PROFESSIONAL REGULATORY BOARD OF ACCOUNTANCY
Resolution No. 19
Series of 2018

WHEREAS, the Financial Reporting Standards Council (FRSC) has approved and submitted hereunder pronouncements to the Board for approval;

1. PFRS for Small Entities

WHEREAS, after study and review of the provisions of the above-stated pronouncements as adopted by the FRSC, the Board finds them to be well-taken and instructive for compliance by practicing Certified Public Accountants;

WHEREFORE, the Board **RESOLVES**, as it is hereby **RESOLVED,** to adopt the above-stated pronouncements as part of the Philippine Accounting Standards.

RESOLVED FURTHER, that this Resolution and the above-stated pronouncements shall take effect after fifteen (15) days following its full and complete publication in the Official Gazette or in any newspaper of general circulation in the Philippines.

Done in the City of Manila, this 20th day of February, 2018.

JOEL L. TAN-TORRES
Chairman

GLORIA T. BAYSA
Vice-Chairperson

GERARD B. SANVICTORES
Member

SAMUEL B. PADILLA
Member

ARLYN S. VILLANUEVA
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Member

ATTESTED:

ATTY. LOVELIKA T. BAUTISTA
Chief
Secretariat to the Professional Regulatory Boards

DATE OF PUBLICATION IN THE OFFICIAL (GAZETTE) : 2-26-18
DATE OF EFFECTIVITY: 3-14-18

APPROVED:

TEOFILO S. PILANDO, JR.
Chairman

YOLANDA D. REYES
Commissioner

JOSE Y. CUETO, JR.
Commissioner

O-CH/O-COI/O-COII/PRB-ACC/D-LGL/D-SPRB
TSP//YDR/JYC/JLT/ERII/LTB/gnet

Financial Reporting Standards Council

January 29, 2018

Hon. Teofilo S. Pilando, Jr.
Chairman
Professional Regulation Commission
P. Paredes Street corner N. Reyes Street
Sampaloc, Manila

Dear Chairman Pilando:

The Financial Reporting Standards Council (FRSC) has approved the issuance of the Philippine Financial Reporting Standard for Small Entities.

We are submitting the aforementioned pronouncement for approval through the Board of Accountancy.

Thank you for your continued cooperation in this effort to establish financial reporting standards in the Philippines.

Very truly yours,

Josephine Adrienne A. Abarca
Chairman

PICPA Building, 700 Shaw Boulevard, Mandaluyong City
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Financial Reporting Standards Council

PFRS for Small Entities

PFRS for Small Entities

Contents

FRSC PREFACE TO *PFRS FOR SMALL ENTITIES*

PFRS FOR SMALL ENTITIES

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1. The Financial Reporting Standards Council (FRSC) has approved on December 13, 2017 the adoption of PFRS for Small Entities (the "Framework"). This Framework is intended for use by small entities as defined by the Philippine Securities and Exchange Commission.

2. This Framework was developed in response to feedback of small entities that PFRS for Small and Medium-sized Entities (PFRS for SMEs) is too complex to apply. By reducing choices for accounting treatment, eliminating topics that are not generally relevant to small entities, simplifying methods for recognition and measurement, and reducing disclosure requirements, this Framework allows small entities to comply with the financial reporting requirements without undue cost or burden.

3. Some of the key simplifications introduced by the Framework are as follows:
   - Inventories are to be subsequently valued at the lower of cost and market value (i.e., the probable selling price to willing buyers as of reporting date).
   - Investment properties can be carried either at cost or at fair value, depending on the policy choice made by the entity.
   - There is no concept of "finance lease" under the Framework. All lease receipts (payments) are recognized as income (expense) as earned (incurred).
   - There is no accounting for onerous contracts under the Framework.
   - For equity-settled share-based payment transactions, an entity shall measure the goods or services received, and the corresponding increase in equity, with reference to the net asset value of the equity instruments granted. Net asset value is derived by dividing the total assets of the entity less any liabilities, by the number of shares outstanding at measurement date.
   - For defined benefit plans, an entity is required to use the accrual approach in calculating benefit obligations in accordance with Republic Act (RA) 7641, *The Philippine Retirement Pay Law,* or company policy (if superior than RA 7641). Accrual approach is applied by calculating the expected liability as of reporting date using the current salary of the entitled employees and the employees' years of service, without consideration of future changes in salary rates and service periods.
   - Entities are given a policy choice of not recognizing deferred taxes in the financial statements.

- Biological assets can be carried either at cost or at current market price, depending on the policy choice made by the entity.
- Prior period adjustments are just captured in the opening balance of the current year, but with appropriate disclosures.

4. A small entity shall adopt this Framework for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted.

* * * * * * *

FRSC Members

David L. Balangue, *Chairman*

June Cheryl A. Cabal-Revilla

Ester F. Ledesma

Antonieta F. Ibe

Michael D. Roxas

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Philippine Financial Reporting Standard for Small Entities ("the Framework")

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Section 1 - Scope of the Framework

1 This Framework is intended for use by **small entities** as defined by the Philippine Securities and Exchange Commission.

2 Entities who have operations or investments that are based or conducted in a different country shall not apply this Framework and should instead apply the full Philippine Financial Reporting Standards (PFRSs) or Philippine Financial Reporting Standard for Small and Medium-sized Entities (PFRS for SMEs), as appropriate.

Section 2 - Concepts and Pervasive Principles

Objective of financial statements of an entity applying this Framework

3 The objective of financial statements of an entity applying this Framework is to provide information about the financial position, performance and cash flows of the entity that is useful for economic decision-making by a broad range of users who are not in a position to demand reports tailored to meet their particular information needs.

Financial position

4 The financial position of an entity is the relationship of its assets, liabilities and equity as of a specific date. These are defined as follows:

a) an asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity;
b) a liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits; and
c) equity is the residual interest in the assets of the entity after deducting all its liabilities.

Performance

5 Performance is the relationship of the income and expenses of an entity during a reporting period. Income and expenses are defined as follows:

a) income is increases in economic benefits during the reporting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity investors; and
b) expenses are decreases in economic benefits during the reporting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity investors.

Cash flows

6 Cash flow information shows how an entity generates and uses cash and cash equivalents. Entities need cash to conduct their operations, to pay their obligations, to make investments in income-producing assets, and to provide returns to their investors. Information about the performance of an entity shows the income, expenses, and profit or loss of the entity on an accrual basis. However the actual inflows and outflows of cash from an entity's operations generally differ - often significantly - from its income and expenses on an accrual basis. Moreover, reporting performance on an accrual basis gives no insight into the cash used by an entity in its investing activities or the cash generated by the entity through its financing activities.

7 Cash flows are classified as cash flows from operating, investing and financing activities. Classification by activity provides information on how those activities affect the financial position of the entity (including its liquidity and solvency) and the amount of its cash and cash equivalents.

Recognition of assets, liabilities, income and expenses

8 An item shall be recognized (i.e., incorporated in the financial statements) if it meets the definition of an asset, liability, income or expense and satisfies the following criteria:

a) it is probable (i.e., more likely than not) that any future economic benefit associated with the item will flow to or from the entity; and
b) the item has a cost or value that can be measured reliably.

9 In many cases, the cost or value of an item is known. In other cases it must be estimated. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.

Accrual basis

10 An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting. On the accrual basis, items are recognized as assets, liabilities, equity, income or expenses when they satisfy the definitions and recognition criteria for those items.

Fair value of an asset

11 Measurement requirements are generally set out in the individual sections of this Framework. However the following guidance on fair value measurement is relevant to several sections and so has been included here.

12 Most of the requirements under this Framework require a cost-based measurement. However, in a few circumstances, fair value measurement is required or permitted under this Framework. The fair value of an asset is the amount for which the asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. An entity shall use the following hierarchy to estimate the fair value of an asset:

a) the best evidence of fair value is a price in a binding sale agreement in an arm's length transaction or a quoted price for an identical asset in an active market (the latter is usually the current bid price).
b) if there is no binding sale agreement or active market for an asset, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the entity can demonstrate that the last transaction price is not a good estimate of fair value (for example, because it reflects the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale), that price is adjusted.
c) if there is no binding sale agreement or active market for an asset and recent transactions of an identical asset on their own are not a good estimate of fair value, an entity estimates the fair value by using another valuation technique. The objective of using a valuation technique is to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

13 Valuation techniques include using recent arm's length market transactions for an identical asset between knowledgeable, willing parties, reference to the current fair value of another asset that is substantially the same as the asset being measured, and discounted cash flow analysis. If there is a valuation technique commonly used by market participants to price the asset and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique.

14 The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations. Fair value is estimated on the basis of the results of a valuation technique that makes maximum use of market inputs, and relies as little as possible on entity-determined inputs. A valuation technique would be expected to arrive at a reliable estimate of the fair value if:

a) it reasonably reflects how the market could be expected to price the asset; and
b) the inputs to the valuation technique reasonably represent market expectations and measures of the risk return factors inherent in the asset.

Offsetting

15 An entity shall not offset assets and liabilities, or income and expenses, unless required or permitted by this Framework.

a) Measuring assets net of valuation allowances - for example, allowances for inventory obsolescence and allowances for uncollectible receivables - is not offsetting.
b) If an entity's normal operating activities do not include buying and selling non-current assets, including investments and operating assets, then the entity reports gains and losses on disposal of such assets by deducting from the proceeds on disposal the carrying amount of the asset and related selling expenses.

Section 3 - Financial Statement Presentation

Fair presentation

16 Financial statements shall present fairly the financial position, financial performance and cash flows of an entity.

Compliance with this Framework

17 An entity that meets the requirements of this Framework and whose financial statements comply with this Framework, shall make an explicit and unreserved statement of compliance with this Framework in the notes to the financial statements.

Going concern

18 The principles of financial reporting in this Framework are intended for an entity that is a going concern. An entity is a going concern unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the reporting date.

Frequency of reporting

19 An entity shall present a complete set of financial statements (including comparative information) at least annually. When the end of an entity's reporting period changes and the annual financial statements are presented for a period longer or shorter than one year, the entity shall disclose the following:

a) that fact;
b) the reason for using a longer or shorter period; and
c) the fact that comparative amounts presented in the financial statements (including the related notes) are not entirely comparable.

Consistency of presentation

20 An entity shall retain the presentation and classification of items in the financial statements from one period to the next unless it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate. If the entity changes the presentation or classification of an item in the financial statements this is a voluntary change in accounting policy (see Section 5 - Accounting Policies, Estimates and Errors).

Comparative information

21 Except when this Framework permits or requires otherwise, an entity shall disclose comparative information in respect of the previous comparable period for all amounts presented in the current period's financial statements. An entity shall include comparative information for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.

Materiality and aggregation

22 Information is material if its omission or misstatement could, individually or collectively, influence the economic decisions of users made on the basis of the financial statements. Materiality depends on the size and nature of the item or error judged in the particular circumstances of its omission or misstatement. The size or nature of the item, or a combination of both, could be the determining factor. However, it is inappropriate to make, or leave uncorrected, immaterial departures to achieve a particular presentation of an entity's financial position, financial performance or cash flows.

23 An entity shall present separately each material class of similar items. An entity shall present separately items of a dissimilar nature or function unless they are immaterial.

Complete set of financial statements

24 A complete set of financial statements of an entity shall include all of the following:

a) a statement of financial position (sometimes called the balance sheet), showing the entity's assets, liabilities and equity as at the reporting date.
b) a statement of income for the reporting period, displaying all items of income and expense recognized during the period and a 'bottom line' that may be called 'profit or loss' or 'net income or loss'.
c) a statement of changes in equity for the reporting period. The statement of changes in equity presents a reconciliation between the carrying amount at the beginning and end of the period for each component of equity. However, if the only changes to equity in the current period or any comparative period presented in the financial statements arise from profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policy, the entity may present a single statement of income and retained earnings in place of the statement of income and statement of changes in equity.
d) a statement of cash flows for the reporting period. The statement of cash flows provides information about the changes in cash and cash equivalents of an entity for a reporting period, showing separately, changes from operating activities, investing activities and financing activities.
e) notes, comprising a summary of significant accounting policies and other explanatory information. Notes contain information in addition to that presented in the statements in (a)-(d) above. Notes provide narrative descriptions or disaggregations of items presented in those statements and information about items that do not qualify for recognition in those statements.

25 Because paragraph 21 requires comparative amounts in respect of the previous period for all amounts presented in the financial statements, a complete set of financial statements means that an entity shall present, as a minimum, two of each of the required financial statements, and the related notes.

26 In a complete set of financial statements, an entity shall present each financial statement with equal prominence.

27 An entity may use titles for the financial statements other than those used in this Framework as long as they are not misleading.

Identification of the financial statements

28 An entity shall clearly identify each of the financial statements and the notes and distinguish them from other information in the same document. In addition, an entity shall display the following information prominently, and repeat it when necessary for an understanding of the information presented:

a) the name of the reporting entity and any change in its name since the end of the preceding reporting period;
b) the fact that the financial statements cover an individual entity or a group of entities;
c) the date of the end of the reporting period and the period covered by the financial statements;
d) the currency in which the financial statements are presented; and
e) the level of rounding, if any, used in presenting amounts in the financial statements.

29 An entity shall disclose the following in the notes:

a) the domicile and legal form of the entity, its country of incorporation and the address of its registered office (or principal place of business, if different from the registered office); and
b) a description of the nature of the entity's operations and its principal activities.

Statement of financial position and accompanying notes

Current/non-current distinction

30 An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position.

31 An entity shall classify an asset as current when:

a) it expects to realize the asset, or intends to sell or consume it, in the entity's normal operating cycle;
b) it holds the asset primarily for the purpose of trading;
c) it expects to realize the asset within twelve months after the reporting date; or
d) the asset is cash or a cash equivalent, unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

32 An entity shall classify all other assets as non-current. When the entity's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months.

33 An entity shall classify a liability as current when:

a) it expects to settle the liability in the entity's normal operating cycle;
b) it holds the liability primarily for the purpose of trading;
c) the liability is due to be settled within twelve months after the reporting date; or
d) the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

An entity shall classify all other liabilities as non-current.

Sequencing of items and format of items in the statement of financial position

34 The Framework does not prescribe the sequence or format in which items are to be presented. In addition:

a) line items are included when the size, nature or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of the entity's financial position; and
b) the descriptions used and the sequencing of items or aggregation of similar items may be amended according to the nature of the entity and its transactions, to provide information that is relevant to an understanding of the entity's financial position.

Information to be presented either in the statement of financial position or in the notes

35 An entity shall disclose, either in the statement of financial position or in the notes, the following sub-classifications of the line items, as applicable:

a) property, plant and equipment in classifications appropriate to the entity;
b) trade and other receivables showing separately amounts due from related parties, amounts due from other parties, and receivables arising from accrued income not yet billed;
c) inventories, showing separately amounts of inventories:
    i) held for sale in the ordinary course of business (for example, inventories held by retailers and the finished goods of a manufacturer);
    ii) in the process of production for such sale (for example, the work in progress of a manufacturer); and
    iii) in the form of materials or supplies to be consumed in the production process or in the rendering of services (for example, raw materials).
d) trade and other payables, showing separately amounts payable to trade suppliers, payable to related parties, deferred income and accruals;
e) provisions for employee benefits and other provisions;
f) liabilities and assets for current tax;
g) deferred tax liabilities and deferred tax assets (as applicable); and
h) classes of equity, such as paid-in capital, share premium, and retained earnings.

36 An entity with share capital shall disclose the following, either in the statement of financial position or in the notes:

a) for each class of share capital:
    i) the number of shares authorized;
    ii) the number of shares issued and fully paid, and issued but not fully paid;
    iii) par value per share, or that the shares have no par value;
    iv) a reconciliation of the number of shares outstanding at the beginning and at the end of the period;
    v) the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital; and
    vi) shares reserved for issue under options and contracts for the sale of shares, including the terms and amounts; and
b) a description of each reserve within equity.

37 An entity without share capital, such as a partnership or trust, shall disclose information equivalent to that required by paragraph 36(a), showing changes during the period in each category of equity, and the rights, preferences and restrictions attaching to each category of equity.

38 If, at the reporting date, an entity has a binding sale agreement for a major disposal of assets, or a group of assets and liabilities, the entity shall disclose the following information:

a) a description of the asset(s) or the group of assets and liabilities;
b) a description of the facts and circumstances of the sale or plan; and

c) the carrying amount of the assets or, if the disposal involves a group of assets and liabilities, the carrying amounts of those assets and liabilities.

Statement of income and accompanying notes

39 An entity shall not present or describe any items of income and expense as 'extraordinary items' in the statement of income or in the notes.

Analysis of expenses

40 An entity shall present an analysis of expenses using a classification based on either the nature of expenses or the function of expenses within the entity, whichever provides information that is reliable and more relevant.

Analysis by nature of expense

a) Under this method of classification, expenses are aggregated in the statement of income according to their nature (for example, depreciation, purchases of materials, transport costs, employee benefits and advertising costs), and are not reallocated among various functions within the entity.

Analysis by function of expense

b) Under this method of classification, expenses are aggregated according to their function as part of cost of sales or, for example, the costs of distribution or administrative activities. At a minimum, an entity discloses its cost of sales under this method separately from other expenses.

Statement of cash flows and accompanying notes

Cash and cash equivalents

41 Cash includes cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments held to meet short-term cash commitments rather than for investment or other purposes. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Bank overdrafts are normally considered financing activities similar to borrowings. However, if they are repayable on demand and form an integral part of an entity's cash management, bank overdrafts are a component of cash and cash equivalents.

Operating activities

42 Operating activities are the principal revenue-producing activities of the entity. Therefore, cash flows from operating activities generally result from the transactions and other events and conditions that enter into the determination of profit or loss. Examples of cash flows from operating activities are:

a) cash receipts from the sale of goods and the rendering of services;
b) cash payments to suppliers for goods and services;
c) cash payments to and on behalf of employees; and
d) cash payments or refunds of income tax, unless they can be specifically identified with financing and investing activities.

Some transactions, such as the sale of an item of plant by a manufacturing entity, may give rise to a gain or loss that is included in profit or loss. However, the cash flows relating to such transactions are cash flows from investing activities.

43 An entity shall present cash flows from operating activities using either:

a) the indirect method, whereby profit or loss is adjusted for the effects of non-cash transactions, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows; or
b) the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed.

Indirect method

44 Under the indirect method, the net cash flow from operating activities is determined by adjusting profit or loss for the effects of:

a) changes during the period in inventories and operating receivables and payables;
b) non-cash items such as depreciation, provisions, accrued income (expenses) not yet received (paid) in cash, unrealized foreign currency gains and losses; and
c) all other items for which the cash effects relate to investing or financing.

Direct method

45 Under the direct method, net cash flow from operating activities is presented by disclosing information about major classes of gross cash receipts and gross cash payments. Such information may be obtained either:

a) from the accounting records of the entity; or
b) by adjusting sales, cost of sales and other items in the statement of income for:
   i) changes during the period in inventories and operating receivables and payables;
   ii) other non-cash items; and
   iii) other items for which the cash effects are investing or financing cash flows.

Investing activities

46 Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents. Examples of cash flows arising from investing activities are:

a) cash payments to acquire property, plant and equipment (including self-constructed property, plant and equipment);
b) cash receipts from sales of property, plant and equipment;
c) cash advances and loans made to other parties; and
d) cash receipts from the repayment of advances and loans made to other parties.

Financing activities

47 Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of an entity. Examples of cash flows arising from financing activities are:

a) cash proceeds from owner contributions, issuing shares or other equity instruments;
b) cash payments to owners to acquire or redeem the entity's shares;
c) cash proceeds from loans payable and other borrowings; and
d) cash repayments of amounts borrowed.

Reporting cash flows from investing and financing activities

48 An entity shall present separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities.

Interest and dividends

49 An entity shall present separately cash flows from interest and dividends received and paid. The entity shall classify cash flows consistently from period to period as operating, investing or financing activities.

50 An entity may classify interest paid and interest and dividends received as operating cash flows because they are included in profit or loss. Alternatively, the entity may classify interest paid and interest and dividends received as financing cash flows and investing cash flows, respectively, because they are costs of obtaining financial resources or returns on investments.

51 An entity may classify dividends paid as a financing cash flow because they are a cost of obtaining financial resources. Alternatively, the entity may classify dividends paid as a component of cash flows from operating activities because they are paid out of operating cash flows.

Income tax

52 An entity shall present separately cash flows arising from income tax and shall classify them as cash flows from operating activities unless they can be specifically identified with financing and investing activities. When tax cash flows are allocated over more than one class of activity, the entity shall disclose the total amount of taxes paid.

