

# IFRSs in your pocket 2006

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An IAS Plus guide

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# Deloitte IFRS publications

You can find links to many Deloitte IFRS-related publications at [www.iasplus.com/dttdpubs/pubs.htm](http://www.iasplus.com/dttdpubs/pubs.htm). Here are a few:

<a href="http://www.iasplus.com">www.iasplus.com</a> (our IFRS website)	Daily news updates on IASB developments as well as summaries of standards and interpretations and reference materials for download.
IAS Plus newsletter	A quarterly newsletter on recent developments in International Financial Reporting Standards and accounting updates for individual countries. Plus special editions. To subscribe, visit our IAS Plus website.
Deloitte's IFRS e-Learning	e-Learning IFRS training materials, modules for each IAS and IFRS and the Framework, with self-tests, available without charge at <a href="http://www.iasplus.com">www.iasplus.com</a>
Model IFRS financial statements	Based on IFRSs effective for 2005. Also a presentation and disclosure checklist.
IFRS financial statements 2005: Key considerations for preparers	Guidance on drafting IFRS financial statements both for first-time adopters and those already applying IFRSs.
Interim financial reporting: A guide to IAS 34	Includes a model interim financial report and IAS 34 compliance checklist.
Comparisons of IFRSs and local GAAP	Australia, Canada, China, Denmark, Germany, New Zealand, Singapore, United States, and others.
IFRSs in your pocket	Not just this booklet in English, but also translations into other languages.
First-time adoption: A guide to IFRS 1	Application guidance for the "stable platform" standards effective in 2005.
Share-based payment: A guide to IFRS 2	Guidance on applying IFRS 2 to many common share-based payment transactions.
Business combinations: A guide to IFRS 3	Supplements the IASB's own guidance for applying the new standard.

## Foreword

In 2005, thousands of companies around the world – particularly in Europe and the Asia-Pacific area – switched from their national accounting standards to International Financial Reporting Standards (IFRSs). This "big bang" adoption took a lot of hard work on the part of the preparers of financial statements, their auditors and others. Early indications are that the effort was well worthwhile from the perspective of investors, lenders and fund managers, who acknowledge that IFRSs have provided valuable new insights into companies' financial condition and performance. And since financial markets attract seekers and providers of capital across political borders, the financial statement comparability that IFRSs provide is another major benefit from the perspective of the user of financial statements.

There is wide recognition among stakeholders that it will take time for the capital markets to become 'fluent' in the application of the IFRS language. Some European preparers, concerned about the pace of continuing change, are calling for a period of stability, so the streamlining of convergence plans recently announced by the IASB and the FASB should be welcome news.

To help our clients and our people step up to IFRSs, we have formed a Global IFRS Office headed by Ken Wild. Ken and his team oversee the development of most of our IFRS materials, prepare our responses to IASB and IFRIC proposals, and are the final arbiters of IFRS-related technical questions. We have also formed seven regional IFRS Centres of Excellence – in Copenhagen, Hong Kong, Johannesburg, London, Melbourne, Paris and Washington, to provide IFRS assistance to our practice offices in nearly 150 countries. We also have a network of IFRS specialists in most of the Deloitte member firms, who deal with IFRS issues on a day-to-day basis. Our Firm's policies on IFRS proposals and technical questions are determined by a team comprising the leaders of the seven regional Centres plus Ken.

This is the fifth edition of our IFRSs in your Pocket booklet. Over 60,000 printed copies of the prior edition were distributed in over 70 countries, and tens of thousands more have been downloaded in electronic form from [www.iasplus.com](http://www.iasplus.com). I am confident that this new edition will prove even more popular and useful as IFRSs find their way into more countries, classrooms and financial reports.

Steve Almond  
Global Managing Partner, Audit  
Deloitte Touche Tohmatsu

# Why IFRSs? Why now?

A common financial language, applied consistently, will enable investors to compare the financial results of companies operating in different jurisdictions more easily and provide more opportunity for investment and diversification. The removal of a major investment risk – the concern that the nuances of different national accounting regimes have not been fully understood – should reduce the cost of capital and open new opportunities for diversification and improved investment returns.

This point is particularly relevant at a time when companies, countries and individuals are increasingly dependent upon capital markets to provide a secure retirement for their employees.

For auditors, a single set of accounting standards should enable international audit firms to standardise training and better assure the quality of their work on a global basis. An international approach for accounting should also permit international capital to flow more freely, enabling audit firms and their clients to develop consistent global practice to accounting problems and thus further enhancing consistency. Finally, for regulators, the confusion associated with needing to understand various reporting regimes would be reduced.

The logic behind the case for international standards is clear. I am heartened by the fact that our consultations reveal that there still remains broad support in Europe and elsewhere for the objective of international standards.

Sir David Tweedie  
Chairman, International Accounting Standards Board  
Remarks to the Economic and Monetary Affairs Committee  
of the European Parliament  
31 January 2006

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## Abbreviations

<b>ARC</b>	Accounting Regulatory Committee of the EC
<b>CESR</b>	Committee of European Securities Regulators
<b>EC</b>	European Commission
<b>EEA</b>	European Economic Area (EU 25 + 3 countries)
<b>EFRAG</b>	European Financial Reporting Advisory Group
<b>EITF</b>	Emerging Issues Task Force (of FASB)
<b>EU</b>	European Union (25 countries)
<b>FASB</b>	Financial Accounting Standards Board (US)
<b>FEE</b>	European Accounting Federation
<b>GAAP</b>	Generally Accepted Accounting Principle(s)
<b>IAS(s)</b>	International Accounting Standard(s)
<b>IASB</b>	International Accounting Standards Board
<b>IASC</b>	International Accounting Standards Committee
<b>IASCF</b>	IASC Foundation (parent body of the IASB)
<b>IFAC</b>	International Federation of Accountants
<b>IFRIC</b>	International Financial Reporting Interpretations Committee of the IASB, and interpretations issued by that committee
<b>IFRS(s)</b>	International Financial Reporting Standard(s)
<b>IOSCO</b>	International Organization of Securities Commissions
<b>SAC</b>	Standards Advisory Council (advisory to the IASB)
<b>SEC</b>	Securities and Exchange Commission (US)
<b>SIC</b>	Standing Interpretations Committee of the IASC, and interpretations issued by that committee
<b>SME(s)</b>	Small and medium-sized entity(ies)

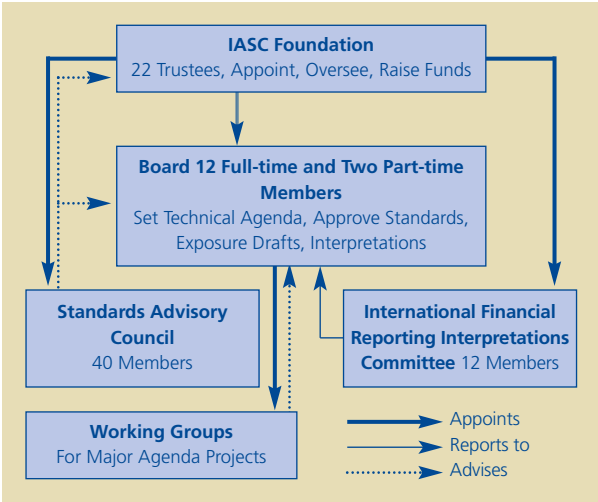
## Our IAS Plus website

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Deloitte's [www.iasplus.com](http://www.iasplus.com) website provides, without charge, comprehensive information about international financial reporting in general and IASB activities in particular. Unique features include:

- daily news about financial reporting globally;
- summaries of all Standards, Interpretations and proposals;
- many IFRS-related publications available for download;
- model IFRS financial statements and checklists;
- an electronic library of several hundred IFRS resources;
- all Deloitte Touche Tohmatsu comment letters to the IASB;
- links to several hundred international accounting websites;
- e-learning modules for each IAS and IFRS – at no charge;
- complete history of adoption of IFRSs in Europe; and
- updates on national accounting standards development.

