting for revenue from sale of goods, from rendering of services, and from the use by others of entity assets yielding interest, royalties and dividends.
- The primary issue in accounting for revenue is determining when to recognise revenue.

Recognition

- In general, revenue is recognised when it is probable that economic benefits from the transaction will flow to the entity and those benefits can be measured reliably.
- Revenue from the sale of goods is recognised when:
  - significant risks and rewards of ownership have been transferred to the buyer; and
  - the entity has neither continuing managerial involvement in, nor effective control over, the goods.

Recognition continued

- For the rendering of services, revenue is recognised as work is performed (percentage of completion method).
- However, when the outcome of a service contract cannot be estimated reliably, revenue is recognised only to the extent of expenses recognised that are recoverable.

Recognition continued

- Interest is recognised over time, computed on the effective yield on the asset.
- Royalties are recognised in accordance with the substance of the agreement.
- Dividends are recognised when the shareholder has the right to receive payment.

Recognition continued

- Revenue is measured at the fair value of the consideration received or receivable by the entity on its own account.
  – It does not include amounts collected on behalf of third parties.
- When receipt of cash is deferred, the nominal consideration is split between sales revenue and interest revenue.
- An exchange of goods or services for similar items does not generate revenue. An exchange for dissimilar items generates revenue measured at the fair value of the goods or services received.

International Financial Reporting Standards

IAS 19
Employee Benefits

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Introduction

- IAS 19 specifies accounting for and disclosure of employee benefits by employers.
- It is applied by an employer in accounting for all employee benefits, except those to which IFRS 2 *Share-based Payment* applies.
  - IFRS 2 specifies accounting and disclosure for employee benefits based on, or in the form of, the entity’s equity instruments.

Employee benefits

- Employee benefits are all forms of consideration paid for services of employees. IAS 19 separates employee benefits into 4 categories:
  - short-term benefits
  - post-employment benefits
  - other long-term benefits
  - termination benefits

Short-term employee benefits

- Short-term employee benefits are **expected** to be settled **wholly** before 12 months after the period in which the employee rendered the related service.
- recognise as an expense as the employee provides the related service.
- A liability is recognised for unpaid short-term benefits.
- Obligations measure at undiscounted amounts.

Post-employment benefits

- Post-employment benefits are payable after the completion of employment.
- Two types
  - **Defined contribution plan,** entity pays fixed contributions to a separate entity (a fund) and has no obligation to pay further contributions if the fund cannot pay employee benefits.
  - All other post-employment plans are **defined benefit plans**.

Post-employment benefits (defined contribution)

- Employees (not the employer) are exposed to risks
- Employer recognises contributions payable as an expense as the employee provides services in exchange for the contributions.
- Obligations measure at undiscounted amounts.

Post-employment benefits (defined benefit) continued

- Recognise the defined benefit liability as follows:
    - use the projected unit credit method based on actuarial assumptions to measured the obligation at its present value; less
    - the fair value of plan assets (if any).
- Recognise all changes in the defined benefit liability (asset) when they occur:
    - Service costs and net interest in profit and loss
    - Remeasurements in OCI.

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Other long-term benefits

- Other long-term benefits are all employee benefits other than short-term employee benefits, post-employment benefits and termination benefits (eg long-service leave)
- Recognition and measurement is the same as that for post-employment benefits: defined benefit plans.

Termination benefits

- Termination benefits arise only on termination, rather than during employment.
  - Principle—the event that gives rise to an obligation is the termination of employment rather than employee service
- Recognise expense and a liability at the earlier of:
  - when the entity can no longer withdraw the offer of those benefits
  - when the entity recognises the related restructuring provision in accordance with IAS 37.

Business Implications

- The main feature of IAS 19 is the requirement to recognise, as a liability, the obligation to provide post-employment or long-term employee benefits under a defined benefit plan, as a result of service already provided by employees to the entity.

Business Implications

- Significant judgement and estimates to measure the liability for a defined benefit post-employment plan
  - eg mortality, employee turnover, age at and date of retirement, rates of return on plan assets, future salary and benefit levels, future medical costs and the discount rate.
- Consequently, extensive disclosures required to:
  - explain characteristics of the plan and associated risks
  - identify and explain related amounts in financial statements
  - possible affects on the amount, timing and uncertainty of future cash flows

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Business Implications

- Many new ‘hybrid’ plans are classified as defined-benefit plans under IAS 19, because of guarantees provided by the employer.