Non-cash transactions

53 An entity shall exclude from the statement of cash flows investing and financing transactions that do not require the use of cash or cash equivalents. An entity shall disclose such transactions elsewhere in the financial statements in a way that provides all the relevant information about those investing and financing activities. Examples of non-cash transactions is the contribution of a non-cash asset, for example, an item of property, plant and equipment, by the owner.

Components of cash and cash equivalents

54 An entity shall present the components of cash and cash equivalents and shall present a reconciliation of the amounts presented in the statement of cash flows to the equivalent items presented in the statement of financial position. However, an entity is not required to present this reconciliation if the amount of cash and cash equivalents presented in the statement of cash flows is identical to the amount similarly described in the statement of financial position.

Other disclosures

55 An entity shall disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the entity. For example, cash and cash equivalents held by an entity may not be available for use by the entity because of legal restrictions.

Notes to the financial statements

56 The notes shall:

a) present information about the basis of preparation of the financial statements and the specific accounting policies used.
b) disclose the information required by this Framework that is not presented elsewhere in the financial statements; and
c) provide information that is not presented elsewhere in the financial statements but is relevant to an understanding of any of them.

57 Additional disclosures may be necessary in the notes if management feels that compliance with the specific requirements in this Framework is insufficient to enable users to understand the effect of particular transactions, other events and conditions on the entity's financial position and financial performance.

58 An entity shall, as far as practicable, present the notes in a systematic manner. An entity shall cross-reference each item in the financial statements to any related information in the notes.

59 An entity normally presents the notes in the following order:

a) a statement that the financial statements have been prepared in compliance with this Framework;
b) a summary of significant accounting policies applied;
c) supporting information for items presented in the financial statements, in the sequence in which each statement and each line item is presented; and
d) any other disclosures.

Disclosure of accounting policies

60 An entity shall disclose the following in the summary of significant accounting policies:

a) the measurement basis (or bases) used in preparing the financial statements (for example, historical cost, fair value, etc.); and
b) the other accounting policies used that are relevant to an understanding of the financial statements.

Section 4 - Subsidiaries

Scope of this section

61 This section includes the accounting policies available for a parent company with investment in a subsidiary. The section also includes procedures for preparing consolidated financial statements and guidance on separate financial statements.

Accounting policy election

62 A subsidiary is an entity that is controlled by the parent. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Control is presumed to exist when the parent company owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity.

63 An entity should make an accounting policy choice to:

a) consolidate its subsidiaries; or
b) account for its subsidiaries using the equity method as described in Section 9 - Investments in Associates.

64 If the parent is itself a subsidiary of an entity whose investments in subsidiaries are either consolidated or equity-accounted, it may present separate financial statements as its only financial statements in accordance with paragraph 75.

65 All subsidiaries should be accounted for using the same method. A material difference in the basis of accounting between a parent and a subsidiary precludes the consolidation and the application of equity accounting for investments in subsidiaries.

Consolidated financial statements

Consolidation procedures

66 The consolidated financial statements present financial information about the group as a single economic entity. In preparing consolidated financial statements, an entity shall:

a) combine the financial statements of the parent and its subsidiaries line by line by adding together like items of assets, liabilities, equity, income and expenses;
b) eliminate the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary;
c) measure and present non-controlling interest in the profit or loss of consolidated subsidiaries for the reporting period separately from the interest of the owners of the parent; and
d) measure and present non-controlling interest in the net assets of consolidated subsidiaries separately from the parent shareholders' equity in them. Non-controlling interest in the net assets consists of:
   i) the amount of the non-controlling interest at the date of the original combination
   ii) the non-controlling interest's share of changes in equity since the date of the combination.

67 The proportions of profit or loss and changes in equity allocated to the owners of the parent and to the non-controlling interest are determined on the basis of existing ownership interests and do not reflect the possible exercise or conversion of options or convertible instruments.

Intragroup balances and transactions

68 Intragroup balances and transactions, including income, expenses and dividends, are eliminated in full. Profits and losses resulting from intragroup transactions that are recognized in assets, such as inventory and property, plant and equipment, are eliminated in full.

Uniform reporting date

69 The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall be prepared as of the same reporting date unless it is impracticable to do so.

Uniform accounting policies

70 Consolidated financial statements shall be prepared using uniform accounting policies for like transactions and other events and conditions in similar circumstances. If a member of the group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

Acquisition and disposal of subsidiaries

71 The income and expenses of a subsidiary are included in the consolidated financial statements from the acquisition date. The income and expenses of a subsidiary are included in the consolidated financial statements until the date on which the parent ceases to control the subsidiary. The difference between the proceeds from the disposal of the subsidiary and its carrying amount as of the date of disposal, is recognized in the consolidated statement of income as the gain or loss on the disposal of the subsidiary.

Non-controlling interest in subsidiaries

72 An entity shall present non-controlling interest in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent.

73 An entity shall disclose non-controlling interest in the profit or loss of the group separately in the statement of income.

74 Profit or loss shall be attributed to the owners of the parent and to the non-controlling interest. Total net income or loss shall be attributed to the owners of the parent and to the non-controlling interest even if this results in the non-controlling interest having a deficit balance.

Separate financial statements

Scope

75 The term separate financial statements refers to:

a) An investor's financial statements that are presented in addition to consolidated financial statements.
b) An investor's financial statements that are presented as the company's only financial statements because it has taken an exemption from consolidation or from applying the equity method, in accordance with paragraph 64.

Accounting policy election

76 The entity shall adopt in its separate financial statements a policy of accounting for its investments in subsidiaries:

a) at cost less impairment, or
b) at equity method (using the procedures in Section 9 - Investments in Associates).

The entity shall apply the same accounting policy for all its investments in subsidiaries.

Disclosure requirements applicable to consolidated and separate financial statements

77 Any entity should provide the following disclosures:

a) method used to account for its subsidiaries.
b) listing and description of all subsidiaries, including their names, carrying amounts, and the proportion of ownership interests held in each subsidiary.
c) any difference in the reporting date of the financial statements of the parent and its subsidiaries used in the preparation of the consolidated and equity-accounted financial statements.

78 In addition to a - c above, an entity that chose the equity method should disclose separately any dividends received from the subsidiaries and its share of the profit or loss of such subsidiaries.

79 An entity preparing separate financial statements should identify the consolidated financial statements to which they relate.

Section 5 - Accounting Policies, Estimates and Errors

Selection and application of accounting policies

80 Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements. An entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions.

81 An entity need not follow a requirement in this Framework if the effect of doing so would not be material.

If this Framework does not specifically address a transaction, other event or condition, an entity's management shall use its judgment in developing and applying an accounting policy that results in information that is:

(a) relevant to the economic decision-making needs of users, and
(b) reliable, in that the financial statements:
  - (i) represent faithfully the financial position, financial performance and cash flows of the entity;
  - (ii) reflect the economic substance of transactions, other events and conditions, and not merely the legal form;
  - (iii) are neutral, i.e., free from bias;
  - (iv) are prudent; and
  - (v) are complete in all material respects.

In making the judgment described above, management shall refer to, and consider the applicability of, the following sources in descending order:

(a) the requirements and guidance in this Framework dealing with similar and related issues, and
(b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses and the pervasive principles in Section 2 Concepts and Pervasive Principles.

In making the judgment described above, management may also consider the requirements and guidance in PFRS for Small and Medium-sized Entities (PFRS for SMEs) dealing with similar and related issues.

Changes in accounting policies

82 An entity shall change an accounting policy if required by this Framework or if the change results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows. Therefore, changes in accounting policies are generally rare.

83 Examples of changes in accounting policies that would be appropriate if the new policy provides reliable and more relevant information are:

a) in the statement of income, a change from presenting an analysis of expenses based on the nature of expenses to presenting it based on the function of expenses;
b) changing the cost formula used to measure inventories from first-in first-out to weighted average; and
c) a change from presenting a single statement of income and retained earnings to preparing both a separate statement of income and a separate statement of changes in equity.

84 The application of a new accounting policy for transactions, other events or conditions that did not occur previously or were not material, is not a change in accounting policy.

Applying changes in accounting policies

85 An entity shall account for changes in accounting policy as follows:

a) Applied to the carrying amounts of assets and liabilities at the beginning of the current period. Any cumulative effect shall be recognized as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) of the current period.

b) Comparative information shall not be restated.

Changes in accounting estimates

86 A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.

87 Examples of changes in accounting estimate include:

a) a change in the method of depreciating an item of property, plant and equipment from a reducing balance method to a straight line method to reflect a revised assessment of the pattern of consumption of benefits of the asset; and

b) the re-estimation of the useful life of an item of property, plant and equipment.

88 An entity shall recognize the effect of a change in an accounting estimate, other than a change to which paragraph 89 applies, prospectively by including it in profit or loss in:

a) the period of the change, if the change affects that period only; or

b) the period of the change and future periods, if the change affects both.

89 To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of equity, the entity shall recognize it by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.

Corrections of prior period errors

90 Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

a) was available when financial statements for those periods were authorized for issue; and

b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

91 Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

92 An entity shall correct material prior period errors by excluding its impact from net income for the period when the error is discovered. The carrying amounts of assets and liabilities at the beginning of the current period shall be restated to correct the material prior period error. Any cumulative effect shall be recognized as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) of the current period.

Comparative information shall not be restated.

Disclosures

Disclosure of a change in accounting policy

93 When a change in accounting policy has an effect on the current period or any prior period, an entity shall disclose the following:

a) the nature of the change in accounting policy;
b) the amount of adjustments to the carrying amounts of assets and liabilities at the beginning of the current period and any cumulative effect recognized as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) of the current period; and
c) for each financial statement line item affected in the prior period, the amount of the necessary adjustment and the adjusted amount had the new accounting policy been applied in the prior period.

Financial statements of subsequent periods need not repeat these disclosures.

Disclosure of a change in estimate

94 Management should disclose the nature and amount of a change in an accounting estimate that has an effect in the current period. Disclosure of those effects is not necessary for estimates made each period in the ordinary course of accounting for items such as uncollectible accounts or inventory obsolescence; however, disclosure is required if the effect of a change in the estimate is material.

Disclosure of prior period errors

95 An entity shall disclose the following about prior period errors:

a) the nature of the prior period error;
b) the amount of adjustments to the carrying amounts of assets and liabilities at the beginning of the current period and any cumulative effect recognized as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) of the current period; and
c) for each financial statement line item affected in the prior period, the amount of error and the adjusted amount had the correction been applied in the prior period.

Financial statements of subsequent periods need not repeat these disclosures.

Section 6 - Basic Financial Instruments

Scope

96 A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

97 An entity shall account for the following financial instruments in this Section.

a) cash;
b) the following receivables and payables provided they meet the requirements in paragraph 99:
   i) bank deposits;
   ii) trade receivables and payables;
   iii) loans receivable and payable;
   iv) notes receivable and payable; and
c) investments in non-convertible preference shares and non-puttable ordinary shares. Non-puttable shares in an entity are shares that cannot be sold back to the entity at the option of the holder.

98 Entities with financial instruments other than those listed in paragraph 97 are accounted for under Section 7 - Other financial instruments.

99 A financial instrument that is a debt instrument, receivable or payable, shall be accounted for in accordance with this Section if it satisfies all of the conditions in (a)–(d) below:

a) Returns to the holder are
   i) a fixed amount;
   ii) a fixed rate of return over the life of the instrument;
   iii) a variable return that, throughout the life of the instrument, is equal to a single referenced quoted or observable interest rate (such as LIBOR); or
   iv) some combination of such fixed rate and variable rates (such as LIBOR plus 200 basis points), provided that both the fixed and variable rates are positive.
b) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods. The fact that a debt instrument is subordinated to other debt instruments is not an example of such a contractual provision.
c) Contractual provisions that permit the debtor to prepay a debt instrument or permit the creditor to require the debtor to repay the debt before maturity are not contingent on future events.
d) There are no conditional returns or repayment provisions except for the variable rate return described in (a) and prepayment provisions described in (c).

100 The following financial instruments are not accounted for in accordance with this section and are covered by other sections of this Framework:

a) financial instruments that meet the definition of an entity's own equity covered by Section 17 - Equity;
b) leases covered by Section 15 - Leases. However, the derecognition requirements in paragraphs 117 - 119 apply to lease payables recognized by a lessee; and
c) employers' rights and obligations under employee benefit plans covered by Section 22 - Employee Benefits.

Initial recognition of financial assets and liabilities

101 An entity shall recognize a financial asset or a financial liability only when the entity becomes a party to the contractual provisions of the instrument.

Initial measurement

102 When a financial asset or financial liability is recognized initially, an entity shall measure it at the transaction price (including transaction costs) unless the arrangement constitutes, in effect, a financing transaction. A financing transaction may take place in connection with the sale of goods or services, for example, if payment is deferred beyond normal business terms or is financed at a rate of interest that is not a market rate. If the arrangement constitutes a financing transaction, the entity shall measure the financial asset or financial liability at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Example - financial assets:

a) For a long-term loan made to another entity, a receivable is recognized at the present value of cash receivable (including interest payments and repayment of principal) from that entity.
b) For goods sold to a customer on short-term credit, a receivable is recognized at the undiscounted amount of cash receivable from that entity, which is normally the invoice price.
c) For an item sold to a customer on two-year interest-free credit, a receivable is recognized at the current cash sale price for that item. If the current cash sale price is not known, it may be estimated as the present value of the cash receivable discounted using the prevailing market rate(s) of interest for a similar receivable.
d) For a cash purchase of another entity's ordinary shares, the investment is recognized at the amount of cash paid to acquire the shares.

Example - financial liabilities:

a) For a long-term loan received from a bank, a payable is recognized initially at the present value of cash payable to the bank (for example, including interest payments and repayment of principal).
b) For goods purchased from a supplier on short-term credit, a payable is recognized at the undiscounted amount owed to the supplier, which is normally the invoice price.

Subsequent measurement

103 At the end of each reporting period, an entity shall measure financial instruments as follows, without any deduction for transaction costs the entity may incur on sale or other disposal:

a) Debt instruments that meet the conditions in paragraph 99 shall be measured at amortized cost using the effective interest method (see paragraphs 104 - 109). Cash and debt instruments that are classified as current assets or current liabilities shall be measured at the undiscounted amount of the cash or other consideration expected to be paid or received (i.e., net of impairment) unless the arrangement constitutes, in effect, a financing transaction (see paragraph 102). If the arrangement constitutes a financing transaction, the entity shall measure the debt instrument at the present value of the future payments discounted at a market rate of interest for a similar debt instrument. Paragraphs 110 - 115 provide guidance on impairment or uncollectibility.
b) Investments in shares shall be carried at cost less impairment, unless the investment in shares are traded in an active market, which shall be measured at the lower of cost or fair value, with changes in fair value recognized in profit or loss. For shares traded in an active market, the best evidence of fair value is the quoted price for those shares in that active market.

Amortized cost and effective interest method

104 The amortized cost of a financial asset or financial liability at each reporting date is the net of the following amounts:

a) the amount at which the financial asset or financial liability is measured at initial recognition;
b) minus any repayments of the principal;
c) plus or minus the cumulative amortization using the effective interest method of any difference between the amount at initial recognition and the maturity amount; and
d) minus, in the case of a financial asset, any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Financial assets and financial liabilities that have no stated interest rate and are classified as current assets or current liabilities are initially measured at an undiscounted amount in accordance with paragraph 103(a). Therefore, (c) above does not apply to them.

105 The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or a group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the carrying amount of the financial asset or financial liability. The effective interest rate is determined on the basis of the carrying amount of the financial asset or liability at initial recognition. Under the effective interest method:

a) the amortized cost of a financial asset (liability) is the present value of future cash receipts (payments) discounted at the effective interest rate; and
b) the interest expense (income) in a period equals the carrying amount of the financial liability (asset) at the beginning of a period multiplied by the effective interest rate for the period.

106 When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment and other options) and known credit losses that have been incurred, but it shall not consider possible future credit losses not yet incurred.

107 When calculating the effective interest rate, an entity shall amortize any related fees, finance charges paid or received, and transaction costs over the expected life of the instrument, except as follows. The entity shall use a shorter period if that is the period to which the fees, finance charges paid or received, or transaction costs relate. This will be the case when the variable to which the fees, finance charges paid or received, and transaction costs is repriced to market rates before the expected maturity of the instrument. In such a case, the appropriate amortization period is the period to the next such repricing date.

108 For variable rate financial assets and variable rate financial liabilities, periodic re-estimation of cash flows to reflect changes in market rates of interest alters the effective interest rate. If a variable rate financial asset or variable rate financial liability is recognized initially at an amount equal to the principal receivable or payable at maturity, re-estimating the future interest payments normally has no significant effect on the carrying amount of the asset or liability.

109 If an entity revises its estimates of payments or receipts, the entity shall adjust the carrying amount of the financial asset or financial liability (or group of financial instruments) to reflect actual and revised estimated cash flows. The entity shall recalculate the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate. The entity shall recognize the adjustment as income or expense in profit or loss at the date of the revision.

Impairment of financial assets measured at cost or amortized cost

Recognition

110 At the end of each reporting period, an entity shall assess whether there is objective evidence of impairment of any financial assets that are measured at cost or amortized cost. If there is objective evidence of impairment, the entity shall recognize an impairment loss in profit or loss immediately.

111 Objective evidence that a financial asset or group of assets is impaired includes observable data that come to the attention of the entity about the following loss events:

a) a breach of contract by the debtor, such as a default or delinquency in interest or principal payments;
b) the entity, for economic or legal reasons relating to the debtor's financial difficulty, granting to the debtor a concession that the entity would not otherwise consider; or
c) significant financial difficulty of the debtor or the issuer or it has become probable that the debtor or the issuer will enter bankruptcy or other financial reorganization.

112 Other factors may also be evidence of impairment, including significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the debtor or the issuer operates.

113 An entity shall assess financial assets that are individually significant for impairment separately. An entity shall assess other financial assets for impairment either individually or grouped on the basis of similar credit risk characteristics.

Measurement

114 For financial assets measured at amortized cost, impairment loss is the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If such a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. For a financial asset measured at cost less impairment, impairment loss is the difference between the asset's carrying amount and the best estimate (which will necessarily be an approximation) of the amount (which might be zero) that the entity would receive for the asset if it were to be sold at the reporting date.

Reversal

115 If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the entity shall reverse the previously recognized impairment loss either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset (net of any allowance account) that exceeds what the carrying amount would have been had the impairment not previously been recognized. The entity shall recognize the amount of the reversal in profit or loss immediately.

Derecognition of a financial asset

116 An entity shall derecognize a financial asset when:

a) the contractual rights to the cash flows from the financial asset expire or are settled; or
b) the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset.

Derecognition of a financial liability

117 An entity shall derecognize a financial liability (or a part of a financial liability) only when it is extinguished - i.e., when the obligation specified in the contract is discharged, is cancelled or has expired.

118 If an existing borrower and lender exchange financial instruments with substantially different terms, the entities shall account for the transaction as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, an entity shall account for a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) as an extinguishment of the original financial liability and the recognition of a new financial liability.

119 The entity shall recognize in profit or loss any difference between the carrying amount of the financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed.

Disclosures

Disclosure of accounting policies for financial instruments

120 In accordance with paragraph 60, an entity shall disclose, in the summary of significant accounting policies, the measurement basis (or bases) used for financial instruments and the other accounting policies used for financial instruments that are relevant to an understanding of the financial statements.

Statement of financial position - categories of financial assets and financial liabilities

121 An entity shall disclose the carrying amounts of each of the following categories of financial assets and financial liabilities at the reporting date, in total, either in the statement of financial position or in the notes:

a) financial assets measured at cost/amortized cost;
b) financial liabilities measured at cost/amortized cost;
c) investments in shares carried at cost; and
d) investments in shares carried at the lower of cost or fair value.

122 An entity shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance. For example, for long-term debt such information would normally include the terms and conditions of the debt instrument (such as interest rate, maturity, repayment schedule, and restrictions that the debt instrument imposes on the entity).

123 For investments in shares, the entity shall disclose the basis for determining the fair value.

Defaults and breaches on loans payable

124 For loans payable recognized at the reporting date for which there is a breach of terms or default of principal, interest, sinking fund, or redemption terms that has not been remedied by the reporting date, an entity shall disclose the following:

a) details of that breach or default;
b) the carrying amount of the related loans payable at the reporting date; and
c) whether the breach or default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were authorized for issue.

Items of income, expense, gains or losses from financial instruments

125 An entity shall disclose the following items of income, expense, gains or losses:

a) income, expense, gains or losses, including changes in the fair value, recognized on:
   i) investments in shares carried at the lower of cost or fair value;
   ii) financial assets measured at cost/amortized cost; and
   iii) financial liabilities measured at cost/amortized cost.
b) total interest income and total interest expense (calculated using the effective interest method) for financial assets or financial liabilities measured at cost/amortized cost; and
c) the amount of any impairment loss for each class of financial assets.