# IASB structure



## Changes to IASB structure adopted as of 1 July 2005

In June 2005, the IASC Foundation trustees made some important changes to the IASB structure, including:

- increased the vote for exposure drafts, Standards and Interpretations from a simple majority to nine out of the fourteen IASB members;
- dropped the requirement for 'liaison Board members' to seven national standard-setters;
- added SMEs and emerging economies to IASB's objectives;
- eased the required mix of backgrounds on the IASB – from five practising auditors, three preparers, three users and one academician, to "an appropriate mix of practical experience among auditors, preparers, users and academics", including at least one with recent experience in each of those fields;
- created the position of independent chairman of the Standards Advisory Council;
- gave trustees the right to comment on and make suggestions about the IASB's agenda, but not authority to decide the agenda; and
- increased the number of trustees from 19 to 22.

# IASB contact information

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30 Cannon Street, London EC4M 6XH, United Kingdom

## General enquiries

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## Board Chairman and Vice Chairman, and Technical Directors

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# IASB chronology

**1973** Agreement to establish IASC signed by representatives of the professional accountancy bodies in Australia, Canada, France, Germany, Japan, Mexico, Netherlands, United Kingdom/Ireland and United States.

Steering committees appointed for IASC's first three projects.

**1975** First final IAS published: IAS 1 (1975) *Disclosure of Accounting Policies*, and IAS 2 (1975) *Valuation and Presentation of Inventories in the Context of the Historical Cost System*.

**1982** The IASC Board is expanded to up to 17 members, including 13 country members appointed by the Council of the International Federation of Accountants (IFAC) and up to 4 representatives of organisations with an interest in financial reporting. All members of IFAC are members of IASC. IFAC recognises and will look to IASC as the global accounting standard setter.

**1989** European Accounting Federation (FEE) supports international harmonisation and greater European involvement in IASC. IFAC adopts a public sector guideline to require government business enterprises to follow IASs.

**1994** Establishment of IASC Advisory Council approved, with responsibilities for oversight and finances.

**1995** European Commission supports the agreement between IASC and International Organization of Securities Commissions (IOSCO) to complete core standards and concludes that IASs should be followed by European Union multinationals.

**1996** US SEC announces its support of the IASC's objective to develop, as expeditiously as possible, accounting standards that could be used in preparing financial statements for the purpose of cross-border offerings.

**1997** Standing Interpretations Committee (SIC) is formed. 12 voting members. Mission to develop interpretations of IASs for final approval by the IASC.

Strategy Working Party is formed to make recommendations regarding the future structure and operation of IASC.

**1998** IFAC/IASC membership expands to 140 accountancy bodies in 101 countries.

IASC completes the core standards with approval of IAS 39.

**1999** G7 Finance Ministers and International Monetary Fund urge support for IASs to "strengthen the international financial architecture".

IASC Board unanimously approves restructuring into 14-member board (12 full-time) under an independent board of trustees.

**2000** IOSCO recommends that its members allow multinational issuers to use IASC standards in cross-border offerings and listings.

Ad hoc nominating committee is formed, chaired by US SEC Chairman Arthur Levitt, to nominate the Trustees who will oversee the new IASB structure.

IASC member bodies approve IASC's restructuring and a new IASC Constitution.

Nominating committee announces initial Trustees.

Trustees name Sir David Tweedie (chairman of the UK Accounting Standards Board) as the first Chairman of the restructured International Accounting Standards Board.

**2001** Members and new name of IASB announced. IASC Foundation formed. On 1 April 2001, the new IASB assumes its standard-setting responsibilities from the IASC. Existing IASs and SICs adopted by IASB.

IASB moves into its new offices at 30 Cannon Street, London.

IASB meets with chairs of its eight liaison national accounting standard-setting bodies to begin coordinating agendas and setting out convergence goals.

**2002** SIC is renamed as the International Financial Reporting Interpretations Committee (IFRIC) with a mandate not only to interpret existing IASs and IFRSs but also to provide timely guidance on matters not addressed in an IAS or IFRS.

Europe requires IFRSs for listed companies starting 2005.

IASB and FASB issue joint agreement on convergence.

- 2003** First final IFRS and first IFRIC draft Interpretation published.
- Improvements project completed – major revisions to 14 IASs.
- 2004** Extensive discussions about IAS 39 in Europe, leading to EC endorsement with two sections of IAS 39 ‘carved out’.
- Webcasting of IASB meetings begins.
- First IASB discussion paper and first final IFRIC Interpretation.
- IFRSs 2 through 6 are published.
- 2005** IASB Board member becomes IFRIC chairman.
- Constitutional changes (see page 6).
- US SEC ‘roadmap’ to eliminating IFRS-US GAAP reconciliation.
- EC eliminates fair value option IAS 39 ‘carve out’
- Meetings of Working Groups opened to public.
- IFRS 7 is published.

# Use of IFRSs around the world

## Use of IFRSs for domestic reporting by listed companies as of February 2006

Location	IFRSs not permitted	IFRSs permitted	Required for some domestic listed companies	Required for all domestic listed companies
Albania	No stock exchange. Companies use Albanian GAAP.			
Argentina	X			
Armenia				X
Aruba		X		
Austria				X (a)
Australia				X (b)
Bahamas				X
Bahrain			Banks	
Barbados				X
Bangladesh				X
Belgium				X (a)
Belize	No stock exchange. Companies may use IFRSs.			
Benin	X			
Bermuda		X		
Bolivia		X		
Botswana		X		
Brazil	X			
Brunei				
Darussalam		X		
Bulgaria				X
Burkina Faso	X			
Cambodia	No stock exchange. Companies may use IFRSs.			
Cayman Islands		X		
Canada	X			
Chile	X			
China			X	
Cote D'Ivoire	X			