International Financial Reporting Standards

IAS 20
Accounting for Government Grants and Disclosure of Government Assistance

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Requirements

- IAS 20 specifies the accounting for government grants and the disclosure of government assistance from which the entity has directly benefited.
- Government grants are transfers of resources to an entity in return for compliance with specified conditions.
  - They include reductions in liabilities to the government and the benefit of a government loan at below market rate of interest.
- Government assistance is a benefit available to entities that satisfy qualifying criteria.

Recognition

- Government grants are recognised when there is reasonable assurance that the entity will comply with any specified conditions and that the grants will be received.
- Non-monetary grants are either recognised at fair value or both the asset and the grant are recognised at a nominal amount.
- Receipt of a grant is not always conclusive evidence that conditions will be fulfilled.

Recognition continued

- Government grants are recognised in profit or loss in the same periods as the costs they are intended to compensate for, ie they are not recognised directly in equity.
- If there are no future related costs, a grant is recognised in profit or loss when receivable.

Recognition continued

- Government grants that relate to assets are initially recognised in the statement of financial position as deferred income or as a deduction from the related assets.
- The grant is then recognised in profit or loss over the life of the asset, by reducing deferred income over that period, or by way of reduced depreciation.

Business Implications

- The main area of judgement is whether the entity will comply with conditions attached to a government grant.

International Financial Reporting Standards

IAS 21
The Effects of Changes in Foreign Exchange Rates

Introduction

- IAS 21 prescribes how to account for foreign currency transactions and foreign operations, and how to translate financial statements into a presentation currency.

Reporting foreign currency transactions

- An entity must measure the items in its financial statements in its functional currency.
- Functional currency is the currency of the primary economic environment in which the entity operates.
- Transactions in a currency other than the functional currency are translated at the spot exchange rate at the date of the transaction (transaction rate).

Reporting foreign currency transactions continued

- Monetary assets and liabilities are translated using the spot exchange rate at the end of the reporting period (closing rate).
- Non-monetary items are translated using the rate at the date their amount (cost or fair value) was determined.
- Exchange differences arising on monetary items are recognised as income or expense for the period in which they arise.

Use of a presentation currency

- IAS 21 allows an entity to present its financial statements in any currency.
- If the presentation currency differs from the functional currency, assets and liabilities are translated at the closing rate, and income and expenses are translated at the transaction rates.
  – The average rate for a period can be used if it is a reasonable approximation of the transaction rates.
- All resulting exchange differences are recognised directly in other comprehensive income.

Business Implications

- Judgement may be required to determine the functional currency of an entity.
- The functional currency of individual entities in a multinational diversified group may differ. In such cases, the financial statements of individual entities will be translated into a common presentation currency for consolidation.

International Financial Reporting Standards

IAS 23
Borrowing Costs

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Introduction

- IAS 23 prescribes the accounting treatment for borrowing costs.
- Borrowing costs are interest and other costs incurred in connection with borrowing.

Recognition

- An entity shall capitalise borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to get ready for its intended use or sale (a qualifying asset).
- Other borrowing costs are recognised as an expense in the period in which they are incurred.

Recognition continued

- Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are those that would have been avoided if the expenditure on the asset had not been made.
- They may be borrowing costs incurred on funds borrowed specifically for obtaining a qualifying asset or a calculated amount based on a weighted average borrowing rate applied to expenditure on the asset.

Recognition continued

- Capitalisation of borrowing costs takes place during the development of the asset, and ends when the asset is ready for its intended use or sale.
- When the asset is completed in parts, capitalisation of borrowing costs ceases when each part is ready for intended use or sale.