Section 7 - Other Financial Instruments

126 Section 6 - Basic Financial Instruments and Section 7 - Other financial instruments together deal with recognizing, derecognizing, measuring, and disclosing financial instruments (financial assets and financial liabilities). Section 6 applies to basic financial instruments and is relevant to all entities. Section 7 applies to other, more complex financial instruments and transactions. If an entity enters into only basic financial instrument transactions then Section 7 is not applicable. However, even entities with only basic financial instruments shall consider the scope of Section 7 to ensure they are exempt.

Scope

127 This section applies to all financial instruments except the following:

(a) those covered by Section 6 - Basic Financial Instruments.
(b) interests in subsidiaries (see Section 4 - Subsidiaries), associates (see Section 9 - Investments in Associates) and joint ventures (see Section 10 - Joint Arrangements).
(c) employers' rights and obligations under employee benefit plans (see Section 22 - Employee Benefits).
(d) rights under insurance contracts unless the insurance contract could result in a loss to either party as a result of contractual terms that are unrelated to:
   (i) changes in the insured risk;
   (ii) changes in foreign exchange rates; or
   (iii) a default by one of the counterparties.
(e) financial instruments that meet the definition of an entity's own equity (see Section 17 – Equity and Section 20 - Share-based payment).
(f) contracts for contingent consideration in a business combination (see Section 14 - Business Combinations and Goodwill). This exemption applies only to the acquirer.

128 Most contracts to buy or sell a non-financial item such as a commodity, inventory, or property, plant and equipment are excluded from this section because they are not financial instruments. However, this section applies to all contracts that impose risks on the buyer or seller that are not typical of contracts to buy or sell tangible assets. For example, this section applies to contracts that could result in a loss to the buyer or seller as a result of contractual terms that are unrelated to changes in the price of the non-financial item, changes in foreign exchange rates, or a default by one of the counterparties.

129 In addition to the contracts described in paragraph 128, this section applies to contracts to buy or sell non-financial items if the contract can be settled net in cash or another financial instrument, or by exchanging financial instruments as if the contracts were financial instruments, with the following exception: contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements are not financial instruments for the purposes of this section.

Initial recognition of financial assets and liabilities

130 An entity shall recognize a financial asset or a financial liability only when the entity becomes a party to the contractual provisions of the instrument.

Initial measurement

131 When a financial asset or financial liability is recognized initially, an entity shall measure it at its fair value, which is normally the transaction price.

Subsequent measurement

132 At the end of each reporting period, an entity shall measure all financial instruments within the scope of this section at fair value and recognize changes in fair value in profit or loss, except as follows: equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably, and contracts linked to such instruments that, if exercised, will result in delivery of such instruments, shall be measured at cost less impairment.

133 An entity shall not include transaction costs in the initial measurement of financial assets and liabilities that will be measured subsequently at fair value through profit or loss. If payment for an asset is deferred or is financed at a rate of interest that is not a market rate, the entity shall initially measure the asset at the present value of the future payments discounted at a market rate of interest.

134 If a reliable measure of fair value is no longer available for an equity instrument that is not publicly traded but is measured at fair value through profit or loss, its fair value at the last date the instrument was reliably measurable is treated as the cost of the instrument. The entity shall measure the instrument at this cost amount less impairment until a reliable measure of fair value becomes available.

Fair value

135 An entity shall apply the guidance on fair value in paragraphs 11 - 14 to fair value measurements in accordance with this section.

136 The fair value of a financial liability that is due on demand is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Impairment of financial instruments measured at cost

137 An entity shall apply the guidance on impairment of a financial instrument measured at cost in paragraphs 110 - 113 to financial instruments measured at cost less impairment in accordance with this section.

Derecognition of a financial asset or financial liability

138 An entity shall apply the derecognition requirements in paragraphs 116 - 119 to financial assets and financial liabilities to which this section applies.

Hedge accounting

139 If specified criteria are met, an entity may designate a hedging relationship between a hedging instrument and a hedged item in such a way as to qualify for hedge accounting. Hedge accounting permits the gain or loss on the hedging instrument and on the hedged item to be recognized in profit or loss at the same time.

140 To qualify for hedge accounting, an entity shall comply with all of the following conditions:

(a) the entity designates and documents the hedging relationship so that the risk being hedged, the hedged item and the hedging instrument are clearly identified and the risk in the hedged item is the risk being hedged with the hedging instrument.

(b) the hedged risk is one of the risks specified in paragraph 141.

(c) the hedging instrument is as specified in paragraph 142.

(d) the entity expects the hedging instrument to be highly effective in offsetting the designated hedged risk. The effectiveness of a hedge is the degree to which changes in the fair value or cash flows of the hedged item that are attributable to the hedged risk are offset by changes in the fair value or cash flows of the hedging instrument.

141 This Framework permits hedge accounting only for the following risks:
(a) interest rate risk of a debt instrument measured at amortized cost;
(b) foreign exchange or interest rate risk in a firm commitment or a highly probable forecast transaction; and
(c) price risk of a commodity that it holds or in a firm commitment or highly probable forecast transaction to purchase or sell a commodity.

Foreign exchange risk of a debt instrument measured at amortized cost is not in the list above because hedge accounting would not have any significant effect on the financial statements. Basic accounts, notes and loans receivable and payable are normally measured at amortized cost. This would include payables denominated in a foreign currency. Paragraph 433 requires any change in the carrying amount of the payable because of a change in the exchange rate to be recognized in profit or loss. Therefore, both the change in fair value of the hedging instrument (the cross-currency swap) and the change in the carrying amount of the payable relating to the change in the exchange rate would be recognized in profit or loss and should offset each other except to the extent of the difference between the spot rate (at which the liability is measured) and the forward rate (at which the swap is measured).

142 This Framework permits hedge accounting only if the hedging instrument has all of following terms and conditions:
(a) it is an interest rate swap, a foreign currency swap, a foreign currency forward exchange contract or a commodity forward exchange contract that is expected to be highly effective in offsetting a risk identified in paragraph 141 that is designated as the hedged risk.
(b) it involves a party external to the reporting entity (i.e., external to the group, segment or individual entity being reported on).
(c) its notional amount is equal to the designated amount of the principal or notional amount of the hedged item.
(d) it has a specified maturity date not later than
   (i) the maturity of the financial instrument being hedged;
   (ii) the expected settlement of the commodity purchase or sale commitment; or
   (iii) the occurrence of the highly probable forecast foreign currency or commodity transaction being hedged.
(e) it has no prepayment, early termination or extension features.

Hedge of fixed interest rate risk of a recognized financial instrument or commodity price risk of a commodity held

143 If the conditions in paragraph 140 are met and the hedged risk is the exposure to a fixed interest rate risk of a debt instrument measured at amortized cost or the commodity price risk of a commodity that it holds, the entity shall:
(a) recognize the hedging instrument as an asset or liability and the change in the fair value of the hedging instrument in profit or loss; and
(b) recognize the change in the fair value of the hedged item related to the hedged risk in profit or loss and as an adjustment to the carrying amount of the hedged item.

144 If the hedged risk is the fixed interest rate risk of a debt instrument measured at amortized cost, the entity shall recognize the periodic net cash settlements on the interest rate swap that is the hedging instrument in profit or loss in the period in which the net settlements accrue.

145 The entity shall discontinue the hedge accounting specified in paragraph 143 if:
(a) the hedging instrument expires or is sold or terminated;

(b) the hedge no longer meets the conditions for hedge accounting specified in paragraph 140; or
(c) the entity revokes the designation.

146 If hedge accounting is discontinued and the hedged item is an asset or liability carried at amortized cost that has not been derecognized, any gains or losses recognized as adjustments to the carrying amount of the hedged item are amortized into profit or loss using the effective interest method over the remaining life of the hedged item.

Hedge of variable interest rate risk of a recognized financial instrument, foreign exchange risk or commodity price risk in a firm commitment or highly probable forecast transaction

147 If the conditions in paragraph 140 are met and the hedged risk is
(a) the variable interest rate risk in a debt instrument measured at amortized cost;
(b) the foreign exchange risk in a firm commitment or a highly probable forecast transaction; or
(c) the commodity price risk in a firm commitment or highly probable forecast transaction,
the entity shall recognize a hedging reserve (an equity account) the portion of the change in the fair value of the hedging instrument that was effective in offsetting the change in the fair value or expected cash flows of the hedged item. The entity shall recognize in profit or loss in each period any excess (in absolute amount) of the cumulative change in the fair value of the hedging instrument over the cumulative change in the fair value of the expected cash flows of the hedged item since inception of the hedge (sometimes called hedge ineffectiveness). The hedging gain or loss recognized in hedging reserve shall be reclassified to profit or loss when the hedged item is recognized in profit or loss or when the hedging relationship ends.

148 If the hedged risk is the variable interest rate risk in a debt instrument measured at amortized cost, the entity shall subsequently recognize in profit or loss the periodic net cash settlements from the interest rate swap that is the hedging instrument in the period in which the net settlements accrue.

149 The entity shall discontinue the hedge accounting specified in paragraph 147 if:
(a) the hedging instrument expires or is sold or terminated;
(b) the hedge no longer meets the criteria for hedge accounting in paragraph 140;
(c) in a hedge of a forecast transaction, the forecast transaction is no longer highly probable; or
(d) the entity revokes the designation. If the forecast transaction is no longer expected to take place or if the hedged debt instrument measured at amortized cost is derecognized, any gain or loss on the hedging instrument that was recognized in hedging reserve shall be reclassified from hedging reserve to profit or loss.

Disclosures

150 An entity applying this section shall make all of the disclosures required in Section 6 incorporating in those disclosures financial instruments that are within the scope of this section as well as those within the scope of Section 6. In addition, if the entity uses hedge accounting, it shall make the additional disclosures in paragraphs 151 - 153.

151 An entity shall disclose the following separately for hedges of each of the three types of risks described in paragraph 141:
(a) a description of the hedge.
(b) a description of the financial instruments designated as hedging instruments and their fair values at the reporting date.
(c) the nature of the risks being hedged, including a description of the hedged item.

152 If an entity uses hedge accounting for a hedge of fixed interest rate risk or commodity price risk of a commodity held (paragraphs 143 - 146) it shall disclose the following:

(a) the amount of the change in fair value of the hedging instrument recognized in profit or loss.

(b) the amount of the change in fair value of the hedged item recognized in profit or loss.

153 If an entity uses hedge accounting for a hedge of variable interest rate risk, foreign exchange risk, or commodity price risk in a firm commitment or highly probable forecast transaction (paragraphs 147 - 149) it shall disclose the following:

(a) the periods when the cash flows are expected to occur and when they are expected to affect profit or loss.

(b) a description of any forecast transaction for which hedge accounting had previously been used, but which is no longer expected to occur.

(c) the amount of the change in fair value of the hedging instrument that was recognized in hedging reserve during the period (paragraph 147).

(d) the amount that was reclassified from hedging reserve to profit or loss for the period (paragraphs 147 and 149).

(e) the amount of any excess of the cumulative change in the fair value of the hedging instrument over the cumulative change in the fair value of the expected cash flows that was recognized in profit or loss for the period (paragraph 147).

Section 8 - Inventories

Scope

154 Inventories are assets:

a) held for sale in the ordinary course of business;
b) in the process of production for such sale; or
c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

155 This Section does not apply to:

a) work in progress arising under construction contracts, including directly related service contracts (see Section 18 - Revenue); and
b) financial instruments (see Section 6 - Basic Financial Instruments, and Section 7 – Other Financial Instruments).

Measurement of inventories

156 An entity shall measure inventories at the lower of cost or market value. Section 21 - Impairment of Assets covers impairment requirements for inventories.

Cost of inventories

157 An entity shall include in the cost of inventories all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Costs of purchase

158 The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

159 An entity may purchase inventories on deferred settlement terms. In some cases, the arrangement effectively contains an unstated financing element, for example, a difference between the purchase price for normal credit terms and the deferred settlement amount. In these cases, the difference is recognized as interest expense over the period of the financing and is not added to the cost of the inventories.

Costs of conversion

160 The costs of conversion of inventories include costs directly related to the units of production, such as direct labor. They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. Fixed production overheads are those indirect costs of production that remain relatively constant regardless of the volume of production, such as depreciation and maintenance of factory buildings and equipment, and the cost of factory management and administration. Variable production overheads are those indirect costs of production that vary directly, or nearly directly, with the volume of production, such as indirect materials and indirect labor.

Allocation of production overheads

161 An entity shall allocate fixed production overheads to the costs of conversion on the basis of the normal capacity of the production facilities. Normal capacity is the production expected to be achieved on average over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance. The actual level of production may be used if it approximates normal capacity. The amount of fixed overhead allocated to each unit of production is not increased as a consequence of low production or idle plant. Unallocated overheads are recognized as an expense in the period in which they are incurred. In periods of abnormally high production, the amount of fixed overhead allocated to each unit of production is decreased so that inventories are not measured above cost. Variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities.

Joint products and by-products

162 A production process may result in more than one product being produced simultaneously. This is the case, for example, when joint products are produced or when there is a main product and a by-product. When the costs of raw materials or conversion of each product are not separately identifiable, an entity shall allocate them between the products on a rational and consistent basis. The allocation may be based, for example, on the relative sales value of each product either at the stage in the production process when the products become separately identifiable, or at the completion of production. Most by-products, by their nature, are immaterial. When this is the case, the entity shall measure them at selling price less costs to complete and sell and deduct this amount from the cost of the main product. As a result, the carrying amount of the main product is not materially different from its cost.

Other costs included in inventories

163 An entity shall include other costs in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition.

Costs excluded from inventories

164 Examples of costs excluded from the cost of inventories and recognized as expenses in the period in which they are incurred are:

a) abnormal amounts of wasted materials, labor or other production costs;
b) storage costs, unless those costs are necessary during the production process before a further production stage;
c) administrative overheads that do not contribute to bringing inventories to their present location and condition; and
d) selling costs.

Cost of inventories of a service provider

165 To the extent that service providers have inventories, they measure them at the costs of their production. These costs consist primarily of the labor and other costs of personnel directly engaged in providing the service, including supervisory personnel, and attributable overheads. Labor and other costs relating to sales and general administrative personnel are not included but are recognized as expenses in the period in which they are incurred. The cost of inventories of a service provider does not include profit margins or non-attributable overheads that are often factored into prices charged by service providers.

Techniques for measuring cost, such as standard costing, retail method and most recent purchase price

166 An entity may use techniques such as the standard cost method, the retail method or most recent purchase price for measuring the cost of inventories if the result approximates cost. Standard costs take into account normal levels of materials and supplies, labor, efficiency and capacity utilization. They are regularly reviewed and, if necessary, revised in the light of current conditions. The retail method measures cost by reducing the sales value of the inventory by the appropriate percentage gross margin.

Cost formulas

167 An entity shall measure the cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects by using specific identification of their individual costs.

168 An entity shall measure the cost of inventories, other than those dealt with in paragraph 167, by using the first-in, first-out (FIFO) or weighted average cost formula. An entity shall use the same cost formula for all inventories having a similar nature and use to the entity. For inventories with a different nature or use, different cost formulas may be justified. The last-in, first-out method (LIFO) is not permitted.

Recognition as an expense

169 When inventories are sold, the entity shall recognize the carrying amount of those inventories as an expense (often referred to as cost of goods sold) in the period in which the related revenue is recognized.

170 Some inventories may be allocated to other asset accounts, for example, inventory used as a component of self-constructed property, plant or equipment. Inventories allocated to another asset in this way are accounted for subsequently in accordance with the section of this Framework relevant to that type of asset.

Disclosures

171 An entity shall disclose the following:

a) the accounting policies adopted in measuring inventories, including the cost formula used;
b) the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;
c) the amount of inventories recognized as an expense during the period;
d) impairment losses recognized or reversed in profit or loss in accordance with Section 21 - Impairment of Assets; and
e) the total carrying amount of inventories pledged as security for liabilities.

Section 9 - Investments in Associates

Scope

172 This section applies to accounting for associates in the following financial statements:
a) consolidated financial statements and financial statements of investors where investments in subsidiaries are equity-accounted (see paragraph 63); and
b) financial statements of an investor that is not a parent but that has an investment in one or more associates.

In the separate financial statements, an investor in an associate is covered by the same accounting policy election for investments in subsidiaries presented in paragraph 76.

Associates defined

173 An associate is an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

174 Significant influence is the power to participate in the financial and operating policy decisions of the associate but is not control or joint control over those policies.
a) If an investor holds, directly or indirectly (e.g., through subsidiaries), 20 per cent or more of the voting power of the associate, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case.
b) Conversely, if the investor holds, directly or indirectly (e.g., through subsidiaries), less than 20 per cent of the voting power of the associate, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated.
c) A substantial or majority ownership by another investor does not preclude an investor from having significant influence.

Measurement - accounting policy election

175 An investor shall account for all of its investments in associates using one of the following:
a) at cost less impairment; or
b) the equity method.

Cost model

176 An investor shall measure its investments in associates at cost less any accumulated impairment losses.

177 The investor shall recognize dividends and other distributions received from the investment as income without regard to whether the distributions are from accumulated profits of the associate arising before or after the date of acquisition.

Equity method

178 Under the equity method of accounting, an equity investment is initially recognized at the transaction price (including transaction costs) and is subsequently adjusted to reflect the investor's share of the profit or loss of the associate.
a) *Distributions and other adjustments to carrying amount.* Distributions received from the associate reduce the carrying amount of the investment.
b) *Potential voting rights.* Although potential voting rights are considered in deciding whether significant influence exists, an investor shall measure its share of profit or loss of the associate and its share of changes in the associate's equity on the basis of present

ownership interests. Those measurements shall not reflect the possible exercise or conversion of potential voting rights.

c) *Implicit goodwill and fair value adjustments.* On acquisition of the investment in an associate, an investor shall account for any difference (whether positive or negative) between the cost of acquisition and the investor's share of the fair values of the net identifiable assets of the associate in accordance with paragraphs 285 - 287. An investor shall adjust its share of the associate's profits or losses after acquisition to account for additional depreciation or amortization of the associate's depreciable or amortizable assets (including goodwill) on the basis of the excess of their fair values over their carrying amounts at the time the investment was acquired.
d) *Impairment.* If there is an indication that an investment in an associate may be impaired, an investor shall test the entire carrying amount of the investment for impairment in accordance with Section 21 - Impairment of Assets as a single asset. Any goodwill included as part of the carrying amount of the investment in the associate is not tested separately for impairment but, rather, as part of the test for impairment of the investment as a whole.
e) *Investor's transactions with associates.* If an associate is accounted for using the equity method, the investor shall eliminate unrealized profits and losses resulting from upstream (associate to investor) and downstream (investor to associate) transactions to the extent of the investor's interest in the associate. Unrealized losses on such transactions may provide evidence of an impairment of the asset transferred.
f) *Date of associate's financial statements.* In applying the equity method, the investor shall use the financial statements of the associate as of the same date as the financial statements of the investor unless it is impracticable to do so. If it is impracticable, the investor shall use the most recent available financial statements of the associate, with adjustments made for the effects of any significant transactions or events occurring between the accounting period ends.
g) *Associate's accounting policies.* If the associate uses accounting policies that differ from those of the investor, the investor shall adjust the associate's financial statements to reflect the investor's accounting policies for the purpose of applying the equity method unless it is impracticable to do so.
h) *Losses in excess of investment.* If an investor's share of losses of an associate equals or exceeds the carrying amount of its investment in the associate, the investor shall discontinue recognizing its share of further losses. After the investor's interest is reduced to zero, the investor shall recognize additional losses by a provision (see Section 16 - Provisions and Contingencies) only to the extent that the investor has incurred legal or constructive obligations or has made payments on behalf of the associate. If the associate subsequently reports profits, the investor shall resume recognizing its share of those profits only after its share of the profits equals the share of losses not recognized.
i) *Discontinuing the equity method.* An investor shall cease using the equity method from the date that significant influence ceases.
    i) If the associate becomes a subsidiary or joint venture, the investor shall remeasure its previously held equity interest to fair value and recognize the resulting gain or loss, if any, in profit or loss.
    ii) If an investor loses significant influence over an associate as a result of a full or partial disposal, it shall derecognize that associate and recognize in profit or loss the difference between, on the one hand, the sum of the proceeds received plus the fair value of any retained interest and, on the other hand, the carrying amount of the investment in the associate at the date significant influence is lost. Thereafter, the investor shall account for any retained interest using Section 6 - Basic Financial Instruments.
    iii) If an investor loses significant influence for reasons other than a partial disposal of its investment, the investor shall regard the carrying amount of the investment at that date as a new cost basis and shall account for the investment using Section 6 - Basic Financial Instruments.