Location	IFRSs not permitted	IFRSs permitted	Required for some domestic listed companies	Required for all domestic listed companies
Colombia	X			
Costa Rica				X
Croatia				X
Cyprus				X (a)
Czech Rep.				X (a)
Denmark				X (a)
Dominica		X		
Dominican Rep.				X
Ecuador				X
Egypt				X
El Salvador		X		
Estonia				X (a)
Finland				X (a)
Fiji	X			
France				X (a)
Germany				X (a)
Georgia				X
Ghana	X			
Gibraltar		X		
Greece				X (a)
Guam	No stock exchange. Companies use US GAAP.			
Guatemala				X
Guyana				X
Haiti				X
Honduras				X
Hong Kong				X (c)
Hungary				X (a)
Iceland				X (a)
India	X			
Indonesia	X			
Ireland				X (a)

Location	IFRSs not permitted	IFRSs permitted	Required for some domestic listed companies	Required for all domestic listed companies
Israel	X			
Italy				X (a)
Jamaica				X
Japan	X			
Jordan				X
Kazakhstan			Banks	
Kenya				X
Korea (South)	X			
Kuwait				X
Kyrgyzstan				X
Laos		X		
Latvia				X (a)
Lebanon				X
Liechtenstein				X (a)
Lesotho		X		
Lithuania				X (a)
Luxembourg				X (a)
Macedonia				X
Malawi				X
Mali	X			
Malta				X (a)
Malaysia	X			
Mauritius				X
Mexico	X			
Moldova	X			
Myanmar		X		
Namibia		X		
Netherlands				X (a)
NL Antilles		X		
Nepal				X
New Zealand				2007 (b)



Location	IFRSs not permitted	IFRSs permitted	Required for some domestic listed companies	Required for all domestic listed companies
Niger	X			
Norway				X (a)
Oman				X
Pakistan	X			
Panama				X
Papua New Guinea				X
Peru				X
Philippines				X (c)
Poland				X (a)
Portugal				X (a)
Romania			All large companies	
Russian Federation			X	Proposed phase-in starting 2006
Saudi Arabia	X			
Singapore				X (c)
Slovenia				X (a)
Slovak Rep.				X (a)
South Africa				X
Spain				X
Sri Lanka		X		
Sweden				X (a)
Syria	X			
Swaziland		X		
Switzerland		X		
Taiwan	X			
Tajikistan				X
Tanzania				X
Thailand	X			
Togo	X			

Location	IFRSs not permitted	IFRSs permitted	Required for some domestic listed companies	Required for all domestic listed companies
Trinidad and Tobago				X
Tunisia	X			
Turkey		X		
Uganda		X		
Ukraine				X
United Arab Emirates			Banks and some others	
United Kingdom				X (a)
United States	X			
Uruguay	X (d)			
Uzbekistan	X			
Venezuela				X
Vietnam	X			
Yugoslavia				X
Zambia		X		
Zimbabwe		X		

(a) Audit report refers to IFRSs as adopted by the EU.

(b) Compliance with IFRSs is stated in a note.

(c) IFRSs adopted virtually in full as national GAAP.

(d) By law, all companies must follow IFRSs existing at 19 May 2004. The auditor's report refers to conformity with Uruguayan GAAP.

## Use of IFRSs in Europe

### European Accounting Regulation effective from 2005

**Listed companies** To implement a “financial reporting strategy” adopted by the European Commission in June 2000, the European Union in 2002 approved an Accounting Regulation requiring all EU companies listed on a regulated market (about 8,000 companies in total) to follow IFRSs in their consolidated financial statements starting in 2005. In two limited cases, member States were allowed to exempt certain companies temporarily from the IFRS requirement – but only until 2007: (a) companies that are listed both in the EU and on a non-EU exchange and that currently use US GAAP as their primary accounting standards, and (b) companies that have

only publicly-traded debt securities. Non-EU companies listed on EU exchanges can continue to use their national GAAPs until 2007. The IFRS requirement applies not only in the 25 EU countries but also in the three European Economic Area countries. Most large companies in Switzerland (not an EU or EEA member) already use IFRSs.

**Unlisted companies** EU Member States may extend the IFRS requirement to non-listed companies and to company-only statements. The tentative plans of the 28 EU/EEA countries regarding the use of IFRSs in the consolidated financial statements of unlisted companies are as follows:

**IFRSs required** Cyprus, Malta, Slovakia

**IFRSs permitted** Austria, Belgium, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Italy, Ireland, Liechtenstein, Luxembourg, Netherlands, Norway, Portugal, Slovenia, Spain, Sweden, United Kingdom

**IFRSs prohibited** Latvia, Lithuania, Poland

### Endorsement of IFRSs for use in Europe

Under the EU Accounting Regulation, IFRSs must be individually endorsed for use in Europe. The endorsement process involves the following steps:

- EU translates the IFRSs into all European languages;
- the private-sector European Financial Reporting Advisory Group (EFRAG) gives its views to the European Commission (EC);
- the EC's Accounting Regulatory Committee makes an endorsement recommendation; and
- the 25-member EC formally votes to endorse.

By the end of February 2006, the EC had voted to endorse all IASs, IFRSs 1 through 7, and all Interpretations except IFRICs 7, 8 and 9 – but with one carve-out from IAS 39 *Financial Instruments: Recognition and Measurement*. The carve-out allows use of fair value hedge accounting for interest rate hedges of core deposits on a portfolio basis.

### Enforcement of IFRSs in Europe

European securities markets are regulated by individual member states, subject to certain regulations adopted at the EU level. EU-wide regulations include:

- Standards adopted by the Committee of European Securities Regulators (CESR), a consortium of national regulators. Standard No. 1, *Enforcement of Standards on Financial Information in Europe*, sets out 21 high level principles that EU member states should adopt in enforcing IFRSs. Proposed Standard No. 2, *Coordination of Enforcement Activities*, proposes guidelines for implementing Standard No. 1.

- Proposed new Directive on Statutory Audit of Annual Accounts and Consolidated Accounts. The new Directive would replace the current 8th Directive and amend the 4th and 7th Directives. Among other things, the proposal would adopt International Standards on Auditing throughout the EU and would require Member States to form auditor oversight bodies.
- Amendments to EU directives that establish the collective responsibility of board members for a company's financial statements.
- A new European Group of Auditors' Oversight Bodies (EGAOb) formed by the EC in late 2005.
- A plan for cooperation on overlapping enforcement issues, including financial reporting, agreed to in late 2005 by the European groups of bank regulators, insurance regulators and securities regulators.
- A plan under development by CESR to make published financial reports of listed companies available electronically throughout Europe.

## Use of IFRSs in the United States

### SEC recognition of IFRSs

Of the approximately 13,000 companies whose securities are registered with the US Securities and Exchange Commission, over 1,200 are non-US companies. If these foreign companies submit IFRS or local GAAP financial statements rather than US GAAP, a reconciliation of earnings and net assets to US GAAP figures is required. Prior to 2005, there were about 50 IFRS filers with the SEC. Another 350 European companies listed in the United States have switched to IFRSs in their SEC filings for 2005. In 2005, the SEC announced a 'roadmap' aimed toward eliminating the reconciliation requirement for foreign IFRS filers by 2009, or possibly earlier, based on the SEC's review of IFRS filings in 2005 and 2006.