International Financial Reporting Standards

IAS 24
Related Party Disclosures

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Introduction

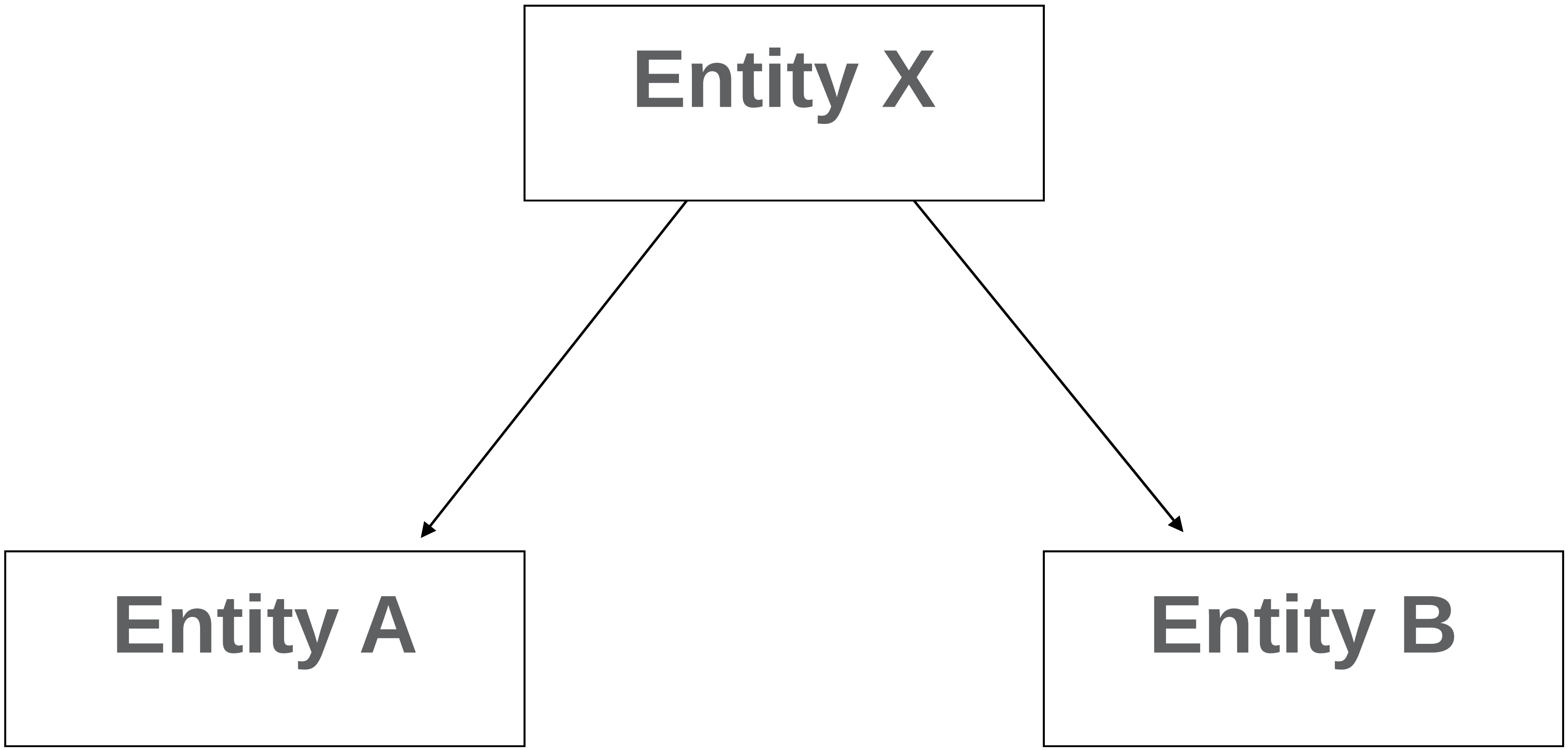
- Related party disclosures highlight the possibility that the entity’s financial position and profit or loss might have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

Related party

- A **person** or a **close member of that person's family** is related to the reporting entity if that person:
  – has control, joint control or significant influence over the reporting entity
  – is a member of the key management personnel of the reporting entity (or its parent)