Financial statement presentation

179 An investor shall classify investments in associates as non-current assets.

Disclosures

180 An investor in an associate shall disclose the following:

a) the name of the associate
b) the principal place of business (and country of incorporation, if applicable and different from the principal place of business) of the associate.
c) the proportion of ownership interest held by the entity in the associate.
d) its accounting policy for investments in associates.
e) the carrying amount of investments in associates.
f) the fair value of investments in associates accounted for using the equity method for which there are published price quotations.

181 For investments in associates accounted for by the cost model, an investor shall disclose the amount of dividends and other distributions recognized as income.

182 For investments in associates accounted for by the equity method, an investor shall disclose separately its share of the profit or loss of such associates.

Section 10 - Joint Arrangements

Scope

183 This section applies to accounting for investments in joint arrangements in the following financial statements:

a) consolidated financial statements and financial statements of investors where investments in subsidiaries are equity-accounted; and
b) financial statements of an investor that is not a parent but that has an investment in one or more joint ventures or joint operations.

In the separate financial statements, a venturer with an investment in a joint venture is covered by the same accounting policy election for investments in subsidiaries presented in paragraph 76.

Joint arrangements

184 A joint arrangement is an arrangement of which two or more parties have joint control.

185 Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Types of joint arrangements

186 A joint arrangement is either a joint operation or a joint venture.

187 An entity shall determine the type of joint arrangement in which it is involved. The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement.

188 A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators.

189 A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers.

Joint operations

190 Where the entity is involved in a joint operation, the investors account for their rights and obligations by recognizing:

a) its assets, including its share of any assets held jointly;
b) its liabilities, including its share of any liabilities incurred jointly;
c) its revenue from the sale of its share of the output arising from the joint operation;
d) its share of the revenue from the sale of the output by the joint operation; and
e) its expenses, including its share of any expenses incurred jointly.

Joint venture

Measurement - accounting policy election

191 A venturer shall account for all of its investment in joint ventures in its consolidated and separate financial statements using one of the following:
a) the cost model; or
b) the equity method.

Cost model

192 A venturer shall measure its investments in joint ventures at cost less any accumulated impairment losses.

193 The investor shall recognize distributions received from the investment as income without regard to whether the distributions are from accumulated profits of the joint venture arising before or after the date of acquisition.

Equity method

194 A venturer shall measure its investments in joint ventures by the equity method using the procedures in Section 9 - Investments in Associates.

Transactions between a venturer and a joint venture

195 When a venturer contributes or sells assets to a joint venture, recognition of any portion of a gain or loss from the transaction shall reflect the substance of the transaction. While the assets are retained by the joint venture, and provided the venturer has transferred the significant risks and rewards of ownership, the venturer shall recognize only that portion of the gain or loss that is attributable to the interests of the other venturers. The venturer shall recognize the full amount of any loss when the contribution or sale provides evidence of an impairment loss.

196 When a venturer purchases assets from a joint venture, the venturer shall not recognize its share of the profits of the joint venture from the transaction until it resells the assets to an independent party. A venturer shall recognize its share of the losses resulting from these transactions in the same way as profits except that losses shall be recognized immediately when they represent an impairment loss.

If investor does not have joint control

197 An investor in a joint venture that does not have joint control shall account for that investment in accordance with Section 6 - Basic Financial Instruments or, if it has significant influence in the joint venture, in accordance with Section 9 - Investments in Associates.

Disclosures

198 For each joint arrangement, an entity should disclose the following:
a) the name and type of the joint arrangement.
b) the principal place of business (and country of incorporation, if applicable and different from the principal place of business) of the joint arrangement.
c) the proportion of ownership interest held by the entity in the joint arrangement.

199 In addition, an investor in a joint venture shall disclose the following:

a) its accounting policy for investments in joint ventures.
b) the carrying amount of investments in joint ventures.
c) the fair value of investments in joint ventures accounted for using the equity method for which there are published price quotations.

200 For investments in joint ventures accounted for by the cost model, an investor shall disclose the amount of dividends and other distributions recognized as income.

201 For investments in joint ventures accounted for by the equity method, an investor shall disclose separately its share of the profit or loss of such joint ventures.

Section 11 - Investment Property

Scope

202 This section applies to accounting for investments in land or buildings that meet the definition of investment property.

Definition and initial recognition of investment property

203 Investment property is property (land or a building, or part of a building, or both) held by the owner to earn rentals or for capital appreciation or both, rather than for:

a) use in the production or supply of goods or services or for administrative purposes, or
b) sale in the ordinary course of business.

Measurement at initial recognition

204 An entity shall measure investment property at its cost at initial recognition. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure such as legal and brokerage fees, property transfer taxes and other transaction costs. If payment is deferred beyond normal credit terms, the cost is the present value of all future payments. An entity shall determine the cost of a self-constructed investment property in accordance with Section 12 - Property, Plant and Equipment.

Measurement after recognition

205 An entity shall choose as its accounting policy either the cost model in paragraph 206 or the fair value model in paragraph 207 and shall apply that policy to all of its investment property.

Cost model

206 After initial recognition, an entity that chooses the cost model shall measure all of its investment properties in accordance with Section 12 - Property, Plant and Equipment requirements for that model.

Fair value model

207 After initial recognition, an entity that chooses the fair value model shall measure all of its investment properties at fair value at each reporting date with changes in fair value recognized in profit or loss. Paragraphs 11 - 14 provide guidance on determining fair value.

208 If a reliable measure of fair value is no longer available without undue cost or effort for an item of investment property measured using the fair value model, the entity shall thereafter account for that item under the cost model in accordance with paragraph 206. The carrying amount of the investment property on the date of the change becomes its cost. Paragraph 211 requires disclosure of this change. It is a change of circumstances and not a change in accounting policy.

Transfers

209 An entity shall transfer a property to, or from, investment property only when the property first meets, or ceases to meet, the definition of investment property.

Disclosures

210 Entities applying the cost model shall disclose the following for each class of investment property:

a) the depreciation methods used.
b) the useful lives or the depreciation rates used.
c) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the reporting period.
d) a reconciliation of the carrying amount at the beginning and end of the reporting period showing separately:
   i) additions.
   ii) disposals.
   iii) acquisitions through business combinations.
   iv) impairment losses recognized or reversed in profit or loss
   v) depreciation.
   vi) other changes.

This reconciliation need not be presented for prior periods.

211 Entities applying the fair value model shall disclose the following:

a) whether an independent valuer was involved;
b) the methods and significant assumptions applied in determining the fair value of investment property;
c) a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing separately:
   i) additions, disclosing separately those additions resulting from acquisitions through business combinations.
   ii) net gains or losses from fair value adjustments.
   iii) transfers to cost model when a reliable measure of fair value is no longer available without undue cost or effort (see paragraph 208)
   iv) transfers to and from inventories and owner-occupied property.
   v) other changes.

This reconciliation need not be presented for prior periods.

212 The entity shall also disclose the existence and carrying amounts of investment property to which the entity has restricted title or that is pledged as security for liabilities.

Section 12 - Property, Plant and Equipment

Scope

213 Property, plant and equipment accounted for under this Section are tangible assets that:
a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
b) are expected to be used during more than one period.

Recognition

214 Items such as spare parts, stand-by equipment and servicing equipment are property, plant and equipment if the entity expects to use them during more than one period or if they can be used only in connection with an item of property, plant and equipment. Otherwise, such items are classified as inventories.

215 Land and buildings are separable assets, and an entity shall account for them separately, even when they are acquired together.

Measurement at recognition

216 An entity shall measure an item of property, plant and equipment at initial recognition at its cost.

Elements of cost

217 The cost of an item of property, plant and equipment comprises all of the following:
a) its purchase price, including legal and brokerage fees, import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. These can include the costs of site preparation, initial delivery and handling, installation and assembly, and testing of functionality.

If payment is deferred beyond normal credit terms, the cost is the present value of all future payments.

218 The following costs are not costs of an item of property, plant and equipment, and an entity shall recognize them as an expense when they are incurred:
a) costs of opening a new facility;
b) costs of introducing a new product or service (including costs of advertising and promotional activities);
c) costs of conducting business in a new location or with a new class of customer (including costs of staff training); and
d) administration and other general overhead costs.

The income and related expenses of incidental operations during construction or development of an item of property, plant and equipment are recognized in profit or loss if those operations are not necessary to bring the item to its intended location and operating condition.

Exchanges of assets

219 An item of property, plant or equipment may be acquired in exchange for a non-monetary asset, or assets, or a combination of monetary and non-monetary assets. An entity shall measure the cost of the acquired asset at fair value unless (a) the exchange transaction lacks commercial

substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. In that case, the asset's cost is measured at the carrying amount of the asset given up.

Measurement after initial recognition

220 An entity shall choose as its accounting policy either the cost model in paragraphs 221 - 228 or the fair value model in paragraphs 229 - 230 and shall apply that policy to an entire class of property, plant and equipment. A class of property, plant and equipment is a grouping of assets of similar nature and use in an entity's operations.

An entity shall recognize the costs of day-to-day servicing (repairs and maintenance) of an item of investment property in profit or loss in the period in which the costs are incurred.

Cost model

221 An entity shall measure an item of property, plant and equipment after initial recognition at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciable amount and depreciation period

222 An entity shall allocate the depreciable amount of an asset on a systematic basis over its useful life. The depreciable amount is cost minus accumulated depreciation and accumulated impairment losses, and minus residual value. The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of an asset, after deducting the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life.

223 The depreciation charge for each period shall be recognized in profit or loss unless another section of this Framework requires the cost to be recognized as part of the cost of an asset. For example, the depreciation of manufacturing property, plant and equipment is included in the costs of inventories.

224 Factors such as a change in how an asset is used, significant unexpected wear and tear, technological advancement, and changes in market prices may indicate that the residual value or useful life of an asset has changed since the most recent annual reporting date. If such indicators are present, an entity shall review its previous estimates and, if current expectations differ, amend the residual value, depreciation method or useful life. The entity shall account for the change in residual value, depreciation method or useful life as a change in an accounting estimate.

225 Depreciation of an asset begins when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases when the asset is derecognized. Depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. However, under usage methods of depreciation the depreciation charge can be zero while there is no production.

226 The useful life of an asset is the period over which the asset is expected to be available for use by the entity or the number of production or similar units expected to be obtained from the asset by the entity. An entity shall consider all of the following factors in determining the useful life of an asset:

a) the expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output;

b) expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance program, and the care and maintenance of the asset while idle;
c) technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset; and
d) legal or similar limits on the use of the asset, such as the expiry dates of related leases.

With some exceptions, such as quarries and sites used for landfill, land has an unlimited useful life and therefore is not depreciated.

Depreciation method

227 An entity shall select a depreciation method that reflects the pattern in which it expects to consume the asset's future economic benefits. The possible depreciation methods include the straight-line method, the diminishing balance method and a method based on usage such as the units of production method.

228 Usually, an asset is depreciated using the same method from period to period. However, if there is an indication that there has been a significant change since the last annual reporting date in the pattern by which an entity expects to consume an asset's future economic benefits, the entity shall review its present depreciation method and, if current expectations differ, change the depreciation method to reflect the new pattern. The entity shall account for the change as a change in an accounting estimate.

Fair value model

229 An entity shall measure an item of property, plant and equipment at fair value at each reporting date with changes in fair value recognized in profit or loss. Paragraphs 11 - 14 provide guidance on determining fair value.

230 If a reliable measure of fair value is no longer available without undue cost or effort for an item of property, plant and equipment measured using the fair value model, the entity shall thereafter account for that item under the cost model in accordance with paragraphs 221 - 228. The carrying amount of the property, plant and equipment on that date becomes its cost. Paragraph 236 requires disclosure of this change. It is a change of circumstances and not a change in accounting policy.

Derecognition

231 An entity shall derecognize an item of property, plant and equipment:
a) on disposal; or
b) when no future economic benefits are expected from its use or disposal.

232 An entity shall recognize the gain or loss on the derecognition of an item of property, plant and equipment in profit or loss when the item is derecognized. The entity shall not classify such gains as revenue.

233 For a straightforward disposal of an item of property, plant and equipment for cash, the date of disposal is usually the date when the risks and rewards of ownership of the asset have passed. For more complex scenarios, an entity determines the date of disposal by applying the criteria in Section 18 - Revenue for recognizing revenue from the sale of goods.

234 An entity shall determine the gain or loss arising from the derecognition of an item of property, plant and equipment as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Disclosures

235 Entities applying the cost model shall disclose the following for each class of property, plant and equipment:

a) the depreciation methods used;
b) the useful lives or the depreciation rates used;
c) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the reporting period; and
d) a reconciliation of the carrying amount at the beginning and the end of the reporting period showing separately:
   i) additions;
   ii) disposals;
   iii) acquisitions through business combinations;
   iv) impairment losses recognized or reversed in profit or loss;
   v) depreciation;
   vi) other changes.

This reconciliation need not be presented for prior periods.

236 Entities applying the fair value model shall disclose the following:

a) whether an independent valuer was involved;
b) the methods and significant assumptions applied in determining the fair value of investment property;
c) for each class of property, plant and equipment, the carrying amount that would have been recognized had the assets been carried under the cost model; and
d) a reconciliation between the carrying amounts of property, plant and equipment at the beginning and end of the period, showing separately:
   i) additions, disclosing separately those additions resulting from acquisitions through business combinations;
   ii) net gains or losses from fair value adjustments;
   iii) transfers to cost model when a reliable measure of fair value is no longer available without undue cost or effort (see paragraph 230);
   iv) transfers to and from inventories and investment property.
   v) other changes.

This reconciliation need not be presented for prior periods.

237 The entity shall also disclose the existence and carrying amounts of property, plant and equipment to which the entity has restricted title or that is pledged as security for liabilities.

Section 13 - Intangible Assets Other than Goodwill

Scope

238 This section applies to accounting for all intangible assets other than goodwill.

Definition

239 An intangible asset is an identifiable non-monetary asset without physical substance. Such an asset is identifiable when:

a) it is separable, i.e., capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability, or
b) it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

General principle for recognizing intangible assets

240 An entity shall recognize an intangible asset as an asset if, and only if:

a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity;
b) the cost or value of the asset can be measured reliably; and
c) the asset does not result from expenditure incurred internally on an intangible item.

241 An entity shall assess the probability of expected future economic benefits using reasonable and supportable assumptions that represent management's best estimate of the economic conditions that will exist over the useful life of the asset.

242 An entity uses judgment to assess the degree of certainty attached to the flow of future economic benefits that are attributable to the use of the asset on the basis of the evidence available at the time of initial recognition, giving greater weight to external evidence.

243 The probability recognition criterion in paragraph 240(a) is always considered satisfied for intangible assets that are separately acquired.

Acquisition as part of a business combination

244 An entity should make an accounting policy choice to account for intangible assets acquired in a business combination either by:

a) separately recognizing the intangible asset as an identifiable asset; or
b) not separately recognizing the intangible asset as an identifiable asset and subsuming into goodwill the value of the intangible asset.

245 For an intangible asset to be separately recognized as an identifiable asset, its acquisition-date fair value should be measured reliably. The acquirer should assign a useful life to the recognized identifiable intangible asset. When the precise length of an intangible asset's useful life is not known, the acquirer should estimate its useful life. If the acquirer cannot reliably measure the acquisition-date fair value of the intangible asset or cannot estimate its useful life, then separate recognition of the intangible asset as an identifiable asset is not permitted and the value of the intangible asset should be subsumed into goodwill.

246 The accounting policy option in paragraph 244 may be made on an individual intangible asset basis. Once made, the accounting policy chosen for a specific intangible asset cannot be subsequently reversed.

Initial measurement

247 An entity shall measure an intangible asset initially at cost.

Separate acquisition

248 The cost of a separately acquired intangible asset comprises:

a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
b) any directly attributable cost of preparing the asset for its intended use.

Acquisition as part of a business combination

249 If an intangible asset acquired in a business combination, the cost of that intangible asset is its fair value at the acquisition date.

Exchanges of assets

250 An intangible asset may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. An entity shall measure the cost of such an intangible asset at fair value unless (a) the exchange transaction lacks commercial substance, or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. In that case, the asset's cost is measured at the carrying amount of the asset given up.

Internally generated intangible items

251 An entity shall recognize expenditure incurred internally on an intangible item, including all expenditure for both research and development activities, as an expense when it is incurred unless it forms part of the cost of another asset that meets the recognition criteria under another section of this Framework.

252 As examples of applying paragraph 251, an entity shall recognize expenditure on the following items as an expense and shall not recognize such expenditure as intangible assets:

a) internally generated brands, customer lists and items similar in substance;
b) start-up activities (i.e., start-up costs), which include establishment costs such as legal and secretarial costs incurred in establishing a legal entity, expenditure to open a new facility or business (i.e., pre-opening costs) and expenditure for starting new operations or launching new products or processes (i.e., pre-operating costs);
c) training activities;
d) advertising and promotional activities;
e) internally generated software; and
f) internally generated goodwill.

253 Paragraph 252 does not preclude recognizing a prepayment as an asset when payment for goods or services has been made in advance of the delivery of the goods or the rendering of the services.

Past expenses not to be recognized as an asset

254 Expenditure on an intangible item that was initially recognized as an expense shall not be recognized at a later date as part of the cost of an asset.

Measurement after recognition

255 An entity shall measure intangible assets at cost less any accumulated amortization and any accumulated impairment losses. The requirements for amortization are set out in this section. The requirements for recognition of impairment are set out in Section 21 - Impairment of Assets.

Amortization over useful life

256 For the purpose of this Framework, all intangible assets shall be considered to have a finite useful life. The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights, but may be shorter depending on the period over which the entity expects to use the asset. If the contractual or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost.

257 If an entity is unable to make a reliable estimate of the useful life of an intangible asset, the life shall be determined based on management's best estimate but shall not exceed ten (10) years.

Amortization period and amortization method

258 An entity shall allocate the depreciable amount of an intangible asset on a systematic basis over its useful life. The amortization charge for each period shall be recognized as an expense, unless another section of this Framework requires the cost to be recognized as part of the cost of an asset such as inventories or property, plant and equipment.

259 Amortization begins when the intangible asset is available for use, i.e., when it is in the location and condition necessary for it to be usable in the manner intended by management. Amortization ceases when the asset is derecognized. The entity shall choose an amortization method that reflects the pattern in which it expects to consume the asset's future economic benefits. If the entity cannot determine that pattern reliably, it shall use the straight-line method.

Residual value

260 An entity shall assume that the residual value of an intangible asset is zero unless:

a) there is a commitment by a third party to purchase the asset at the end of its useful life, or
b) there is an active market for the asset and:
    i) residual value can be determined by reference to that market, and
    ii) it is probable that such a market will exist at the end of the asset's useful life.

Review of amortization period and amortization method

261 Factors such as a change in how an intangible asset is used, technological advancement, and changes in market prices may indicate that the residual value or useful life of an intangible asset has changed since the most recent annual reporting date. If such indicators are present, an entity shall review its previous estimates and, if current expectations differ, amend the residual value, amortization method or useful life. The entity shall account for the change in residual value, amortization method or useful life as a change in an accounting estimate in accordance with Section 5 - Accounting Policies, Estimates and Errors.

Recoverability of the carrying amount - impairment losses

262 To determine whether an intangible asset is impaired, an entity shall apply Section 21 - Impairment of Assets.

263 Section 21 - Impairment of Assets explains when and how an entity reviews the carrying amount of its assets, how it determines the recoverable amount of an asset, and when it recognizes or reverses an impairment loss.

Retirements and disposals

264 An entity shall derecognize an intangible asset, and shall recognize a gain or loss in profit or loss:

a) on disposal, or
b) when no future economic benefits are expected from its use or disposal.

Disclosures

265 An entity shall disclose the following for each class of intangible assets:

a) the useful lives or the amortization rates used.
b) the amortization methods used.
c) the gross carrying amount and any accumulated amortization (aggregated with accumulated impairment losses) at the beginning and end of the reporting period.
d) the line item(s) in the statement of income in which any amortization of intangible assets is included.
e) a reconciliation of the carrying amount at the beginning and end of the reporting period showing separately:
    i) additions
    ii) disposals
    iii) acquisitions through business combinations
    iv) amortization
    v) impairment losses
    vi) other changes

This reconciliation need not be presented for prior periods.

266 The existence and carrying amounts of intangible assets to which the entity has restricted title or that are pledged as security for liabilities.

Section 14 - Business Combinations and Goodwill

Scope

267 This section applies to accounting for business combinations. It provides guidance on identifying the acquirer, measuring the cost of the business combination, and allocating that cost to the assets acquired and liabilities and provisions for contingent liabilities assumed. It also addresses accounting for goodwill both at the time of a business combination and subsequently.

268 This section specifies the accounting for all business combinations except:
a) combinations of entities or businesses under common control. Common control means that all of the combining entities or businesses are ultimately controlled by the same party both before and after the business combination, and that control is not transitory.
b) the formation of a joint venture.
c) acquisition of a group of assets that does not constitute a business.