### IFRS-US GAAP convergence

In October 2002, the IASB and the US Financial Accounting Standards Board embarked on a joint programme to converge US GAAP and IFRSs to the maximum extent possible. Activities that are part of that programme include:

- twice-yearly joint meetings;
- aligned agendas;
- joint staffing of all major projects;
- short-term convergence projects;
- convergence inventory of every single difference with a plan to eliminate as many as possible; and
- coordination of the activities of their respective interpretative bodies – EITF and IFRIC.

## Use of IFRSs in Canada

Currently, domestic Canadian companies listed in the United States are allowed to use US GAAP for domestic reporting, but not IFRSs. All other Canadian companies must use Canadian GAAP. Foreign issuers in Canada are permitted to use IFRSs or a limited group of non-Canadian national GAAPs. In January 2006, the Accounting Standards Board of Canada announced a plan to replace Canadian GAAP with IFRSs for listed companies over the next five years.

## Use of IFRSs in Asia-Pacific

Asia-Pacific jurisdictions are taking a variety of approaches toward convergence of GAAP for domestic companies with IFRSs.

### Requirement for IFRSs in place of national GAAP

Only Bangladesh requires IFRSs for all domestic listed companies.

### All national standards are virtually word-for-word IFRSs

Australia, Hong Kong, New Zealand and the Philippines are taking this approach. Effective dates and transitions may differ from IFRSs. Australia and New Zealand have eliminated some accounting policy options and added some disclosures and guidance.

### Nearly all national standards are word-for-word IFRSs

Singapore has adopted most IFRSs word for word, but has modified several including IASs 16, 17, 39 and 40.

### Some national standards are close to word-for-word IFRSs

India, Malaysia, Pakistan, Sri Lanka and Thailand have adopted selected IFRSs quite closely, but significant differences exist in other national standards, and there are time lags in adopting new or amended IFRSs.

### IFRSs are looked to in developing national GAAP

This is done to varying degrees in China, Indonesia, Japan, Korea, Taiwan and Vietnam, but significant differences exist. In February 2006, China adopted a new Basic Standard and 38 new Chinese Accounting Standards consistent with IFRSs with few exceptions.

### Some domestic listed companies may use IFRSs

This is true in China, Hong Kong, Laos and Myanmar.

# Members of the IASB

**Sir David Tweedie, Chairman** Sir David became the first IASB Chairman on 1 January 2001, having served from 1990-2000 as the first full-time Chairman of the UK Accounting Standards Board. Before that, he was national technical partner for KPMG and was a professor of accounting in his native Scotland. He has worked on international standard setting issues both as the first Chairman of the G4+1 and as a member of the IASC. Term expires 30 June 2006. IASC Foundation Trustees have announced that he will be reappointed for an additional five years.

**Thomas E. Jones, Vice-Chairman** As the former Principal Financial Officer of Citicorp and Chairman of the IASC Board, Tom Jones brings extensive experience in standard setting and the preparation of financial accounts for financial institutions. A British citizen, Mr. Jones has worked in Europe and the US. Term expires 30 June 2009.

**Mary E. Barth** As a part-time Board member, Mary Barth, a US citizen, retains her position as Senior Associate Dean of the Graduate School of Business at Stanford University. Professor Barth was previously a partner at Arthur Andersen. Term expires 30 June 2009.

**Hans-Georg Bruns** Mr. Bruns has served as the Chief Accounting Officer for Daimler Chrysler and has been head of a principal working group of his home country's German Accounting Standards Committee. He was responsible for addressing the accounting issues related to the Daimler Chrysler merger. Term expires 30 June 2006.

**Anthony T. Cope** Mr. Cope, a British citizen, joined the US FASB in 1993. Prior to that, he worked as a financial analyst in the United States for 30 years. As a member of the IASC Strategy Working Party, he was closely involved with the IASC's restructuring, and served as FASB's observer at IASC Board meetings for the IASC's last five years. Term expires 30 June 2007.

**Jan Engstrom** Jan Engstrom, a Swedish citizen, held senior financial and operating positions with the Volvo Group, including serving on the management board and as Chief Financial Officer. He also was Chief Executive Officer of Volvo Bus Corporation. Term expires 30 June 2009.

**Robert P. Garnett** Mr. Garnett was the Executive Vice President of Finance for Anglo American plc, a South African company listed on the London Stock Exchange. He has worked as a preparer and analyst of financial statements in his native South Africa. He serves as Chairman of IFRIC. Term expires 30 June 2010.

**Gilbert Gelard** Having been a partner at KPMG in his native France, Gilbert Gelard has extensive experience with French industry. Mr. Gelard speaks eight languages and has been a member of the French standard-setting body (CNC). He also was a member of the former IASC Board. Term expires 30 June 2010.

**James J. Leisenring** Jim Leisenring has worked on issues related to accounting standard setting over the last three decades, as the Vice Chairman and more recently as Director of International Activities of the FASB in his home country. While at the FASB, Mr. Leisenring served for several years as the FASB's observer at meetings of the former IASC Board. Term expires 30 June 2010.

**Warren McGregor** Mr. McGregor developed an intimate knowledge of standard setting issues with his work over 20 years at the Australian Accounting Research Foundation, where he ultimately became the Chief Executive Officer. Term expires 30 June 2006.

**Patricia O'Malley** Ms. O'Malley was the first full-time Chair of the Accounting Standards Board of Canada. She has worked on issues related to global standard setting since 1983 and brings broad experience on work with financial instruments. Before joining the Canadian Board, Ms. O'Malley was a Technical Partner at KPMG in Canada. Term expires 30 June 2007.

**John T. Smith** As a part-time member of the Board, Mr. Smith continues to be a partner at Deloitte & Touche (USA). He was a member of the FASB's Emerging Issues Task Force, Derivatives Implementation Group, and Financial Instruments Task Force. He served on the IASC Task Force on Financial Instruments and chaired the IASC's IAS 39 Implementation Guidance Committee. He was a member of the IASC, SIC and IFRIC. Term expires 30 June 2007.

**Geoffrey Whittington** Mr. Whittington was the PricewaterhouseCoopers Professor of Financial Accounting at Cambridge University. Previously he was a member of the UK Monopolies and Merger Commission and a member of the UK Accounting Standards Board in his native England. Term expires 30 June 2006. Professor Whittington has announced that he will not seek reappointment.

**Tatsumi Yamada** Tatsumi Yamada was a partner at ChuoAoyama Audit Corporation (a member firm of PricewaterhouseCoopers) in Tokyo. He brings extensive experience with international standard setting as a Japanese member of the former IASC Board between 1996 and 2000. Term expires 30 June 2006.

IASB members are appointed for terms of up to five years, renewable once. There must be an "appropriate mix of practical experience among auditors, preparers, users, and academics", including at least one with recent experience in each of those fields. There is no prescribed geographical mix. Twelve members serve full time and two serve part time.