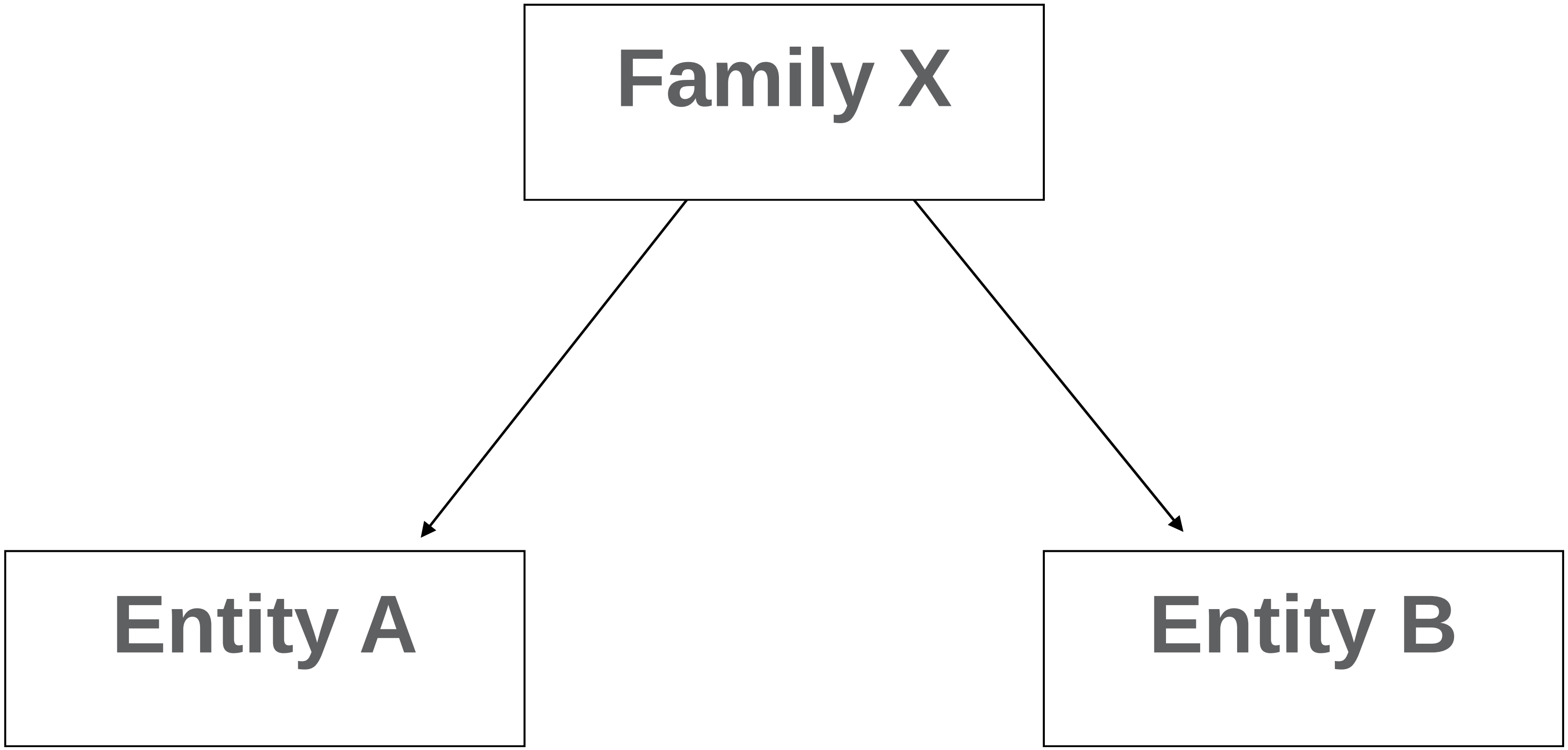
Related party continued

- An **entity** is related to a reporting entity when:
  - they are both members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others)
  - one entity is an associate or joint venture of the other entity
  - both entities are joint ventures of the same third party
  - one entity is a joint venture of a third party and the other is an associate of the third party
  - …



Are A and B related parties?

		X's influence over B		
		Control	**Joint control**	**Significant influence**
X's influence over A	**Control**	Yes, related party	Yes, related party	Yes, related party
	Joint control	Yes, related party	Yes, related party	Yes, related party
	Significant influence	Yes, related party	Yes, related party	Not necessarily related



Are A and B related parties?

		Family X's influence over Entity B			
		Control	JC	KMP	SI
Family X's influence over Entity A	Control	Yes, related party	Yes, related party	Yes, related party	Yes, related party
	JC	Yes, related party	Yes, related party	Yes, related party	Yes, related party
	KMP	Yes, related party	Yes, related party	Not necessarily related	Not necessarily related
	SI	Yes, related party	Yes, related party	Not necessarily related	Not necessarily related

Disclosures

- the name of the reporting entity’s parent and, if different, its ultimate controlling entity, irrespective of whether there have been transactions between them.
- details of key management personnel compensation in total and by category of benefit.
- the nature of the related party relationship
- details by category of related party of the transactions and outstanding balances, including commitments, to enable users to understand the potential effect of the relationship on the financial statements.

Government related entities

- This Standard provides a partial exemption from the disclosure requirements for government related entities in relation to related party transactions with:
  – a government that has control, joint control or significant influence over the reporting entity; and
  – another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

Questions or comments?

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.

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