Business combinations defined

269 A business combination is the bringing together of separate entities or businesses into one reporting entity. The result of nearly all business combinations is that one entity, the acquirer, obtains control of one or more other businesses, the acquiree. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

270 A business combination may be structured in a variety of ways for legal, taxation or other reasons. It may involve the purchase by an entity of the equity of another entity, the purchase of all the net assets of another entity, the assumption of the liabilities of another entity, or the purchase of some of the net assets of another entity that together form one or more businesses.

271 A business combination may be effected by the issue of equity instruments, the transfer of cash, cash equivalents or other assets, or a mixture of these. The transaction may be between the shareholders of the combining entities or between one entity and the shareholders of another entity. It may involve the establishment of a new entity to control the combining entities or net assets transferred, or the restructuring of one or more of the combining entities.

Accounting

272 All business combinations shall be accounted for by applying the purchase method.

273 Applying the purchase method involves the following steps:
a) identifying an acquirer.
b) measuring the cost of the business combination.
c) allocating, at the acquisition date, the cost of the business combination to the assets acquired and liabilities and provisions for contingent liabilities assumed.

Identifying the acquirer

274 An acquirer shall be identified for all business combinations. The acquirer is the combining entity that obtains control of the other combining entities or businesses.

275 Control is the power to govern the financial and operating policies of an entity or business so as to obtain benefits from its activities. Control of one entity by another is described in Section 4 - Subsidiaries.

276 Although it may sometimes be difficult to identify an acquirer, there are usually indications that one exists. For example:

a) if the fair value of one of the combining entities is significantly greater than that of the other combining entity, the entity with the greater fair value is likely to be the acquirer.
b) if the business combination is effected through an exchange of voting ordinary equity instruments for cash or other assets, the entity giving up cash or other assets is likely to be the acquirer.
c) if the business combination results in the management of one of the combining entities being able to dominate the selection of the management team of the resulting combined entity, the entity whose management is able to dominate is likely to be the acquirer.

Cost of a business combination

277 The acquirer shall measure the cost of a business combination as the aggregate of:

(a) the fair values, at the date of acquisition, of assets given, liabilities incurred or assumed and equity instruments issued by the acquirer, in exchange for control of the acquiree; plus
(b) any costs directly attributable to the business combination.

Adjustments to the cost of a business combination contingent on future events

278 When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events, the acquirer shall include the estimated amount of that adjustment in the cost of the combination at the acquisition date if the adjustment is probable and can be measured reliably.

279 However, if the potential adjustment is not recognized at the acquisition date but subsequently becomes probable and can be measured reliably, the additional consideration shall be treated as an adjustment to the cost of the combination.

Allocating the cost of a business combination to the assets acquired and liabilities and contingent liabilities assumed

280 The acquirer shall, at the acquisition date, allocate the cost of a business combination by recognizing the acquiree's identifiable assets and liabilities and a provision for those contingent liabilities that satisfy the recognition criteria in paragraph 281 at their fair values at that date. Any difference between the cost of the business combination and the acquirer's interest in the net fair value of the identifiable assets, liabilities and provisions for contingent liabilities so recognized shall be accounted for in accordance with paragraphs 285 - 287 (as goodwill or so-called 'negative goodwill'). Any non-controlling interest in the acquiree is measured at the non-controlling interest's proportionate share of the recognized amounts of the acquiree's identifiable net assets.

281 The acquirer shall recognize separately the acquiree's identifiable assets, liabilities and contingent liabilities at the acquisition date only if they satisfy the following criteria at that date:

a) In the case of an asset other than an intangible asset, it is probable that any associated future economic benefits will flow to the acquirer, and its fair value can be measured reliably.
b) In the case of a liability other than a contingent liability, it is probable that an outflow of resources will be required to settle the obligation, and its fair value can be measured reliably.
c) In the case of a contingent liability, its fair value can be measured reliably.
d) In the case of an intangible asset, its fair value and useful life can be estimated reliably in accordance with Section 13 - Intangible Assets Other than Goodwill.

282 The acquirer's statement of income shall incorporate the acquiree's profits and losses after the acquisition date by including the acquiree's income and expenses based on the cost of the business combination to the acquirer. For example, depreciation expense included after the

acquisition date in the acquirer's statement of income that relates to the acquiree's depreciable assets shall be based on the fair values of those depreciable assets at the acquisition date, i.e., their cost to the acquirer.

283 Application of the purchase method starts from the acquisition date, which is the date on which the acquirer obtains control of the acquiree. Because control is the power to govern the financial and operating policies of an entity or business so as to obtain benefits from its activities, it is not necessary for a transaction to be closed or finalized at law before the acquirer obtains control. All pertinent facts and circumstances surrounding a business combination shall be considered in assessing when the acquirer has obtained control.

284 If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall recognize in its financial statements provisional amounts for the items for which the accounting is incomplete. Within twelve months after the acquisition date, the acquirer shall retrospectively adjust the provisional amounts recognized as assets and liabilities at the acquisition date (i.e., account for them as if they were made at the acquisition date) to reflect new information obtained. Beyond twelve months after the acquisition date, adjustments to the initial accounting for a business combination shall be recognized only to correct an error in accordance with Section 5 - Accounting Policies, Estimates and Errors.

Goodwill

285 The acquirer shall, at the acquisition date:
a) recognize goodwill acquired in a business combination as an asset, and
b) initially measure that goodwill at its cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

286 After initial recognition, the acquirer shall measure goodwill acquired in a business combination at cost less accumulated amortization and accumulated impairment losses:
a) An entity shall amortize goodwill on a systematic basis over its useful life. The life shall be determined based on management's best estimate but shall not exceed ten (10) years.
b) An entity shall follow Section 21 - Impairment of Assets for recognizing and measuring the impairment of goodwill.

Excess over cost of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities

287 If the acquirer's interest in the net fair value of the identifiable assets, liabilities and provisions for contingent liabilities exceeds the cost of the business combination (sometimes referred to as 'negative goodwill' or 'gain from a bargain purchase'), the acquirer shall recognize such excess immediately in profit or loss.

Disclosures

For business combination(s) effected during the reporting period

288 For each business combination that was effected during the period, the acquirer shall disclose the following:
a) the names and descriptions of the combining entities or businesses.
b) the acquisition date.
c) the percentage of voting equity instruments acquired.
d) the cost of the combination and a description of the components of that cost (such as cash, equity instruments and debt instruments).

e) the amounts recognized at the acquisition date for each class of the acquiree's assets, liabilities and contingent liabilities, including goodwill.
f) the amount of any excess recognized in profit or loss in accordance with paragraph 287 and the line item in the statement of income in which the excess is recognized.
g) If the initial accounting for business combination is incomplete (see paragraph 284), the fact that the amounts have been determined only provisionally.

For all business combinations

289 An acquirer shall disclose a reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period, showing separately:

a) changes arising from new business combinations
b) amortization
c) impairment losses
d) disposals of previously acquired businesses.
e) other changes

This reconciliation need not be presented for prior periods.

Section 15 - Leases

Scope

290 A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

291 Some arrangements do not take the legal form of a lease but convey rights to use assets in return for payments. Such arrangements are in substance leases of assets, and they should be accounted for under this section.

Recognition and measurement

292 A lessee shall recognize all lease payments as expense in profit or loss in the period in which they are incurred.

293 A lessor shall recognize all lease receipts as income in profit or loss in the period in which they are earned.

Disclosures for leases

294 Lessors and lessees shall make the following disclosures for leases:

a) lease receipts or payments recognized in profit or loss; and
b) a general description of the lease's significant leasing arrangements including, for example, information about contingent rent, renewal, and purchase options.

Section 16 - Provisions and Contingencies

Scope

295 This section applies to all provisions (i.e., liabilities of uncertain timing or amount), contingent liabilities and contingent assets except those provisions covered by other sections of this Framework. These include provisions relating to:

a) employee benefit obligations (Section 22 - Employee Benefits); and
b) income tax (Section 23 - Income Tax).

296 The requirements in this Section do not apply to executory contracts. Executory contracts are contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent.

297 The word 'provision' is sometimes used in the context of such items as depreciation, impairment of assets, and uncollectible receivables. Those are adjustments of the carrying amounts of assets, rather than recognition of liabilities, and therefore are not covered by this Section.

Initial recognition

298 An entity shall recognize a provision only when:

a) the entity has an obligation at the reporting date as a result of a past event;
b) it is probable (i.e., more likely than not) that the entity will be required to transfer economic benefits in settlement; and
c) the amount of the obligation can be estimated reliably.

299 The entity shall recognize the provision as a liability in the statement of financial position and shall recognize the amount of the provision as an expense, unless another section of this Framework requires the cost to be recognized as part of the cost of an asset such as inventories or property, plant and equipment.

300 The condition in paragraph 298(a) (obligation at the reporting date as a result of a past event) means that a loss event has already occurred and the entity has no realistic alternative to settling the obligation. This can happen either when the entity has a legal obligation that can be enforced by law or when a past event (for example, a history of settling similar obligations in the past) has resulted in other parties having a valid expectation that the entity will settle the obligation. Obligations that will arise from the entity's future actions (i.e., the future conduct of its business) do not satisfy the condition in paragraph 298(a), no matter how likely they are to occur and even if they are contractual. To illustrate, because of commercial pressures or legal requirements, an entity may intend or need to carry out expenditure to operate in a particular way in the future (for example, by fitting smoke filters in a particular type of factory). Because the entity can avoid the future expenditure by its future actions, for example by changing its method of operation or selling the factory, it has no present obligation for that future expenditure, and no provision is recognized.

301 An entity shall not recognize a provision for future operating losses. Expected future losses do not meet the definition of a liability. The expectation of future operating losses may be an indicator that one or more assets are impaired.

Initial measurement

302 An entity shall measure a provision at the best estimate of the amount required to settle the obligation at the reporting date. The best estimate is the amount an entity would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time.

a) When the provision involves a large population of items, the estimate of the amount reflects the weighting of all possible outcomes by their associated probabilities. Where there is a continuous range of possible outcomes, and each point in that range is as likely as any other, the mid-point of the range is used.

b) When the provision arises from a single obligation, the individual most likely outcome may be the best estimate of the amount required to settle the obligation. However, even in such a case, the entity considers other possible outcomes. When other possible outcomes are either mostly higher or mostly lower than the most likely outcome, the best estimate will be a higher or lower amount than the single most likely outcome.

303 When the effect of the time value of money is material, the amount of a provision shall be the present value of the amount expected to be required to settle the obligation. The discount rate (or rates) shall be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money. The risks specific to the liability should be reflected either in the discount rate or in the estimation of the amounts required to settle the obligation, but not both.

304 An entity shall exclude gains from the expected disposal of assets from the measurement of a provision.

305 When some or all of the amount required to settle a provision may be reimbursed by another party (for example, through an insurance claim), the entity shall recognize the reimbursement as a separate asset only when it is virtually certain that the entity will receive the reimbursement on settlement of the obligation. The amount recognized for the reimbursement shall not exceed the amount of the provision. The reimbursement receivable shall be presented in the statement of financial position as an asset and shall not be offset against the provision. In the statement of income, the entity may offset any reimbursement from another party against the expense relating to the provision.

Subsequent measurement

306 An entity shall charge against a provision only those expenditures for which the provision was originally recognized.

307 An entity shall review provisions at each reporting date and adjust them to reflect the current best estimate of the amount that would be required to settle the obligation at that reporting date. Any adjustments to the amounts previously recognized shall be recognized in profit or loss unless the provision was originally recognized as part of the cost of an asset (see paragraph 299). When a provision is measured at the present value of the amount expected to be required to settle the obligation, the subsequent reduction in the present value that results from the passing of time shall be recognized in profit or loss in the period it arises.

Contingent liabilities

308 A contingent liability is either a possible but uncertain obligation or a present obligation that is not recognized because it fails to meet one or both of the conditions (b) and (c) in paragraph 298. An entity shall not recognize a contingent liability as a liability. When an entity is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability.

Contingent assets

309 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 entity. An entity shall not recognize a contingent asset as an asset. When the flow of future economic benefits to the entity is virtually certain, then the related asset is not a contingent asset, and its recognition is appropriate.

Disclosures

Disclosures about provisions

310 For each class of provision, an entity shall disclose all of the following:

a) a reconciliation showing:
    i) the carrying amount at the beginning and end of the period;
    ii) additions during the period, including adjustments that result from changes in measuring the discounted amount;
    iii) amounts charged against the provision during the period; and
    iv) unused amounts reversed during the period;
b) a brief description of the nature of the obligation and the expected amount and timing of any resulting payments;
c) an indication of the uncertainties about the amount or timing of those outflows; and
d) the amount of any expected reimbursement, stating the amount of any asset that has been recognized for that expected reimbursement.

Comparative information for prior periods is not required.

Disclosures about contingent liabilities

311 Unless the possibility of any outflow of resources in settlement is remote, an entity shall disclose, for each class of contingent liability at the reporting date, a brief description of the nature of the contingent liability and, when practicable:

a) an estimate of its financial effect, measured in accordance with paragraphs 302 - 307;
b) an indication of the uncertainties relating to the amount or timing of any outflow; and
c) the possibility of any reimbursement.

If after making every reasonable effort to do so, an entity cannot make one or more of these disclosures, that fact shall be stated.

Disclosures about contingent assets

312 If an inflow of economic benefits is probable (more likely than not) but not virtually certain, an entity shall disclose a description of the nature of the contingent assets at the end of the reporting period, and, when practicable without undue cost or effort, an estimate of their financial effect, measured using the principles set out in paragraphs 302 - 307. If after making every reasonable effort to do so, an entity cannot make this disclosure, that fact shall be stated.

Prejudicial disclosures

313 In extremely rare cases, disclosure of some or all of the information required by paragraphs 310 - 312 can be expected to seriously prejudice the position of the entity in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, an entity need not disclose the information, but shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.

Section 17 - Equity

Classification

314 Equity is the residual interest in the assets of an entity after deducting all its liabilities. A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of cash or other resources (for example, an instrument that obligates the entity to pay cash to another party or gives another party the right to demand cash from the entity is a liability of the entity). Equity includes investments by the owners of the entity, plus additions to those investments earned through profitable operations and retained for use in the entity's operations, minus reductions to owners' investments as a result of unprofitable operations and distributions to owners.

315 Members' shares in co-operative entities and similar instruments are equity if:

a) the co-operative entity has an unconditional right to refuse redemption of the members' shares; or
b) redemption is unconditionally prohibited by local law, regulation or the entity's governing charter.

Original issue of shares or other equity instruments

316 An entity shall recognize the issue of shares or other equity instruments as equity when it issues those instruments and when another party is obliged to provide cash or other resources to the entity in exchange for the instruments:

a) if the equity instruments are issued before the entity receives the cash or other resources, the entity shall present the amount receivable as an offset to equity in its statement of financial position, not as an asset.
b) if the entity receives the cash or other resources before the equity instruments are issued, and the entity cannot be required to repay the cash or other resources received, the entity shall recognize the corresponding increase in equity to the extent of consideration received.
c) to the extent that the equity instruments have been subscribed for but not issued, and the entity has not yet received the cash or other resources, the entity shall not recognize an increase in equity.

317 An entity shall measure the equity instruments at the amount of cash received. If payment is deferred and the time value of money is material, the initial measurement shall be on a present value basis. If the equity instruments are exchanged for resources other than cash, the equity instruments shall be recognized at the fair value of those resources.

318 An entity shall account for the transaction costs (i.e., incremental costs that are directly attributable to the issue) of an equity transaction as a deduction from equity, net of any related income tax benefit.

Distributions to owners

319 An entity shall reduce equity for the amount of distributions to its owners (holders of its equity instruments), net of any related income tax benefits.

320 Sometimes an entity distributes assets other than cash as dividends to its owners. When an entity declares such a distribution and has an obligation to distribute non-cash assets to its owners, it shall recognize a liability. It shall measure the liability at the fair value of the assets to be distributed. At the end of each reporting period and at the date of settlement, the entity shall review and adjust the carrying amount of the dividend payable to reflect changes in the fair value of the assets to be distributed, with any changes recognized in equity as adjustments to the

amount of the distribution. When an entity settles the dividend payable, it shall recognize in profit or loss any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable.

The requirement does not apply to the distribution of a non-cash asset that is ultimately controlled by the same party or parties before and after the distribution. This exclusion applies to the separate, individual, consolidated, and equity-accounted financial statements of an entity that makes the distribution

Section 18 - Revenue

Scope

321 Revenue is the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants. This section shall be applied in accounting for revenue arising from the following transactions and events:

a) the sale of goods (whether produced by the entity for the purpose of sale or purchased for resale);
b) the rendering of services;
c) construction contracts in which the entity is the contractor. A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use;
d) deposits or receivables yielding interest; and
e) dividends from investments in shares of stock that are not accounted for using the equity method.

Measurement of revenue

322 An entity shall measure revenue at the fair value of the consideration received or receivable. The fair value of the consideration received or receivable is after deducting the amount of any trade discounts, prompt settlement discounts and volume rebates allowed by the entity. The fair value also takes into account the time value of money.

323 An entity shall include in revenue only the gross inflows of economic benefits received and receivable by the entity on its own account. An entity shall exclude from revenue all amounts collected on behalf of third parties, for example sales taxes, goods and services taxes and value added taxes collected on behalf of a government. In an agency relationship, an entity shall include in revenue only the amount of its commission. The amounts collected on behalf of the principal are not revenue of the entity.

Deferred payment

324 When the inflow of cash or cash equivalents is deferred, and the arrangement constitutes in effect a financing transaction, the fair value of the consideration is the present value of all future receipts determined using an imputed rate of interest. A financing transaction arises when, for example, an entity provides interest-free credit to the buyer or accepts a note receivable bearing a below-market interest rate from the buyer as consideration for the sale of goods. The imputed rate of interest is the more clearly determinable of either:

a) the prevailing rate for a similar instrument of an issuer with a similar credit rating; or
b) a rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

An entity shall recognize the difference between the present value of all future receipts and the nominal amount of the consideration as interest revenue in accordance with paragraph 338 and Section 6 - Basic Financial Instruments.

Identification of the revenue transaction

325 An entity usually applies the revenue recognition criteria in this Section separately to each transaction. However, an entity applies the recognition criteria to the separately identifiable components of a single transaction when necessary to reflect the substance of the transaction. For example, an entity applies the recognition criteria to the separately identifiable components of a single transaction when the selling price of a product includes an identifiable amount for subsequent servicing. Conversely, an entity applies the recognition criteria to two or more transactions together when they are linked in such a way that the commercial effect cannot be understood without reference to the series of transactions as a whole. For example, an entity applies the recognition criteria to two or more transactions together when it sells goods and, at the same time, enters into a separate agreement to repurchase the goods at a later date, thus negating the substantive effect of the transaction.

Sale of goods

326 An entity shall recognize revenue from the sale of goods when all the following conditions are satisfied:

a) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods;
b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
c) the amount of revenue can be measured reliably;
d) it is probable (i.e., more likely than not) that the economic benefits associated with the transaction will flow to the entity; and
e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

For a straightforward sale of goods for cash or on credit, revenue is generally recognized on the date when the goods are delivered to the customer.

327 The assessment of when an entity has transferred the significant risks and rewards of ownership to the buyer requires an examination of the circumstances of the transaction. In most cases, the transfer of the risks and rewards of ownership coincides with the transfer of the legal title or the passing of possession to the buyer. This is the case for most retail sales. An entity does not recognize revenue if it retains significant risks and rewards of ownership, for example, if the receipt of the revenue from a particular sale is contingent on the buyer selling the goods. If an entity retains only an insignificant risk of ownership, the transaction is a sale and the entity recognizes the revenue. For example, an entity recognizes revenue on the sale of goods if it offers a refund if the customer finds the goods faulty or is not satisfied for other reasons, and the entity can estimate the returns reliably. In such cases, the entity recognizes a provision for returns in accordance with Section 16 - Provisions and Contingencies.

Rendering of services

328 When the outcome of a transaction involving the rendering of services can be estimated reliably, an entity shall recognize revenue associated with the transaction by reference to the stage of completion of the transaction at the end of the reporting period (sometimes referred to as the percentage of completion method). The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

a) the amount of revenue can be measured reliably;
b) it is probable that the economic benefits associated with the transaction will flow to the entity;
c) the stage of completion of the transaction at the end of the reporting period can be measured reliably; and
d) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Paragraphs 332 - 337 provide guidance for applying the percentage of completion method.

329 When services are performed by an indeterminate number of acts over a specified period of time, an entity recognizes revenue on a straight-line basis over the specified period unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other act, the entity postpones recognition of revenue until the significant act is executed.