# Effective dates of recent pronouncements

New or revised IFRS	Effective date*
IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i>	First IFRS financial statements for a period beginning on or after 1 January 2004
IFRS 2 <i>Share-based Payment</i>	Annual periods beginning on or after 1 January 2005
IFRS 3 <i>Business Combinations</i>	Business combinations for which the agreement date is on or after 31 March 2004
IFRS 4 <i>Insurance Contracts</i>	Annual periods beginning on or after 1 January 2005 (the financial guarantee amendment in 2005 is effective 1 January 2006)
IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>	Annual periods beginning on or after 1 January 2005
IFRS 6 <i>Exploration for and Evaluation of Mineral Resources</i> (and concurrent amendments to IFRS 1 and IASs 16 and 38)	Annual periods beginning on or after 1 January 2006
IFRS 7 <i>Financial Instruments: Disclosures</i> (and concurrent amendment to IAS 1 to add capital disclosures)	Annual periods beginning on or after 1 January 2007
2003-2004 revisions to IASs 1, 2, 8, 10, 16, 17, 21, 24, 27, 28, 31, 32, 33, 39, 40	Annual periods beginning on or after 1 January 2005
2004 revisions to IASs 36 and 38	1 April 2004 (or earlier date of adoption of IFRS 3)
2004 revision to IAS 19 on reporting actuarial gains and losses in equity and expanded disclosure requirements	Annual periods beginning on or after 1 January 2006

2005 amendment to IAS 21 for net investment in a foreign entity

Annual periods beginning on or after 1 January 2006

2005 revisions to IAS 39 for fair value option and guarantees

Annual periods beginning on or after 1 January 2006

\*Earlier application of all of these Standards is encouraged, with certain restrictions in the cases of IFRS 3 and the revisions to IASs 36 and 38.

New Interpretation	Effective date
IFRIC 1 <i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i>	Annual periods beginning on or after 1 September 2004
IFRIC 2 <i>Members' Shares in Co-operative Entities and Similar Instruments</i>	Annual periods beginning on or after 1 January 2005
IFRIC 3 <i>Emission Rights</i>	[Withdrawn]
IFRIC 4 <i>Determining whether an Arrangement contains a Lease</i>	Annual periods beginning on or after 1 January 2006
IFRIC 5 <i>Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i>	Annual periods beginning on or after 1 January 2006
IFRIC 6 <i>Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment</i>	Annual periods beginning on or after 1 December 2005
IFRIC 7 <i>Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies</i>	Annual periods beginning on or after 1 March 2006
IFRIC 8 <i>Scope of IFRS 2</i>	Annual periods beginning on or after 1 May 2006
IFRIC 9 <i>Reassessment of Embedded Derivatives</i>	Annual periods beginning on or after 1 June 2006

# Summaries of current Standards

On pages 24-80, we summarise the provisions of all International Financial Reporting Standards in issue at 1 March 2006, as well as the Preface to IFRSs and the Framework for the Preparation and Presentation of Financial Statements. These summaries are intended as general information and are not a substitute for reading the entire Standard.

## Preface to International Financial Reporting Standards

### Adoption

Adopted by the IASB in May 2002.

### Summary

Covers, among other things:

- the objectives of the IASB;
- the scope of IFRSs;
- due process for developing IFRSs and Interpretations;
- equal status of “black letter” and “grey letter” paragraphs;
- policy on effective dates; and
- use of English as the official language.

## Framework for the Preparation and Presentation of Financial Statements

### Adoption

Approved by the IASC Board in April 1989.

Adopted by the IASB in April 2001.

### Summary

The Framework:

- Defines the objective of general purpose financial statements. The objective is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions.

- Identifies the qualitative characteristics that make information in financial statements useful. The Framework identifies four principal qualitative characteristics: understandability, relevance, reliability and comparability.
- Defines the basic elements of financial statements and the concepts for recognising and measuring them in financial statements. Elements directly related to financial position (balance sheet) are assets, liabilities and equity. Elements directly related to performance (income statement) are income and expenses.

## IFRS 1 *First-time Adoption of International Financial Reporting Standards*

### Effective date

First IFRS financial statements for a period beginning on or after 1 January 2004.

### Objective

To prescribe the procedures when an entity adopts IFRSs for the first time as the basis for preparing its general-purpose financial statements.

### Summary

- Overview for an entity that adopts IFRSs for the first time in its annual financial statements for the year ended 31 December 2005.
- Select its accounting policies based on IFRSs in force at 31 December 2005.
- Prepare at least 2005 and 2004 financial statements and restate retrospectively the opening balance sheet (first period for which full comparative financial statements are presented) by applying the IFRSs in force at 31 December 2005:
  - since IAS 1 requires at least one year of comparative prior period financial information, the opening balance sheet will be 1 January 2004 if not earlier; and

- if a 31 December 2005 adopter reports selected financial data (but not full financial statements) on an IFRS basis for periods prior to 2004, in addition to full financial statements for 2004 and 2005, that does not change the fact that its opening IFRS balance sheet is as of 1 January 2004.

**Interpretations**

None.

**Useful Deloitte publication****First-time adoption: A guide to IFRS 1**

Application guidance for the “stable platform” Standards effective in 2005. Available for download at [www.iasplus.com/dttdpubs/pubs.htm](http://www.iasplus.com/dttdpubs/pubs.htm)

**IFRS 2 *Share-based Payment*****Effective date**

Annual periods beginning on or after 1 January 2005.

**Objective**

To prescribe the accounting for transactions in which an entity receives or acquires goods or services either as consideration for its equity instruments or by incurring liabilities for amounts based on the price of the entity's shares or other equity instruments of the entity.

**Summary**

- All share-based payment transactions must be recognised in the financial statements, using a fair value measurement basis.
- An expense is recognised when the goods or services received are consumed.
- The same recognition and measurement standards apply to both public and non-public companies.

- In principle, transactions in which goods or services are received as consideration for equity instruments of the entity should be measured at the fair value of the goods or services received. Only if the fair value of the goods or services cannot be measured reliably would the fair value of the equity instruments granted be used.
- For transactions with employees and others providing similar services, the entity is required to measure the fair value of the equity instruments granted, because it is typically not possible to estimate reliably the fair value of employee services received.
- For transactions measured at the fair value of the equity instruments granted (such as transactions with employees), fair value should be estimated at grant date.
- For transactions measured at the fair value of the goods or services received, fair value should be estimated at the date of receipt of those goods or services.
- For goods or services measured by reference to the fair value of the equity instruments granted, IFRS 2 specifies that, in general, vesting conditions, except market conditions, are not taken into account when estimating the fair value of the shares or options at the relevant measurement date (as specified above). Instead, vesting conditions are taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount so that, ultimately, the amount recognised for goods or services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.
- IFRS 2 requires the fair value of equity instruments granted to be based on market prices, if available, and to take into account the terms and conditions on which those equity instruments were

granted. In the absence of market prices, fair value is estimated using a valuation model to estimate what the price of those equity instruments would have been on the measurement date in an arm's length transaction between knowledgeable, willing parties. IFRS 2 does not specify which particular valuation model should be used.