330 When the outcome of the transaction involving the rendering of services cannot be estimated reliably, an entity shall recognize revenue only to the extent of the expenses recognized that are recoverable.

Construction contracts

331 When the outcome of a construction contract can be estimated reliably, an entity shall recognize contract revenue and contract costs associated with the construction contract as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of the reporting period (often referred to as the percentage of completion method). Reliable estimation of the outcome requires reliable estimates of the stage of completion, future costs and collectability of billings. Paragraphs 332 - 337 provide guidance for applying the percentage of completion method.

Percentage of completion method

332 This method is used to recognize revenue from rendering services (see paragraphs 328 - 330) and from construction contracts (see paragraph 331). An entity shall review and, when necessary, revise the estimates of revenue and costs as the service transaction or construction contract progresses.

333 An entity shall determine the stage of completion of a transaction or contract using the method that most reliably measures the work performed. Possible methods include:

a) the proportion that costs incurred for work performed to date bear to the estimated total costs. Costs incurred for work performed to date do not include costs relating to future activity, such as for materials or prepayments;
b) surveys of work performed; and
c) completion of a physical proportion of the service transaction or contract work.

Progress payments and advances received from customers often do not reflect the work performed.

334 An entity shall recognize costs that relate to future activity on the transaction or contract, such as for materials or prepayments, as an asset if it is probable that the costs will be recovered.

335 An entity shall recognize as an expense immediately any costs whose recovery is not probable.

336 When the outcome of a construction contract cannot be estimated reliably:

a) an entity shall recognize revenue only to the extent of contract costs incurred that it is probable will be recoverable; and
b) the entity shall recognize contract costs as an expense in the period in which they are incurred.

337 If the collectibility of an amount already recognized as contract revenue is no longer probable, the entity shall recognize the uncollectible amount as an expense rather than as an adjustment of the amount of contract revenue.

Interest and dividends

338 Interest shall be recognized using the effective interest method as described in paragraphs 104 - 109. Dividends shall be recognized when the shareholder's right to receive payment is established.

Disclosures

General disclosures about revenue

339 An entity shall disclose:

a) the accounting policies adopted for the recognition of revenue, including the methods adopted to determine the stage of completion of transactions involving the rendering of services; and
b) the amount of each category of revenue recognized during the period, showing separately, at a minimum, revenue arising from:
    i) the sale of goods;
    ii) the rendering of services;
    iii) interest;
    iv) commissions; and
    v) any other significant types of revenue.

Disclosures relating to revenue from construction contracts

340 An entity shall disclose the following:

a) the amount of contract revenue recognized as revenue in the period;
b) the methods used to determine the contract revenue recognized in the period; and
c) the methods used to determine the stage of completion of contracts in progress.

341 An entity shall present:

a) the gross amount due from customers for contract work, as an asset; and
b) the gross amount due to customers for contract work, as a liability.

Section 19 - Borrowing Costs

Scope

342 Borrowing costs are interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs include interest expense calculated using the effective interest method as described in Section 6 - Basic Financial Instruments.

Recognition

343 An entity shall recognize all borrowing costs as an expense in profit or loss in the period in which they are incurred.

Disclosures

344 Disclosure requirements for financial liabilities are provided in Section 6 - Basic Financial Instruments.

Section 20 - Share-based payment

Scope

345 This section specifies the accounting for all share-based payment transactions including:

a) equity-settled share-based payment transactions, in which the entity acquires goods or services as consideration for equity instruments of the entity (including shares or share options);
b) cash-settled share-based payment transactions, in which the entity acquires goods or services by incurring liabilities to the supplier of those goods or services for amounts that are based on the price (or value) of the entity's shares or other equity instruments of the entity; and
c) transactions in which the entity receives or acquires goods or services and the terms of the arrangement provide either the entity or the supplier of those goods or services with a choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments.

Recognition

346 An entity shall recognize the goods or services received or acquired in a share-based payment transaction when it obtains the goods or as the services are received. The entity shall recognize a corresponding increase in equity if the goods or services were received in an equity-settled share-based payment transaction, or a liability if the goods or services were acquired in a cash-settled share-based payment transaction.

347 When the goods or services received or acquired in a share-based payment transaction do not qualify for recognition as assets, the entity shall recognize them as expenses.

Recognition when there are vesting conditions

348 If the share-based payments granted to employees vest immediately, the employee is not required to complete a specified period of service before becoming unconditionally entitled to those share-based payments. In the absence of evidence to the contrary, the entity shall presume that services rendered by the employee as consideration for the share-based payments have been received. In this case, on grant date, the entity shall recognize the services received in full, with a corresponding increase in equity or liabilities.

349 If the share-based payments do not vest until the employee completes a specified period of service, the entity shall presume that the services to be rendered by the counterparty as consideration for those share-based payments will be received in the future, during the vesting period. The entity shall account for those services as they are rendered by the employee during the vesting period, with a corresponding increase in equity or liabilities.

Measurement of equity-settled share-based payment transactions

Measurement principle

350 For equity-settled share-based payment transactions, an entity shall measure the goods or services received, and the corresponding increase in equity, with reference to the net asset value of the equity instruments granted. Net asset value is derived by dividing the total assets of the entity less any liabilities, by the number of shares outstanding at measurement date.

351 For transactions with employees (including others providing similar services), the net asset value of the equity instruments shall be measured at grant date. For transactions with parties other than employees, the measurement date is the date when the entity obtains the goods or the counterparty renders service.

352 A grant of equity instruments might be conditional on employees satisfying specified vesting conditions related to service or performance. For example, a grant of shares or share options to an employee is typically conditional on the employee remaining in the entity's employ for a specified period of time. There might be performance conditions that must be satisfied, such as the entity achieving a specified growth in profit (a non-market vesting condition) or a specified increase in the entity's share price (a market vesting condition). All vesting conditions related to solely employee service or to a non-market performance condition shall be taken into account when estimating the number of equity instruments expected to vest. Subsequently, the entity shall revise that estimate, if necessary, if new information indicates that the number of equity instruments expected to vest differs from previous estimates. On vesting date, the entity shall revise the estimate to equal the number of equity instruments that ultimately vested. All market vesting conditions and non-vesting conditions shall be taken into account when estimating the fair value of the shares or share options at the measurement date, with no subsequent adjustment irrespective of the outcome.

Cancellations and settlements

353 An entity shall account for a cancellation or settlement of an equity-settled share-based payment award as an acceleration of vesting, and therefore shall recognize immediately the amount that otherwise would have been recognized for services received over the remainder of the vesting period.

Cash-settled share-based payment transactions

354 For cash-settled share-based payment transactions, an entity shall measure the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the entity shall remeasure the fair value of the liability at each reporting date and at the date of settlement, with any changes in fair value recognized in profit or loss for the period.

Group plans

355 If a share-based payment award is granted by a parent entity to the employees of one or more subsidiaries in the group, and the parent presents consolidated financial statements using either the full IFRS/PFRS or IFRS/PFRS for SME, such subsidiaries are permitted to recognize and measure share-based payment expense (and the related capital contribution by the parent) on the basis of a reasonable allocation of the expense recognized for the group.

Disclosures

356 An entity shall disclose the following information about the nature and extent of share-based payment arrangements that existed during the period:

a) a description of each type of share-based payment arrangement that existed at any time during the period, including the general terms and conditions of each arrangement, such as vesting requirements, the maximum term of options granted, and the method of settlement (e.g., whether in cash or equity). An entity with substantially similar types of share-based payment arrangements may aggregate this information.
b) the number and weighted average exercise prices of share options for each of the following groups of options:
   i. outstanding at the beginning of the period.
   ii. granted during the period.
   iii. forfeited during the period.
   iv. exercised during the period.
   v. expired during the period.
   vi. outstanding at the end of the period.
   vii. exercisable at the end of the period.

357 For cash-settled share-based payment arrangements, an entity shall disclose information about how the liability was measured.

358 For share-based payment arrangements that were modified during the period, an entity shall disclose an explanation of those modifications.

359 If the entity is part of a group share-based payment plan, and it recognizes and measures its share-based payment expense on the basis of a reasonable allocation of the expense recognized for the group, it shall disclose that fact and the basis for the allocation.

360 An entity shall disclose the following information about the effect of share-based payment transactions on the entity's profit or loss for the period and on its financial position:

a) the total expense recognized in profit or loss for the period; and
b) the total carrying amount at the end of the period for liabilities arising from share-based payment transactions.

Section 21 - Impairment of Assets

Scope

361 An impairment loss occurs when the carrying amount of an asset exceeds its recoverable amount. This Section shall be applied in accounting for the impairment of all assets other than the following, for which other sections of this Framework establish impairment requirements:

a) assets arising from employee benefits (see Section 22 - Employee Benefits); and
b) financial assets within the scope of Section 6 - Basic Financial Instruments.

Impairment of inventories

Lower of cost or market (LCM)

362 An entity shall assess at each reporting date whether any inventories are impaired. The entity shall make the assessment by comparing the carrying amount of each item of inventory (or group of similar items) with its market value. If an item of inventory (or group of similar items) is impaired, the entity shall reduce the carrying amount of the inventory (or the group) to its market value. Market value is determined as the probable selling price to willing buyers as of reporting date. That reduction is an impairment loss and it is recognized immediately in profit or loss.

363 If, after making every reasonable effort to do so, an entity is unable to determine the market value for inventories item by item, the entity may group items of inventory relating to the same product line that have similar purposes or end uses and are produced and marketed in the same geographical area for the purpose of assessing impairment.

Reversal of impairment

364 An entity shall make a new assessment of market value at each subsequent reporting date. When the circumstances that previously caused inventories to be impaired no longer exist, or when there is clear evidence of an increase in market value because of changed economic circumstances, the entity shall reverse the amount of the impairment (i.e., the reversal is limited to the amount of the original impairment loss) so that the new carrying amount is the lower of the cost and the revised market value.

Impairment of assets other than inventories

General principles

365 If, and only if, the recoverable amount of an asset is less than its carrying amount, the entity shall reduce the carrying amount of the asset to its recoverable amount. That reduction is an impairment loss. Paragraphs 371 - 380 provide guidance on measuring recoverable amount.

366 An entity shall recognize an impairment loss immediately in profit or loss.

Indicators of impairment

367 An entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset. If there is no indication of impairment, it is not necessary to estimate the recoverable amount.

368 If it is not possible to estimate the recoverable amount of the individual asset, an entity shall estimate the recoverable amount of the cash-generating unit to which the asset belongs. This may be the case because measuring recoverable amount requires forecasting cash flows, and sometimes individual assets do not generate cash flows by themselves. An asset's cash-generating unit is the smallest identifiable group of assets that includes the asset and generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

369 In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

External sources of information

a) During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.
b) Significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.
c) Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect materially the discount rate used in calculating an asset's value in use and decrease the asset's fair value less costs to sell.
d) The carrying amount of the net assets of the entity is more than the estimated fair value of the entity as a whole (such an estimate may have been made, for example, in relation to the potential sale of part or all of the entity).

Internal sources of information

a) Evidence of obsolescence or physical damage of an asset is available.
b) Significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, and plans to dispose of an asset before the previously expected date.
c) Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected. In this context economic performance includes operating results and cash flows.

370 If there is an indication that an asset may be impaired, this may indicate that the entity should review the remaining useful life, the depreciation method or the residual value for the asset and adjust it in accordance with the section of this Framework applicable to the asset, even if no impairment loss is recognized for the asset.

Measuring recoverable amount

371 The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. If it is not possible to estimate the recoverable amount of an individual asset, references in paragraphs 372 - 380 to an asset should be read as references also to an asset's cash-generating unit.

372 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 no longer necessary to estimate the other amount.

373 If there is no reason to believe that an asset's value in use materially exceeds its fair value less costs to sell, the asset's fair value less costs to sell may be used as its recoverable amount. This will often be the case for an asset that is held for disposal.

Fair value less costs to sell

374 Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. (See guidance in Section 2 - Concepts and Pervasive Principles).

Value in use

375 Value in use is the present value of the future cash flows expected to be derived from an asset (or cash-generating unit). This present value calculation involves the following steps:
a) estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal; and
b) applying the appropriate discount rate to those future cash flows.

376 The following elements shall be reflected in the calculation of an asset's value in use:
a) an estimate of the future cash flows the entity expects to derive from the asset;
b) expectations about possible variations in the amount or timing of those future cash flows;
c) the time value of money, represented by the current market risk-free rate of interest;
d) the price for bearing the uncertainty inherent in the asset; and
e) other factors, such as illiquidity, that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset.

377 In measuring value in use, estimates of future cash flows shall include:
a) projections of cash inflows from the continuing use of the asset;
b) projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
c) net cash flows, if any, expected to be received (or paid) for the disposal of the asset at the end of its useful life in an arm's length transaction between knowledgeable, willing parties.

The entity may wish to use any recent financial budgets or forecasts to estimate the cash flows, if available. To estimate cash flow projections beyond the period covered by the most recent budgets or forecasts an entity may wish to extrapolate the projections based on the budgets or forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified.

378 Estimates of future cash flows shall not include:
a) cash inflows or outflows from financing activities; or
b) income tax receipts or payments.

379 Future cash flows shall be estimated for the asset in its current condition. Estimates of future cash flows shall not include estimated future cash inflows or outflows that are expected to arise from:
a) a future restructuring to which an entity is not yet committed; or
b) improving or enhancing the asset's performance.

380 The discount rate (rates) used in the present value calculation shall be a pre-tax rate (rates) that reflect(s) current market assessments of:
a) the time value of money; and
b) the risks specific to the asset for which the future cash flow estimates have not been adjusted.

The discount rate(s) used to measure an asset's value in use shall not reflect risks for which the future cash flow estimates have been adjusted, to avoid double-counting.

Recognizing and measuring an impairment loss for a cash-generating unit

381 An impairment loss shall be recognized for a cash-generating unit if, and only if, the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss shall be allocated first to the goodwill and then pro-rated to the other assets of the unit on the basis of the carrying amount of each asset in the cash-generating unit.

382 However, an entity shall not reduce the carrying amount of any asset in the cash-generating unit below the highest of:

a) its fair value less costs to sell (if determinable);
b) its value in use (if determinable); and
c) zero.

383 Any excess amount of the impairment loss that cannot be allocated to an asset because of the restriction in paragraph 382 shall be allocated to the other assets of the unit pro rata on the basis of the carrying amount of those other assets.

Reversal of an impairment loss

384 An entity shall assess at each reporting date whether there is any indication that an impairment loss recognized in prior periods may no longer exist or may have decreased. Indications that an impairment loss may have decreased or may no longer exist are generally the opposite of those set out in paragraph 369. If any such indication exists, the entity shall determine whether all or part of the prior impairment loss should be reversed.

Compensation for impairment

385 An entity shall include in profit or loss compensation from third parties for assets that were impaired, lost or given up only when the compensation becomes a receivable.

Disclosures

386 An entity shall disclose the amount of impairment loss recognized in profit or loss during the period and the line item in the statement of income in which the impairment loss is included for each asset that was tested for impairment in accordance with this Section.

Section 22 - Employee Benefits

General recognition principle for all employee benefits

387 Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees, including directors and management. An entity shall recognize the cost of all employee benefits to which its employees have become entitled as a result of service rendered to the entity during the reporting period:

a) as a liability, after deducting amounts that have been paid directly to the employees; and
b) as an expense, unless another section of this Framework requires the cost to be recognized as part of the cost of an asset.

In other words, employee benefits are recognized when the employee earns those benefits, not when those benefits are paid in cash.

Short-term employee benefits

388 Short-term employee benefits are employee benefits (other than termination benefits) that are wholly due within twelve months after the end of the period in which the employees render the related service, for example, wages, salaries, annual bonus payable, social security contributions and non-monetary benefits such as cars. When an employee has rendered service to an entity during the reporting period, the entity shall measure the amounts recognized in accordance with paragraph 387 at the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

389 An entity may compensate employees for absence for various reasons including annual vacation leave and sick leave. Some short-term compensated absences accumulate - they can be carried forward and used in future periods if the employee does not use the current period's entitlement in full. An entity shall recognize the expected cost of accumulating compensated absences when the employees render service that increases their entitlement to future compensated absences. The entity shall measure the expected cost of accumulating compensated absences at the undiscounted additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period. The entity shall present this amount as a current liability at the reporting date.

390 An entity shall recognize the cost of other (non-accumulating) compensated absences when the absences occur. The entity shall measure the cost of non-accumulating compensated absences at the undiscounted amount of salaries and wages paid or payable for the period of absence.

391 An entity shall recognize the expected cost of profit-sharing and bonus payments only when:

a) as a result of past events, the entity either has:
   i) a present legal obligation; or
   ii) an obligation arising from the entity's past actions (for example, history of making payments) that has created a valid expectation in other parties that the entity will make such payments (this means the entity has no realistic alternative but to make the payments); and
b) a reliable estimate of the obligation can be made.

Post-employment benefit plans

392 Post-employment benefits are employee benefits (other than termination benefits) that are payable after the completion of employment, for example, retirement benefits, such as pensions. Arrangements whereby an entity provides post-employment benefits are post-employment benefit plans.

393 An entity should account for the post-employment benefit plan using the accrual approach in accordance with the minimum retirement benefits required under Republic Act (RA) No. 7641, otherwise known as The Philippine Retirement Pay Law, or company policy if superior than that provided by RA 7641. Accrual approach is applied by calculating the expected liability as of reporting date using the current salary of the entitled employees and the employees' years of service, without consideration of future changes in salary rates and service periods. The entity shall recognize the liability for such post-employment benefit plan at the net total of the following amounts:

a) the accrued amount of the retirement benefits at the reporting date; less
b) the fair value of plan assets (if any) at the reporting date out of which the obligations are to be settled directly.

Other long-term employee benefits

394 Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not wholly due within twelve months after the end of the period in which the employees render the related service, for example, long-service benefits, long-term compensated absences such as long service or sabbatical leave, and bonuses payable twelve months or more after the end of the period in which the employees render the related service.

395 An entity shall recognize a liability for other long-term employee benefits measured at the net total of the following amounts:

a) the present value of the benefit obligation at the reporting date; less
b) the fair value of plan assets (if any) at the reporting date out of which the obligations are to be settled directly.

396 An entity shall recognize the change in the liability in profit or loss as an expense unless another section of this Framework requires the cost to be recognized as part of the cost of an asset such as inventories or property, plant and equipment.

Termination benefits

397 Termination benefits are employee benefits payable as a result of either an entity's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept voluntary redundancy in exchange for those benefits. Because termination benefits do not provide an entity with future economic benefits, an entity shall recognize them as an expense in profit or loss immediately. This will normally be on payment of the benefits unless formal plans are developed in advance.

Disclosures

Disclosures about post-employment benefit plans

398 An entity shall disclose the amount recognized in profit or loss as an expense for post-employment benefit plans, the amount of its obligation, and the extent of funding at the reporting date.

Disclosures about other long-term benefits

399 For each category of other long-term benefits that an entity provides to its employees, the entity shall disclose the nature of the benefit, the amount of its obligation and the extent of funding at the reporting date.

Disclosures about termination benefits

400 For each category of termination benefits that an entity provides to its employees, the entity shall disclose the nature of the benefit and its accounting policy.

Section 23 - Income Tax

Scope

401 This section establishes principles for the recognition, measurement, presentation, and disclosure of income taxes in an entity's financial statements.

Accounting policy

402 An entity should make an accounting policy choice to account for income taxes using either
a) the taxes payable method or
b) the deferred income taxes method.

Taxes payable method

403 Under the taxes payable method, an entity shall recognize a current tax liability for tax payable on taxable profit for the current and past periods. If the amount paid for the current and past periods exceeds the amount payable for those periods, the entity shall recognize the excess as a current tax asset.

404 An entity shall measure its current tax liabilities (assets) using the tax rates and laws that have been enacted or substantively enacted by the reporting date. An entity shall regard tax rates as substantively enacted when future events required by the enactment process historically have not affected the outcome and are unlikely to do so.

405 An entity shall not discount current tax assets and liabilities.

Deferred income taxes method

406 Under deferred income taxes method, an entity shall recognize the current and future tax consequences of transactions and other events that have been recognized in the financial statements. These recognized tax amounts comprise current tax and deferred tax.
a) Current tax is determined in accordance with is the amount reported on an entity's income tax return for the period in conformity with tax laws or regulations.
b) Deferred tax is income tax payable (recoverable) in respect of the taxable profit (tax loss) for future reporting periods as a result of past transactions or events. The past transactions or events are those that:
    i) have not yet been included in the entity's income tax return although they have been included when measuring profit or loss in conformity with this Framework; or
    ii) have been included in the entity's income tax return although they have been not yet been included when measuring profit or loss in conformity with this Framework.

These differences between amounts reflected in current tax and amounts reflected in deferred tax are known as temporary differences (explained in more detail in paragraph 414).

407 An entity shall recognize a deferred tax liability for all temporary differences that are expected to increase taxable profit in the future (and therefore result in higher future tax payments). An entity shall recognize a deferred tax asset for all temporary differences that are expected to reduce taxable profit in the future (and will therefore benefit the entity by lowering future tax payments).

Requirements for deferred tax

General recognition principle

408 An entity shall recognize a deferred tax asset or liability for tax recoverable or payable in future periods as a result of past transactions or events. Such tax arises from the difference between the amounts recognized for the entity's assets and liabilities in the statement of financial position and the recognition of those assets and liabilities by the tax authorities, and the carryforward of currently unused tax losses and tax credits. In most cases, those differences between the amounts in the statement of financial position and the amounts recognized by the tax authorities are accompanied by corresponding differences between profit or loss as measured by this Framework and taxable profit or loss.

Summary of steps in recognizing deferred tax

409 An entity shall account for deferred tax by following the steps (a)–(e) below:

a) identify which assets and liabilities would be expected to affect taxable profit if they were recovered or settled for their present carrying amounts (paragraph 410);
b) determine the tax basis of the following at the end of the reporting period:
    i) the assets and liabilities in (a) (paragraphs 411 - 412); and
    ii) other items that have a tax basis (paragraph 413).
c) compute any temporary differences, unused tax losses and unused tax credits (paragraph 414);
d) recognize deferred tax assets and deferred tax liabilities arising from the temporary differences, unused tax losses and unused tax credits (paragraph 415); and
e) measure deferred tax assets and liabilities (paragraphs 417 - 419).

Assets and liabilities whose recovery or settlement will not affect taxable profit

410 If the entity expects to recover the carrying amount of an asset or settle the carrying amount of a liability without affecting taxable profit, no deferred tax arises in respect of the asset or liability. Therefore, paragraphs 412 - 419 apply only to assets and liabilities for which the entity expects the recovery or settlement of the carrying amount to affect taxable profit and to other items that have a tax basis. Examples of transactions that will not affect taxable profit include:

a) trade receivables for which revenue has already been included in taxable income as well as in profit or loss under this Framework. Associated cash receipt will have no tax consequence;
b) bank loan payable. Repayment of the loan has no tax consequence; and
c) a non-tax deductible penalty incurred but not yet paid. The expense and related liability were recognized under this Framework when incurred. The payment of the fine will have no tax consequence.

Tax basis

411 An entity shall determine the tax basis of an asset, liability or other item in accordance with enacted or substantively enacted law.

412 The tax basis determines the amounts that will be included in taxable profit on recovery or settlement of the carrying amount of an asset or liability. Specifically:

a) the tax basis of an asset equals the amount that would have been deductible in arriving at taxable profit if the carrying amount of the asset had been recovered through sale at the end of the reporting period. If the recovery of the asset through sale does not increase taxable profit, the tax basis shall be deemed to be equal to the carrying amount.
b) the tax basis of a liability equals its carrying amount less any amounts deductible in determining taxable profit (or plus any amounts included in taxable profit) that would have arisen if the liability had been settled for its carrying amount at the end of the reporting period.

In the case of deferred revenue, the tax basis of the resulting liability is its carrying amount, less any amount of revenue that will not be taxable in future periods.

413 Some items have a tax basis but are not recognized as assets or liabilities. For example, research costs are recognized as an expense when they are incurred but may not be permitted as a deduction in determining taxable profit until a future period. Thus, the carrying amount of the research costs is nil and the tax basis is the amount that will be deducted in future periods. An equity instrument issued by the entity may also give rise to deductions in a future period. There is no asset or liability in the statement of financial position, but the tax basis is the amount of the future deductions.

Temporary differences

414 Temporary differences arise:

a) when there is a difference between the carrying amounts and tax bases on the initial recognition of assets and liabilities, or at the time a tax basis is created for those items that have a tax basis but are not recognized as assets and liabilities;
b) when a difference between the carrying amount and tax basis arises after initial recognition because income or expense is recognized in either profit or loss or equity in one reporting period but is recognized in taxable profit in a different period; or
c) when the tax basis of an asset or liability changes and the change will not be recognized in the asset or liability's carrying amount in any period.

Deferred tax liabilities and assets

415 An entity shall recognize:

a) a deferred tax liability for all temporary differences that are expected to increase taxable profit in the future;
b) a deferred tax asset for all temporary differences that are expected to reduce taxable profit in the future, subject to the measurement requirements in paragraph 416; and
c) a deferred tax asset for the carryforward of unused tax losses and unused tax credits, subject to the measurement requirements in paragraph 417.

Measurement of deferred tax

416 An entity shall measure its deferred tax liabilities (assets) using the tax rates and laws that have been enacted or substantively enacted by the reporting date. When different tax rates apply to different levels of taxable profit, an entity shall measure deferred tax expense (income) and related deferred tax liabilities (assets) using the average enacted or substantively enacted rates that it expects to be applicable to the taxable profit (tax loss) of the periods in which it expects the deferred tax asset to be realized or the deferred tax liability to be settled.

417 The measurement of deferred tax liabilities and deferred tax assets shall reflect the tax consequences that would follow from the manner in which the entity expects, at the reporting date, to recover or settle the carrying amount of the related assets and liabilities. For example, if the temporary difference arises from an item of income that is expected to be taxable as a capital gain in a future period, the deferred tax expense is measured using the capital gain tax rate.

418 An entity shall not discount deferred tax assets and liabilities.

419 The carrying amount of a deferred tax asset shall be reviewed at the end of each reporting period. An entity shall reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of

that recognized deferred tax asset to be utilized. Any such reduction shall be reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Carry-forward benefit of unused tax losses and tax credits

420 Carry-forward benefit of unused tax losses (net operating loss carryover or NOLCO) and unused tax credits (excess minimum corporate income tax or MCIT) arising in the current period which can be applied against the entity's future taxable income and future tax liability, respectively, should be recognized as an asset to the extent that it is probable that sufficient taxable profit will allow the unused tax losses or unused tax credits be utilized.

Withholding tax on dividends

421 When an entity pays dividends to its shareholders, it may be required to pay a portion of the dividends to taxation authorities on behalf of the shareholders. Such an amount paid or payable to taxation authorities is charged to equity as a part of the dividends.

Presentation

422 An entity shall recognize tax expense (income) in profit or loss or equity as the transaction or other event that resulted in the tax expense (income).

Current/non-current distinction

423 An entity shall classify deferred tax assets (liabilities) as non-current assets (liabilities).

Offsetting

424 An entity shall offset current tax assets and current tax liabilities, or offset deferred tax assets and deferred tax liabilities, only when it has a legally enforceable right to set off the amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Deferred tax assets and liabilities will generally meet these criteria if they arise within a single taxable entity and in a single jurisdiction.

Disclosures

425 If taxes payable method is adopted, an entity should disclose the following:

a) current tax expense (income);
b) any adjustments recognized in the period for current tax of prior periods; and
c) The amount and expiry dates of unused tax losses and unused tax credits.

426 If deferred income tax method is selected, an entity should disclose the following:

a) current tax expense (income);
b) any adjustments recognized in the period for current tax of prior periods;
c) the amount of deferred tax expense (income) relating to the origination and reversal of temporary differences;
d) the amount of deferred tax expense (income) relating to changes in tax rates or the imposition of new taxes; and
e) adjustments to deferred tax expense arising from a change in the tax status of the entity or its shareholders.
f) aggregate current and deferred tax relating to items that are charged or credited directly to equity
g) the amount (and expiry date, if any) of deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax asset is recognized in the statement of financial position.

427 If an entity does not offset tax assets and liabilities in accordance with this Section because it is unable to demonstrate that it plans to settle them on a net basis or realize them simultaneously, the entity shall disclose the amounts that have not been offset.

428 An entity shall disclose the following separately:

a) an explanation of the significant differences in amounts presented in the statement of income and amounts reported to tax authorities;
b) an explanation of changes in the applicable tax rate(s) compared with the previous reporting period; and
c) for each type of temporary difference and for each type of unused tax losses and tax credits:
    i) the amount of deferred tax assets and liabilities at the end of the reporting period;
    ii) an analysis of the change in deferred tax assets and liabilities during the period; and
    iii) The amount and expiry dates of unused tax losses and unused tax credits.

Section 24 - Foreign Currency Translation

Scope

429 This section prescribes:

a) accounting for transactions and balances denominated in foreign currencies that are different from the entity's functional currency; and
b) use of presentation currency different from the entity's functional currency.

430 The Section does not apply to translation of operations or investments that are based or conducted in a different country with different functional currency.

Functional Currency

431 An entity recognizes and measures transactions in the currency of the primary economic environment in which the entity operates (known as the functional currency). This is usually the one in which it primarily generates and expends cash.

Reporting foreign currency transactions in the functional currency

432 An entity may buy or sell an item, or a service, where the price is denominated in a foreign currency. An entity shall record the foreign currency transaction on initial recognition in its functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

433 At the end of each reporting period, an entity shall translate any foreign currency monetary items using the closing rate. An entity shall recognize, in profit or loss in the period in which they arise, exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous periods.

Use of a presentation currency

434 An entity may present its financial statements in a currency different from the one in which it recognizes and measures transactions. In that case, the entity shall translate its items of income and expense and financial position into the presentation currency.

Disclosure

435 The amount of an exchange gain or loss included in net income should be disclosed.

Section 25 - Events after the End of the Reporting Period

Events after the end of the reporting period defined

436 Events after the end of the reporting period are those events, favorable and unfavorable, that occur between the end of the reporting period and the date when the financial statements are authorized for issue.

Recognition and measurement

Adjusting events after the end of the reporting period

437 An entity shall adjust the amounts recognized in its financial statements, or recognize items that were not previously recognized, including related disclosures, to reflect adjusting events after the end of the reporting period. Adjusting events after the end of the reporting period are those events that provide evidence of conditions that existed at the end of the period.

438 Examples include:

a) the receipt of information after the end of the reporting period indicating that an asset was impaired at the end of the reporting period, or that the amount of a previously recognized impairment loss for that asset needs to be adjusted. For example:
   i) the bankruptcy of a customer that occurs after the end of the reporting period usually confirms that a loss existed at the end of the reporting period on a trade receivable and that the entity needs to adjust the carrying amount of the trade receivable; and
   ii) the sale of inventories after the end of the reporting period may give evidence about their market value at the end of the reporting period for the purpose of assessing impairment at that date.

b) the determination after the end of the reporting period of the cost of assets, or the proceeds from assets, purchased or sold (respectively), before the end of the reporting period.

Non-adjusting events after the end of the reporting period

439 An entity shall not adjust the amounts recognized in its financial statements to reflect non-adjusting events after the end of the reporting period. Non-adjusting events after the end of the reporting period are those events that are indicative of conditions that arose after the end of the reporting period.

440 An example of a non-adjusting event after the end of the reporting period is a loss caused by flood, fire, or other event that occurred after the end of the reporting period.

Dividends

441 If an entity declares dividends to holders of its equity instruments after the end of the reporting period, the entity shall not recognize those dividends as a liability at the end of the reporting period. The amount of the dividend may be presented as a segregated component of retained earnings at the end of the reporting period.

Disclosure

Date of authorization for issue

442 An entity shall disclose the date when the financial statements were authorized for issue and who gave that authorization. If the entity's owners or others have the power to amend the financial statements after issue, the entity shall disclose that fact.

Non-adjusting events after the end of the reporting period

443 An entity shall disclose the following for each category of non-adjusting event after the end of the reporting period:

a) the nature of the event; and
b) an estimate of its financial effect or a statement that such an estimate cannot be made.

444 The following are examples of non-adjusting events after the end of the reporting period that would generally result in disclosure; the disclosures will reflect information that becomes known after the end of the reporting period but before the financial statements are authorized for issue:

a) major purchases or disposals of assets;
b) the destruction of a major production plant by a fire;
c) commencement of a major restructuring;
d) issues or repurchases of an entity's equity instruments or the taking out or paying off of significant loans;
e) changes in tax rates or tax laws enacted or announced that have a significant effect on current and deferred tax assets and liabilities;
f) entering into significant commitments or contingent liabilities; and
g) commencement of major litigation arising solely out of events that occurred after the end of the reporting period.

Section 26 - Related Party Disclosures

Purpose of related party disclosures

445 Disclosures about an entity's related parties are necessary in the entity's financial statements to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances with those parties. The definition of a related party is set out below. There are no specific measurement requirements for related party transactions.

446 A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged. Examples of related party transactions that an entity may encounter include, but are not limited to:

a) transactions between the entity and its principal owner(s);
b) transactions between the entity and another entity when both entities are under the common control of a single entity or person; and
c) transactions in which an entity or person that controls the reporting entity incurs expenses directly that otherwise would have been borne by the reporting entity.

Related party defined

447 A related party is a person or entity that is related to the entity that is preparing its financial statements (the reporting entity).

a) A person or a close member of that person's family is related to a reporting entity if that person:
   i) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity;
   ii) has control over the reporting entity; or
   iii) has joint control or significant influence over the reporting entity or has significant voting power in it.
b) An entity is related to a reporting entity if any of the following conditions applies:
   i) the entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
   ii) either entity is an associate or joint venture of the other entity (or of a member of a group of which the other entity is a member);
   iii) both entities are joint ventures of a third entity;
   iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
   v) the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the plan;
   vi) the entity is controlled or jointly controlled by a person identified in (a);
   vii) a person identified in (a)(i) has significant voting power in the entity;
   viii) a person identified in (a)(ii) has significant influence over the entity or significant voting power in it;
   ix) a person or a close member of that person's family has both significant influence over the entity or significant voting power in it and joint control over the reporting entity; or
   x) a member of the key management personnel of the entity or of a parent of the entity, or a close member of that member's family, has control or joint control over the reporting entity or has significant voting power in it.

448 In considering each possible related party relationship, an entity shall assess the substance of the relationship and not merely the legal form.

449 The following are not necessarily related parties:

a) two entities simply because they have a director or other member of key management personnel in common;
b) providers of finance by virtue of their normal dealings with an entity (even though they may affect the freedom of action of an entity or participate in its decision-making process); and
c) a customer, or supplier with whom an entity transacts a significant volume of business, merely by virtue of the resulting economic dependence.

450 Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. Compensation includes all forms of consideration paid, payable or provided by the entity, or on behalf of the entity (for example, by its parent or owner), in exchange for services rendered to the entity. It also includes such consideration paid on behalf of a parent of the entity in respect of goods or services provided to the entity.

Disclosures

Disclosure of parent-subsidiary relationships

451 Relationships between a parent and its subsidiaries shall be disclosed irrespective of whether there have been related party transactions. An entity shall disclose the name of its parent and, if different, the ultimate controlling party. If neither the entity's parent nor the ultimate controlling party produces financial statements available for public use, the name of the next most senior parent that does so (if any) shall also be disclosed.

Disclosure of key management personnel compensation

452 An entity shall disclose key management personnel compensation in total.

Disclosure of related party transactions

453 If an entity has related party transactions, it shall disclose the nature of the related party relationship as well as information about the transactions, outstanding balances and commitments necessary for an understanding of the potential effect of the relationship on the financial statements. Those disclosure requirements are in addition to the requirements in paragraph 452 to disclose key management personnel compensation. At a minimum, disclosures shall include:

a) the amount of the transactions;
b) the amount of outstanding balances;
    i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and
    ii) details of any guarantees given or received;
c) provisions for uncollectible receivables related to the amount of outstanding balances; and
d) the expense recognized during the period in respect of bad or doubtful debts due from related parties.

Such transactions could include purchases, sales, or transfers of goods or services; leases; guarantees; and settlements by the entity on behalf of the related party or vice versa.

454 An entity shall make the disclosures required by paragraph 453 separately for each of the following categories:

a) entities with control, joint control or significant influence over the entity;
b) entities over which the entity has control, joint control or significant influence;
c) key management personnel of the entity or its parent (in the aggregate); and
d) other related parties.

455 The following are examples of transactions that shall be disclosed if they are with a related party:

a) purchases or sales of goods (finished or unfinished);
b) purchases or sales of property and other assets;
c) rendering or receiving of services;
d) leases;
e) transfers of research and development;
f) transfers under license agreements;
g) transfers under finance arrangements (including loans and equity contributions in cash or in kind);
h) provision of guarantees or collateral; and
i) settlement of liabilities on behalf of the entity or by the entity on behalf of another party.

456 An entity shall not state that related party transactions were made on terms equivalent to those that prevail in arm's length transactions unless such terms can be substantiated.

457 An entity may disclose items of a similar nature in the aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity.

Section 27 - Biological Assets

Scope

458 This Section shall be applied to account for the following when they relate to agricultural activity:
a) biological assets; and
b) agricultural produce at the point of harvest.

Recognition

459 An entity shall recognize a biological asset or agricultural produce when, and only when:
a) the entity controls the asset as a result of past events;
b) it is probable that future economic benefits associated with the asset will flow to the entity; and
c) the fair value or cost of the asset can be measured reliably without undue cost or effort.

Measurement

460 An entity that is engaged in agricultural activity has an option to measure its biological assets applying either:
a) the current market price model in paragraph 461; or
b) the cost model in paragraph 463.

Current market price model

461 An entity shall measure a biological asset on initial recognition and at each reporting date at its current market price or the probable selling price to willing buyers as of reporting date. Changes in current market price shall be recognized in profit or loss.

462 Agricultural produce harvested from an entity's biological assets shall be measured at its current market price at the point of harvest. Such measurement is the cost at that date when applying Section 8 - Inventories or another applicable section of this Framework.

Cost model

463 The entity shall measure a biological asset at cost less any accumulated depreciation and any accumulated impairment losses. Refer to Section 12 - Property, Plant and Equipment for guidance on the application of cost model.

Disclosures

464 An entity shall disclose the following with respect to its biological assets measured using the fair value model:
a) a description of each class of its biological assets.
b) the methods and significant assumptions applied in determining the current market price of each category of agricultural produce at the point of harvest and each category of biological assets.
c) a reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period. The reconciliation shall include:
   i) the gain or loss arising from changes in current market price
   ii) increases resulting from purchases.
   iii) decreases resulting from harvest.
   iv) other changes.

465 An entity shall disclose the following with respect to its biological assets measured using the cost model:

a) a description of each class of its biological assets.
b) the depreciation method used.
c) the useful lives or the depreciation rates used.
d) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period.

Section 28 - Government Grants

Scope of this section

466 This section specifies the accounting for all government grants. A government grant is assistance by government in the form of a transfer of resources to an entity in return for past or future compliance with specified conditions relating to the operating activities of the entity.

467 Government grants exclude those forms of government assistance that cannot reasonably have a value placed upon them and transactions with government that cannot be distinguished from the normal trading transactions of the entity.

468 This section does not cover government assistance that is provided for an entity in the form of benefits that are available in determining taxable profit or tax loss, or are determined or limited on the basis of income tax liability. Examples of such benefits are income tax holidays and investment tax credits.

Recognition and measurement

469 An entity shall recognize monetary government grants as follows:

a) A grant that does not impose specified future performance conditions on the recipient is recognized in income when the grant proceeds are receivable.
b) A grant that imposes specified future performance conditions on the recipient is recognized in income only when the performance conditions are met.
c) Grants received before the revenue recognition criteria are satisfied are recognized as a liability.

470 A government grant may take the form of a transfer of a non-monetary asset, such as land or other resources, for the use of the entity. In these circumstances, an entity should make an accounting policy to either:

a) not recognize the non-monetary grant; or
b) recognize the non-monetary grant at fair value.

Disclosures

471 An entity shall disclose the following about monetary government grants:

a) the nature and amounts of government grants recognized in the financial statements.
b) unfulfilled conditions and other contingencies attaching to government grants that have not been recognized in income.

472 For non-monetary grants, an entity shall disclose the accounting policy taken in accordance with paragraph 471, the nature of the government grant and any unfulfilled conditions or contingencies attached. Where fair value measurement is elected in accordance with paragraph 471(b) or fair value is voluntarily disclosed, valuation hierarchy in accordance with paragraph 12 must be applied and the financial statements must describe how fair values were derived.

Section 29 - Transition to the Framework

Scope

473 This Section applies to a first-time adopter of this Framework regardless of whether its previous accounting framework was full PFRSs or PFRS for SMEs.

474 An entity can be a first-time adopter of this Framework only once. If an entity using this Framework stops using it for one or more reporting periods and then is required, or chooses, to adopt it again later, the special exemptions, simplifications and other requirements in this Section do not apply to the re-adoption.

First-time adoption

475 An entity's first financial statements that conform to this Framework are the first annual financial statements in which the entity makes an explicit and unreserved statement in those financial statements of compliance with this Framework. Financial statements prepared in accordance with this Framework are an entity's first such financial statements if, for example, the entity:

a) did not present financial statements for previous periods;
b) presented its most recent previous financial statements under national requirements that are not consistent with this Framework in all respects; or
c) presented its most recent previous financial statements in conformity with full PFRSs or PFRS for SMEs.