## Interpretations

### IFRIC 8 *Scope of IFRS 2*

Clarifies that IFRS 2 applies to share-based payment transactions in which the entity cannot specifically identify some or all of the goods or services received. The entity should measure the unidentifiable goods or services received (or to be received) as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received).

## Useful Deloitte publication

### Share-based payment: A guide to IFRS 2

Guidance on applying IFRS 2 to many common share-based payment transactions. Available for download at [www.iasplus.com/dttdpubs/pubs.htm](http://www.iasplus.com/dttdpubs/pubs.htm)

## IFRS 3 *Business Combinations*

### Effective date

Business combinations on or after 31 March 2004.

### Objective

To prescribe the financial reporting by an entity when it undertakes a business combination.

### Summary

- A business combination is the bringing together of separate entities or businesses into one reporting entity.
- IFRS 3 does not apply to formation of a joint venture, combinations of entities or businesses under common control, or business combinations involving two or more mutual entities.

- Purchase method is used for all business combinations. The uniting (pooling) of interests method that was used under IAS 22 in certain circumstances is prohibited.
- Steps in applying the purchase method:
  1. Identify the acquirer. The acquirer is the combining entity that obtains control of the other combining entities or businesses.
  2. Measure the cost of the combination. The cost is the total of (a) the fair values, at date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, plus (b) any costs directly attributable to the business combination. Cost is measured at the date of exchange.
  3. Allocate, as of the acquisition date, the cost of the combination to the assets acquired and liabilities and contingent liabilities assumed. To do this, the acquiring entity will recognise the identifiable assets, liabilities and contingent liabilities of the acquiree existing at the acquisition date at their fair value if fair value can be measured reliably. Any minority interest in the acquiree is stated at the minority's proportion of the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.
- If the initial accounting for a business combination can be determined only provisionally by the end of the first reporting period, account for the combination using provisional values. Recognise adjustments to provisional values within 12 months as restatements. No adjustments after 12 months except to correct an error – not to change an estimate.



- Goodwill is initially measured as the excess of cost of business combination over the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.
- Goodwill and other intangible assets with indefinite lives are not amortised, but they must be tested for impairment at least annually. IAS 36 provides guidance for impairment testing.
- If the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost, the excess (previously known as negative goodwill) is recognised as an immediate gain.
- Minority interest is reported within equity in the balance sheet. (The Board has recently begun using the term "non-controlling interest" in place of minority interest.)

**Interpretations**

None.

**Useful Deloitte publication****Business combinations: A guide to IFRS 3**

Supplements the IASB's own guidance for applying this Standard. Available for download at [www.iasplus.com/dttdpubs/pubs.htm](http://www.iasplus.com/dttdpubs/pubs.htm)

**IFRS 4 Insurance Contracts****Effective date**

Annual periods beginning on or after 1 January 2005.

**Objective**

To prescribe the financial reporting for insurance contracts until the IASB completes the second phase of its project on insurance contracts.

**Summary**

- Insurers are exempted from applying the IASB Framework and certain existing IFRSs.
- Catastrophe reserves and equalisation provisions are prohibited.

- Requires a test for the adequacy of recognised insurance liabilities and an impairment test for reinsurance assets.
- Insurance liabilities may not be offset against related reinsurance assets.
- Accounting policy changes are restricted.
- New disclosures are required.

**Interpretations**

None.

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

Annual periods beginning on or after 1 January 2005.

**Objective**

To prescribe the accounting for assets held for sale and the presentation and disclosure of discontinued operations.

**Summary**

- Introduces the classification 'held for sale' and the concept of a disposal group (a group of assets to be disposed of in a single transaction, including any related liabilities also transferred).
- Assets or disposal groups held for sale are measured at the lower of carrying amount and fair value less costs to sell.
- Such assets or disposal groups are not depreciated.
- An asset classified as held for sale, and the assets and liabilities in a disposal group classified as held for sale, are presented separately on the face of the balance sheet.
- A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale and (a) represents a separate major line of business or major geographical area of operations, (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or (c) is a subsidiary acquired exclusively with a view to resale.

- An entity is required to present as a single amount on the face of the income statement the sum of the profit or loss of discontinued operations for the period and the gain or loss arising on the disposal of discontinued operations (or the remeasurement of the assets and liabilities of discontinued operations as held for sale). Therefore, the income statement is effectively divided into two sections – continuing operations and discontinued operations.

**Interpretations**

None.

**IFRS 6 *Exploration for and Evaluation of Mineral Resources*****Effective date**

Annual periods beginning on or after 1 January 2006.

**Objective**

To prescribe the financial reporting for the exploration for and evaluation of mineral resources until the IASB completes a comprehensive project in this area.

**Summary**

- An entity is permitted to develop its accounting policy for exploration and evaluation assets under IFRSs without specifically considering the requirements of paragraphs 11 and 12 of IAS 8 – which specify a hierarchy of sources of IFRS GAAP in the absence of a specific Standard. Thus an entity adopting IFRS 6 may continue to use its existing accounting policies.
- Requires an impairment test when there is an indication that the carrying amount of exploration and evaluation assets exceeds recoverable amount.
- Allows impairment to be assessed at a level higher than the “cash generating unit” under IAS 36, but measures impairment in accordance with IAS 36 once it is assessed.

**Interpretations**

None.

**IFRS 7 *Financial Instruments: Disclosures*****Effective date**

Annual periods beginning on or after 1 January 2007. Supersedes IAS 30 and the disclosure requirements of IAS 32.

**Objective**

To prescribe disclosures that enable financial statement users to evaluate the significance of financial instruments to an entity, the nature and extent of their risks, and how the entity manages those risks.

**Summary**

- IFRS 7 requires disclosure of information about the significance of financial instruments for an entity's financial position and performance. These include:
  - balance sheet disclosures, including information about financial assets and financial liabilities by category, special disclosures when the fair value option is used, reclassifications, derecognitions, pledges of assets, embedded derivatives, and breaches of terms of agreements;
  - income statement and equity disclosures, including information about recognised income, expenses, gains, and losses; interest income and expense; fee income; and impairment losses; and
  - other disclosures, including information about accounting policies, hedge accounting, and the fair values of each class of financial asset and financial liability.
- IFRS 7 requires disclosure of information about the nature and extent of risks arising from financial instruments:
  - qualitative disclosures about exposures to each class of risk and how those risks are managed; and

- quantitative disclosures about exposures to each class of risk, separately for credit risk, liquidity risk, and market risk (including sensitivity analyses).

**Interpretations**

None.

**Useful Deloitte publication**

**iGAAP 2006: Financial Instruments: IAS 32, IAS 39 and IFRS 7 Explained**

2nd edition (February 2006). Guidance on how to apply these complex standards, including illustrative examples, and interpretations.

Information at [www.iasplus.com/dttdpubs/pubs.htm](http://www.iasplus.com/dttdpubs/pubs.htm)

### IAS 1 *Presentation of Financial Statements* (revised 2005)

**Effective date**

Annual periods beginning on or after 1 January 2005 (1 January 2007 for capital disclosures).

**Objective**

To set out the overall framework for presenting general purpose financial statements, including guidelines for their structure and the minimum content.

**Summary**

- Fundamental principles underlying the preparation of financial statements, including going concern assumption, consistency in presentation and classification, accrual basis of accounting, and materiality.
- Assets and liabilities, and income and expenses, may not be offset unless offsetting is permitted or required by another IFRS.
- Comparative prior-period information must be presented for amounts shown in the financial statements and notes.
- A complete set of financial statements should include a balance sheet, income statement, statement of changes in equity, cash flow statement, accounting policies and explanatory notes.

- The statement of changes in equity must show either:
  - all changes in equity; or
  - changes in equity other than those arising from transactions with equity holders acting in their capacity as equity holders.
- Financial statements generally to be prepared annually. If the date of the year end changes, and financial statements are presented for a period other than one year, disclosure thereof is required.
- Current/non-current distinction for assets and liabilities is normally required. In general, post-balance sheet events are not considered in classifying items as current or non-current.
- IAS 1 specifies minimum line items to be presented on the face of the balance sheet, income statement and statement of changes in equity, and includes guidance for identifying additional line items.
- Analysis of expenses in the income statement may be given by nature or by function. If presented by function, classification by nature must be provided in the notes.
- IAS 1 specifies minimum note disclosures. These must include information about:
  - accounting policies followed;
  - the judgements that management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements; and
  - the key assumptions concerning the future, and other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

- An appendix to IAS 1 provides illustrative balance sheets, income statements and statements of changes in equity.
- 2005 amendment requires disclosures about the reporting entity's capital structure.

Interpretations

**SIC 29 Disclosure – Service Concession Arrangements**

Disclosure is required if an entity agrees to provide services that give the public access to major economic or social facilities.

Useful Deloitte publication

**IFRS financial statements 2005: Key considerations for preparers**

Includes consideration of many of the practical issues faced when preparing financial statements for 2005. Available for download at [www.iasplus.com/dtppubs/pubs.htm](http://www.iasplus.com/dtppubs/pubs.htm)

*IAS 2 Inventories (revised 2003)*

**Effective date**

Annual periods beginning on or after 1 January 2005.

**Objective**

To prescribe the accounting treatment for inventories, including cost determination and expense recognition.

**Summary**

- Inventories are required to be stated at the lower of cost and net realisable value (NRV).
- Costs include purchase cost, conversion cost (materials, labour and overhead), and other costs to bring inventory to its present location and condition, but not foreign exchange differences.
- For inventory items that are not interchangeable, specific costs are attributed to the specific individual items of inventory.

- For interchangeable items, cost is determined on either a FIFO or weighted average basis. LIFO is not permitted.
- When inventories are sold, the carrying amount should be recognised as an expense in the period in which the related revenue is recognised.
- Write-downs to NRV are recognised as an expense in the period of the write-down. Reversals arising from an increase in NRV are recognised as a reduction of the inventory expense in the period in which they occur.

Interpretations

None.

*IAS 7 Cash Flow Statements (revised 1992)*

**Effective date**

Periods beginning on or after 1 January 1994.

**Objective**

To require the presentation of information about historical changes in an entity's cash and cash equivalents by means of a cash flow statement that classifies cash flows during the period according to operating, investing and financing activities.

**Summary**

- Cash flow statement must analyse changes in cash and cash equivalents during a period.
- Cash equivalents include investments that are short term (less than three months from date of acquisition), readily convertible to a known amount of cash, and subject to an insignificant risk of changes in value. Generally exclude equity investments.
- Cash flows from operating, investing and financing activities must be separately reported.
- Cash flows for operating activities are reported using either the direct (recommended) or the indirect method.

- Cash flows arising from taxes on income are classified as operating unless they can be specifically identified with financing or investing activities.
- The exchange rate used for translation of transactions denominated in a foreign currency and the cash flows of a foreign subsidiary should be the rate in effect at the date of the cash flows.
- Aggregate cash flows relating to acquisitions and disposals of subsidiaries and other business units should be presented separately and classified as investing activities, with specified additional disclosures.
- Investing and financing transactions that do not require the use of cash should be excluded from the cash flow statement, but they should be separately disclosed.
- Illustrative cash flow statements are included in appendices to IAS 7.

**Interpretations**

None.

*IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (revised 2003)*

**Effective date**

Annual periods beginning on or after 1 January 2005.

**Objective**

To prescribe the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in estimates, and errors.

**Summary**

- Prescribes a hierarchy for choosing accounting policies:
  - IASB Standards and Interpretations, taking into account any relevant IASB implementation guidance;

- in the absence of a directly applicable Standard or Interpretation, look to the requirements and guidance in IASB Standards and Interpretations dealing with similar and related issues; and the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Framework for the Preparation and Presentation of Financial Statements; and
- management may also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature, and accepted industry practices.
- Apply accounting policies consistently to similar transactions.
- Make a change in accounting policy only if it is required by a Standard or Interpretation, or it results in reliable and more relevant information.
- If a change in accounting policy is required by a Standard or Interpretation, follow that pronouncement's transition requirements. If none are specified, or if the change is voluntary, apply the new accounting policy retrospectively by restating prior periods. If restatement is impracticable, include the cumulative effect of the change in profit or loss. If the cumulative effect cannot be determined, apply the new policy prospectively.
- Changes in accounting estimates (for example, change in useful life of an asset) are accounted for in the current year, or future years, or both (no restatement).
- All material errors should be corrected by restating comparative prior period amounts and, if the error occurred before the earliest period presented, by restating the opening balance sheet.

**Interpretations**

None.

IAS 10 *Events After the Balance Sheet Date* (revised 2003)

**Effective date** Annual periods beginning on or after 1 January 2005.

**Objective** To prescribe:

- When an entity should adjust its financial statements for events after the balance sheet date.
- Disclosures about the date when the financial statements were authorised for issue, and about events after the balance sheet date.

**Summary**

- Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the balance sheet date and the date when the financial statements are authorised for issue.
- Adjusting events – adjust the financial statements to reflect those events that provide evidence of conditions that existed at the balance sheet date (such as resolution of a court case after the balance sheet date).
- Non-adjusting events – do not adjust the financial statements to reflect events that arose after the balance sheet date (such as a decline in market prices after year end, which does not change the valuation of investments at the balance sheet date).
- Dividends proposed or declared on equity instruments after the balance sheet date should not be recognised as a liability at the balance sheet date. Disclosure is required.
- An entity should not prepare its financial statements on a going concern basis if events after the balance sheet date indicate that the going concern assumption is not appropriate.

- An entity must disclose the date its financial statements are authorised for issue.

**Interpretations** None.

IAS 11 *Construction Contracts* (revised 1993)

**Effective date** Periods beginning on or after 1 January 1995.

**Objective** To prescribe the accounting treatment for revenue and costs associated with construction contracts in the financial statements of the contractor.