476 An entity's date of transition to this Framework is the beginning of the earliest period for which the entity presents full comparative information in accordance with this Framework.

Procedures for preparing financial statements at the date of transition

477 Except as provided in paragraphs 479 - 481, an entity shall, in its opening statement of financial position as of its date of transition to this Framework:

a) recognize all assets and liabilities whose recognition is required by this Framework;
b) not recognize items as assets or liabilities if this Framework does not permit such recognition;
c) reclassify items that it recognized under its previous financial reporting framework as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity under this Framework; and
d) apply this Framework in measuring all recognized assets and liabilities.

478 The accounting policies that an entity uses in its opening statement of financial position under this Framework may differ from those that it used for the same date using its previous financial reporting framework. The resulting adjustments arise from transactions, other events or conditions before the date of transition to this Framework. Therefore, an entity shall recognize those adjustments directly in retained earnings (or, if appropriate, another category of equity) at the date of transition to this Framework.

479 On first-time adoption of this Framework, an entity shall not retrospectively change the accounting that it followed under its previous financial reporting framework for either of the following transactions:

a) derecognition of financial assets and financial liabilities. Financial assets and liabilities derecognized under an entity's previous accounting framework before the date of transition should not be recognized upon adoption of this Framework. Conversely, for financial assets and liabilities that would have been derecognized under this Framework in a transaction that took place before the date of transition, but that were not derecognized under an entity's previous accounting framework, an entity may choose (i) to derecognize them on adoption of the Framework or (ii) to continue to recognize them until disposed of or settled.

b) accounting estimates.

480 An entity may use one or more of the following exemptions in preparing its first financial statements that conform to this Framework:

a) Fair value as deemed cost. A first-time adopter may elect to measure an item of property, plant and equipment on the date of transition to this Framework at its fair value and use that fair value as its deemed cost at that date.
b) Revaluation as deemed cost. A first-time adopter may elect to use a previous GAAP revaluation of an item of property, plant and equipment at, or before, the date of transition to this Framework as its deemed cost at the revaluation date.
c) Deferred income tax. A first-time adopter is not required to recognize, at the date of transition to this Framework, deferred tax assets or deferred tax liabilities relating to differences between the tax basis and the carrying amount of any assets or liabilities for which recognition of those deferred tax assets or liabilities would involve undue cost or effort.
d) Arrangements containing a lease. A first-time adopter may elect to determine whether an arrangement existing at the date of transition to this Framework contains a lease (see paragraph 291 on the basis of facts and circumstances existing at that date, rather than when the arrangement was entered into).

481 If it is impracticable for an entity to restate the opening statement of financial position at the date of transition for one or more of the adjustments required by paragraph 478 (i.e., the entity cannot restate after making every reasonable effort to do so), the entity shall apply paragraphs 478 - 481 for such adjustments in the earliest period for which it is practicable to do so.

Disclosures

482 If it is impracticable for an entity to restate the opening statement of financial position at the date of transition for one or more of the adjustments required by paragraph 477, the entity shall disclose which line items in the financial statements are affected. If it is impracticable for an entity to provide any disclosures required by this Framework, including for comparative periods, the omission shall be disclosed.

Explanation of transition to Framework

483 An entity shall explain how the transition from its previous financial reporting framework to this Framework affected its reported financial position, financial performance and cash flows.

Reconciliations

484 To comply with paragraph 483, an entity's first financial statements prepared using this Framework shall include:

a) a description of the nature of each change in accounting policy;
b) reconciliations of its equity determined in accordance with its previous financial reporting framework to its equity determined in accordance with this Framework for both of the following dates:
    i) the date of transition to the Framework;
    ii) the end of the latest period presented in the entity's most recent annual financial statements determined in accordance with its previous financial reporting framework; and
c) a reconciliation of the profit or loss determined in accordance with its previous financial reporting framework for the latest period in the entity's most recent annual financial statements to its profit or loss determined in accordance with this Framework for the same period.

485 If an entity becomes aware of errors made under its previous financial reporting framework, the reconciliations required by paragraph 484(b) and (c) shall, to the extent practicable, distinguish the correction of those errors from changes in accounting policies.

486 If an entity did not present financial statements for previous periods, it shall disclose that fact in its first financial statements that conform to the Framework.

Effective date

487 An entity shall apply this Framework in its annual financial statements for periods beginning on or after 1 January 2019. Earlier application is permitted. If an entity applies this Framework in its financial statements for a period before 1 January 2019, it shall disclose that fact.

Appendix: Glossary of Terms

This Appendix is an integral part of the Framework.

accounting policies	The specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.
accrual basis of accounting	The effects of transactions and other events are recognized when they occur (and not as cash or its equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate.
accumulating compensated absences	Compensated absences that are carried forward and can be used in future periods if the current period's entitlement is not used in full.
active market	A market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
agricultural activity	The management by an entity of the biological transformation of biological assets for sale, into agricultural produce or into additional biological assets.
agricultural produce	The harvested product of the entity's biological assets.
amortization	The systematic allocation of the depreciable amount of an asset over its useful life.
amortized cost of a financial asset or financial liability	The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.
asset	A resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.
associate	An entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.
biological asset	A living animal or plant.
borrowing costs	Interest and other costs incurred by an entity in connection with the borrowing of funds.
business	An integrated set of activities and assets conducted and managed for the purpose of providing: (a) a return to investors; or (b) lower costs or other economic benefits directly and proportionately to policyholders or participants. A business generally consists of inputs, processes applied to those inputs, and resulting outputs that are, or will be, used to generate revenues. If goodwill is

	present in a transferred set of activities and assets, the transferred set shall be presumed to be a business.
business combination	The bringing together of separate entities or businesses into one reporting entity.
carrying amount	The amount at which an asset or liability is recognized in the statement of financial position.
cash	Cash on hand and demand deposits.
cash equivalent	Short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.
cash flows	Inflows and outflows of cash and cash equivalents.
cash-generating unit	The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.
cash-settled share-based payment transaction	A share-based payment transaction in which the entity acquires goods or services by incurring a liability to transfer cash or other assets to the supplier of those goods or services for amounts that are based on the price (or value) of equity instruments (including shares or share options) of the entity or another group entity.
change in accounting estimate	An adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.
class of assets	A grouping of assets of a similar nature and use in an entity's operations.
close members of the family of a person	Those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity, including: (a) that person's children and spouse or domestic partner; (b) children of that person's spouse or domestic partner; and of that person or that person's spouse or domestic partner
consolidated financial statements	The financial statements of a parent and its subsidiaries presented as those of a single economic entity.
construction contract	A contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.
constructive obligation	An obligation that derives from an entity's actions where: (a) an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and (b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

contingent asset

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 entity.

contingent liability

(a) A possible obligation 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 entity; or

(b) a present obligation that arises from past events but is not recognized because:

  (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or

  (ii) the amount of the obligation cannot be measured with sufficient reliability.

control (of an entity)

The power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

current tax

The amount of income tax payable (recoverable) in respect of the taxable profit (tax loss) for the current period or past periods.

date of transition to the PFRS for Small Entities

The beginning of the earliest period for which an entity presents full comparative information under the *PFRS for Small Entities* in its first financial statements that comply with the *PFRS for Small Entities.*

deferred tax

Income tax payable (recoverable) in respect of the taxable profit (tax loss) for future periods as a result of past transactions or events.

deferred tax assets

The amounts of income tax recoverable in future periods in respect of:

(a) deductible temporary differences;

(b) the carryforward of unused tax losses; and

(c) the carryforward of unused tax credits.

deferred tax liabilities

The amounts of income tax payable in future periods in respect of taxable temporary differences.

depreciable amount

The cost of an asset, or other amount substituted for cost (in the financial statements), less its residual value.

depreciation

The systematic allocation of the depreciable amount of an asset over its useful life.

derecognition

The removal of a previously recognized asset or liability from an entity's statement of financial position.

development

The application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.

effective interest method

A method of calculating the amortized cost of a financial asset or a financial liability (or a group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

effective interest rate

The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

effectiveness of a hedge

The degree to which changes in the fair value or cash flows of the hedged item that are attributable to a hedged risk are offset by changes in the fair value or cash flows of the hedging instrument.

employee benefits

All forms of consideration given by an entity in exchange for service rendered by employees.

equity

The residual interest in the assets of the entity after deducting all its liabilities.

equity-accounted financial statements

The financial statements of a parent in which investments in subsidiaries are equity-accounted.

equity-settled share-based payment transaction

A share-based payment transaction in which the entity:

(a) receives goods or services as consideration for its own equity instruments (including shares or share options); or

(b) receives goods or services but has no obligation to settle the transaction with the supplier.

errors

Omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

(a) was available when financial statements for those periods were authorized for issue; and

(b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

expenses

Decreases in economic benefits during the reporting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to owners.

fair presentation

Faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses.

fair value

The amount for which an asset could be exchanged, a liability settled or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm's length transaction.

fair value less costs to sell

The amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

financial asset

Any asset that is:

(a) cash;

(b) an equity instrument of another entity;

(c) a contractual right:

  (i) to receive cash or another financial asset from another entity; or

  (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favorable to the entity; or

(d) a contract that will or may be settled in the entity's own equity instruments and:

  (i) under which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or

  (ii) that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

financial instrument

A contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

financial liability

Any liability that is:

(a) a contractual obligation:

  (i) to deliver cash or another financial asset to another entity; or

  (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity; or

(b) a contract that will or may be settled in the entity's own equity instruments and:

  (i) under which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments, or

  (ii) will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

financial position

The relationship of the assets, liabilities and equity of an entity as reported in the statement of financial position.

financial statements

Structured representation of the financial position, financial performance and cash flows of an entity.

financing activities

Activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

firm commitment	A binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.
first-time adopter of the PFRS for Small Entities	An entity that presents its first annual financial statements that conform to the *PFRS for Small Entities*, regardless of whether its previous accounting framework was full PFRSs, PFRS for SMEs or another set of accounting standards.
forecast transaction	An uncommitted but anticipated future transaction.
full PFRSs	full Philippine Financial Reporting Standards (PFRSs).
functional currency	The currency of the primary economic environment in which the entity operates.
gains	Increases in economic benefits that meet the definition of income but are not revenue.
going concern	An entity is a going concern unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.
goodwill	Future economic benefits arising from assets that are not capable of being individually identified and separately recognized.
government grants	Assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity.
grant date	The date at which the entity and another party (including an employee) agree to a share-based payment arrangement, being when the entity and the counterparty have a shared understanding of the terms and conditions of the arrangement. At the grant date, the entity confers on the counterparty the right to cash, other assets or equity instruments of the entity, provided the specified vesting conditions, if any, are met. If that agreement is subject to an approval process (for example, by shareholders), the grant date is the date when that approval is obtained.
group	A parent and all its subsidiaries.
hedged item	For the purpose of special hedge accounting by Small Entities under Section 7 of this Standard, a hedged item is: (a) interest rate risk of a debt instrument measured at amortized cost; (b) foreign exchange or interest rate risk in a firm commitment or a highly probable forecast transaction; or (c) price risk of a commodity that it holds or in a firm commitment or highly probable forecast transaction to purchase or sell a commodity.
hedging instrument	For the purpose of special hedge accounting by Small Entities under Section 7 of this Standard, a hedging instrument is a financial instrument that meets all of the following terms and conditions: (a) it is an interest rate swap, a foreign currency swap, a foreign currency forward exchange contract or a commodity forward exchange contract that is expected to be highly effective in offsetting a risk identified in

Section 7 that is designated as the hedged risk;

(b) it involves a party external to the reporting entity (i.e., external to the group, segment or individual entity being reported on);

(c) its notional amount is equal to the designated amount of the principal or notional amount of the hedged item;

(d) it has a specified maturity date not later than:

  (i) the maturity of the financial instrument being hedged;

  (ii) the expected settlement of the commodity purchase or sale commitment; or

  (iii) the occurrence of the highly probable forecast foreign currency or commodity transaction being hedged.

(e) it has no prepayment, early termination or extension features.

highly probable — Significantly more likely than probable.

joint venturer — A party to a joint venture that has joint control over that joint venture.

impairment (loss) — The amount by which the carrying amount of an asset exceeds:

(a) in the case of inventories, its selling price less costs to complete and sell; or

(b) in the case of other non-financial assets, its recoverable amount.

impracticable — Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.

imputed rate of interest — The more clearly determinable of either:

(a) the prevailing rate for a similar instrument of an issuer with a similar credit rating; or

(b) a rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

income — Increases in economic benefits during the reporting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from owners.

income tax — All domestic and foreign taxes that are based on taxable profits. Income tax also includes taxes, such as withholding taxes, that are payable by a subsidiary, associate or joint arrangement on distributions to the reporting entity.

intangible asset — An identifiable non-monetary asset without physical substance.

Such an asset is identifiable when it:

(a) is separable, i.e., is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or

(b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

inventories

Assets:

(a) held for sale in the ordinary course of business;

(b) in the process of production for such sale; or

(c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

investing activities

The acquisition and disposal of long-term assets and other investments not included in cash equivalents.

investment property

Property (land or a building, or part of a building, or both) held by the owner to earn rentals or for capital appreciation or both, instead of for:

(a) use in the production or supply of goods or services or for administrative purposes; or

(b) sale in the ordinary course of business.

joint control

The contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control

joint operation

A joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators.

joint venture

A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers.

lease

An agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

liability

A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

loans payable

Financial liabilities other than short-term trade payables on normal credit terms.

market price or value

Market price or value is the probable selling price to willing buyers as of reporting date.

market vesting condition

A condition upon which the exercise price, vesting or exercisability of an equity instrument depends that is related to the market price of the entity's equity instruments, such as attaining a specified share price or a specified amount of intrinsic value of a share option, or achieving a specified target that is based on the market price of the entity's equity instruments relative to an index of market prices of equity instruments of other entities.

material

Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

measurement	The process of determining the monetary amounts at which the elements of the financial statements are to be recognized and carried in the statement of financial position and statement of income.
monetary items	Units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.
non-controlling interest	The equity in a subsidiary not attributable, directly or indirectly, to a parent.
notes (to financial statements)	Notes contain information in addition to that presented in the statement of financial position, statement of income, combined statement of income and retained earnings (if presented), statement of changes in equity and statement of cash flows. Notes provide narrative descriptions or disaggregations of items presented in those statements and information about items that do not qualify for recognition in those statements.
notional amount	The quantity of currency units, shares, bushels, pounds or other units specified in a financial instrument contract.
objective of financial statements	To provide information about the financial position, performance and cash flows of an entity that is useful for economic decision-making by a broad range of users who are not in a position to demand reports tailored to meet their particular information needs.
operating activities	The principal revenue-producing activities of the entity and other activities that are not investing or financing activities.
owners	Holders of instruments classified as equity.
parent	An entity that has one or more subsidiaries.
performance	The relationship of the income and expenses of an entity, as reported in the statement of income.
PFRS for SMEs	Philippine Financial Reporting Standard for Small and Medium-sized Entities
post-employment benefits	Employee benefits (other than termination benefits) that are payable after the completion of employment.
post-employment benefit plans	Formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.
present value	A current estimate of the present discounted value of the future net cash flows in the normal course of business.
presentation currency	The currency in which the financial statements are presented.
probable	More likely than not.
profit or loss	The total of income less expenses
property, plant and equipment	Tangible assets that: (a) are held for use in the production or supply of goods or services, for rental

to others or for administrative purposes; and

(b) are expected to be used during more than one period.

provision A liability of uncertain timing or amount.

prudence The inclusion of a degree of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

publicly traded (debt or equity instruments) Traded, or in process of being issued for trading, in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets).

recognition The process of incorporating in the statement of financial position or statement of comprehensive income an item that meets the definition of an asset, liability, equity, income or expense and that satisfies the following criteria:

(a) it is probable that any future economic benefit associated with the item will flow to or from the entity; and

(b) the item has a cost or value that can be measured with reliability.

recoverable amount The higher of an asset's (or cash-generating unit's) fair value less costs to sell and its value in use.

related party A related party is a person or entity that is related to the entity that is preparing its financial statements (the reporting entity):

(a) a person or a close member of that person's family is related to a reporting entity if that person:

  (i) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity;

  (ii) has control over the reporting entity; or

  (iii) has joint control or significant influence over the reporting entity or has significant voting power in it.

(b) an entity is related to a reporting entity if any of the following conditions applies:

  (i) the entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

  (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

  (iii) both entities are joint ventures of the same third entity.

  (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.

  (v) the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the plan.

  (vi) the entity is controlled or jointly controlled by a person identified in (a).

(vii) a person identified in (a)(i) has significant voting power in the entity;

(viii) a person identified in (a)(ii) has significant influence over the entity or significant voting power in it;

(ix) a person or a close member of that person's family has both significant influence over the entity or significant voting power in it and joint control over the reporting entity; or

(x) a member of the key management personnel of the entity or of a parent of the entity, or a close member of that member's family, has control or joint control over the reporting entity or has significant voting power in it.

related party transaction — A transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

relevance — The quality of information that allows it to influence the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations.

reliability — The quality of information that makes it free from material error and bias and represent faithfully that which it either purports to represent or could reasonably be expected to represent.

reporting date — The end of the latest period covered by financial statements

reporting period — The period covered by financial statements

research — Original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

residual value (of an asset) — The estimated amount that an entity would currently obtain from disposal of an asset, after deducting the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life.

retrospective application (of a change in accounting policy) — Applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.

revenue — The gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants.

separate financial statements — Those presented by an entity, in which the entity could elect, in accordance with Section 4, to account for its investments in subsidiaries, joint ventures and associates either at cost less impairment or using the equity method.

share-based payment arrangement — An agreement between the entity (or another group entity or any shareholder of any group entity) and another party (including an employee) that entitles the other party to receive:

(a) cash or other assets of the entity for amounts that are based on the price (or value) of equity instruments (including shares or share options) of the entity or another group entity; or

(b) equity instruments (including shares or share options) of the entity or another group entity, provided the specified vesting conditions, if any, are met.

share-based payment transaction — A transaction in which the entity:

(a) receives goods or services from the supplier of those goods or services (including an employee) in a share-based payment arrangement; or

(b) incurs an obligation to settle the transaction with the supplier in a share-based payment arrangement when another group entity receives those goods or services

statement of cash flows — A financial statement that provides information about the changes in cash and cash equivalents of an entity for a period, showing separately changes during the period from operating, investing and financing activities.

statement of changes in equity — A financial statement that presents the profit or loss for a period, items of income and expense recognized directly in equity for the period, the effects of changes in accounting policy and corrections of errors recognized in the period and (depending on the format of the statement of changes in equity chosen by the entity) the amounts of transactions with owners acting in their capacity as owners during the period.

statement of financial position — A financial statement that presents the relationship of an entity's assets, liabilities and equity as of a specific date (also called the balance sheet).

statement of income — A financial statement that presents all items of income and expense recognized in a reporting period

statement of income and retained earnings — A financial statement that presents the profit or loss and changes in retained earnings for a period.

subsidiary — An entity, including an unincorporated entity such as a partnership that is controlled by another entity (known as the parent).

tax basis — The tax basis of an asset or liability is the amount attributed to that asset or liability for tax purposes.

tax expense — The aggregate amount included in total comprehensive income or equity for the reporting period in respect of current tax and deferred tax.

taxable profit (tax loss) — The profit (loss) for a reporting period upon which income taxes are payable or recoverable, determined in accordance with the rules established by the taxation authorities. Taxable profit equals taxable income less amounts deductible from taxable income.

temporary differences — Differences between the carrying amount of an asset or liability in the statement of financial position and its tax basis.

termination benefits — 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.

transaction costs (financial instruments) — Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

useful life
The period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity.

value in use
The present value of the future cash flows expected to be derived from an asset or cash-generating unit.

vest
Become an entitlement. Under a share-based payment arrangement, a counterparty's right to receive cash, other assets or equity instruments of the entity vests when the counterparty's entitlement is no longer conditional on the satisfaction of any vesting conditions.

vested benefits
Benefits, the rights to which, under the conditions of a retirement benefit plan, are not conditional on continued employment.

vesting conditions
The conditions that determine whether the entity receives the services that entitle the counterparty to receive cash, other assets or equity instruments of the entity, under a share-based payment arrangement. Vesting conditions are either service conditions or performance conditions. Service conditions require the counterparty to complete a specified period of service. Performance conditions require the counterparty to complete a specified period of service and specified performance targets to be met (such as a specified increase in the entity's profit over a specified period of time). A performance condition might include a market vesting condition.

vesting period
The period during which all the specified vesting conditions of a share-based payment arrangement are to be satisfied.