**Summary**

- Contract revenue should comprise the amount agreed in the initial contract together with variations in contract work, claims, and incentive payments to the extent that it is probable that they will result in revenues and can be measured reliably.
- Contract costs should comprise costs that relate directly to the specific contract, costs that are attributable to general contract activity and that can be reasonably allocated to the contract, together with such other costs as are directly attributable to the customer under the terms of the contract.
- Where the outcome of a construction contract can be estimated reliably, revenue and costs should be recognised by reference to the stage of completion of contract activity (the percentage of completion method of accounting).
- If the outcome cannot be estimated reliably, no profit should be recognised. Instead, contract revenue should be recognised only to the extent that contract costs incurred are expected to be recovered, and contract costs should be expensed as incurred.

- If it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognised immediately.

**Interpretations**

None.

### IAS 12 *Income Taxes* (revised 2000)

**Effective date**

Periods beginning on or after 1 January 1998.  
Certain revisions effective for periods beginning on or after 1 January 2001.

**Objective**

To prescribe the accounting treatment for income taxes.

To establish the principles and provide guidance in accounting for the current and future income tax consequences related to:

- the future recovery (settlement) of carrying amounts of assets (liabilities) in an entity's balance sheet; and
- current period transactions recognised in the income statement or directly through equity.

**Summary**

- Current tax liabilities and assets should be recognised for current and prior period taxes, measured at the rates applicable for the period.
- A temporary difference is a difference between the carrying amount of an asset or liability and its tax base.
- Deferred tax liabilities must be recognised for the future tax consequences of all taxable temporary differences with three exceptions:
  - liabilities arising from the initial recognition of goodwill;
  - liabilities arising from the initial recognition of an asset/liability other than in a business combination which, at the time of the transaction, does not

affect either the accounting or the taxable profit; and

- liabilities arising from undistributed profits from investments where the entity is able to control the timing of the reversal of the difference and it is probable that the reversal will not occur in the foreseeable future.

- A deferred tax asset must be recognised for deductible temporary differences, unused tax losses, and unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised, with the following exceptions:
  - a deferred tax asset arising from the initial recognition of an asset/liability, other than in a business combination, which, at the time of the transaction, does not affect either the accounting or the taxable profit; and
  - assets arising from deductible temporary differences associated with investments are recognised only to the extent that it is probable that the temporary difference will reverse in the foreseeable future.
- Deferred tax liabilities (assets) should be measured at the tax rates expected to apply when the liability is settled or the asset is realised, based on tax rates/laws that have been enacted or substantively enacted by the balance sheet date.
- Discounting of deferred tax assets and liabilities is prohibited.
- Deferred taxes must be presented as non-current items in the balance sheet.

## Interpretations

**SIC 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets**

Measure the deferred tax liability or asset arising from revaluation based on the tax consequences from the sale of the asset rather than through use.

**SIC 25 Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders**

The current and deferred tax consequences of the change should be included in net profit or loss for the period unless those consequences relate to transactions or events that were recognised directly in equity.

**IAS 14 Segment Reporting (revised 1997)****Effective date**

Periods beginning on or after 1 July 1998.

**Objective**

To establish principles for reporting financial information by line of business and by geographical area.

**Summary**

- IAS 14 applies to entities whose equity or debt securities are publicly traded and to entities in the process of issuing securities to the public. Also, any entity voluntarily providing segment information must comply with the requirements of IAS 14.
- An entity must look to its organisational structure and internal reporting system for the purpose of identifying its business segments and geographical segments.
- If internal segments are not geographical or products/service-based, then look to next lower level of internal segmentation to identify reportable segments.
- Guidance is provided on which segments are reportable (generally 10% thresholds).
- One basis of segmentation is primary and the other secondary.

- Segment information should be based on the same accounting policies as the consolidated group or entity.
- IAS 14 sets out disclosure requirements for primary and secondary segments, with considerably less disclosure for the secondary segments.

**Interpretations**

None.

**IAS 16 Property, Plant & Equipment (revised 2003)****Effective date**

Annual periods beginning on or after 1 January 2005.

**Objective**

To prescribe the principles for the initial recognition and subsequent accounting for property, plant and equipment.

**Summary**

- Items of property, plant and equipment should be recognised as assets when it is probable that the future economic benefits associated with the asset will flow to the entity, and the cost of the asset can be measured reliably.
- Initial recognition at cost, which includes all costs necessary to get the asset ready for its intended use. If payment is deferred, interest must be recognised.
- Subsequent to acquisition, IAS 16 allows a choice of accounting model:
  - cost model: the asset is carried at cost less accumulated depreciation and impairment; or
  - revaluation model: the asset is carried at revalued amount, which is fair value at revaluation date less subsequent depreciation and impairment.
- Under the revaluation model, revaluations must be carried out regularly. All items of a given class must be revalued. Revaluation increases are credited to equity.



- Revaluation decreases are charged first against the revaluation surplus in equity related to the specific asset, and any excess against profit or loss. When the revalued asset is disposed of, the revaluation surplus in equity remains in equity and is not recycled through profit or loss.
- Components of an asset with differing patterns of benefits must be depreciated separately.
- Depreciation is charged systematically over the asset's useful life. The depreciation method must reflect the pattern of benefit consumption. The residual value must be reviewed at least annually and should equal the amount the entity would receive currently if the asset were already of the age and condition expected at the end of its useful life. If operation of an item of property, plant and equipment (for example, an aircraft) requires regular major inspections, when each major inspection is performed, its cost is recognised in the carrying amount of the asset as a replacement, if the recognition criteria are satisfied.
- Impairment of property, plant and equipment must be assessed under IAS 36.
- All exchanges of property, plant and equipment should be measured at fair value, including exchanges of similar items, unless the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable.

### Interpretations

None.

## IAS 17 *Leases* (revised 2003)

<b>Effective date</b>	Annual periods beginning on or after 1 January 2005.
<b>Objective</b>	To prescribe, for lessees and lessors, the appropriate accounting policies and disclosures to apply in relation to finance and operating leases.
<b>Summary</b>	<ul style="list-style-type: none"> <li>• A lease is classified as a finance lease if it transfers substantially all risks and rewards incidental to ownership. Examples:             <ul style="list-style-type: none"> <li>– lease covers substantially all of the asset's life; and/or</li> <li>– present value of lease payments is substantially equal to the asset's fair value.</li> </ul> </li> <li>• All other leases are classified as operating leases.</li> <li>• A lease of both land and buildings should be split into land and building elements. Land element is generally an operating lease. Building element is an operating or finance lease based on the criteria in IAS 17. However, separate measurement of the land and buildings elements is not required if the lessee's interest in both land and buildings is classified as an investment property under IAS 40 and the fair value model is adopted.</li> <li>• Finance leases – Lessee's Accounting:             <ul style="list-style-type: none"> <li>– recognise asset and liability at the lower of the present value of minimum lease payments and the fair value of the asset;</li> <li>– depreciation policy – as for owned assets; and</li> <li>– finance lease payment – apportioned between interest and reduction in liability.</li> </ul> </li> </ul>

- Finance leases – Lessor's Accounting:
  - recognise as a receivable at an amount equal to the net investment in the lease; and
  - recognise finance income based on a pattern reflecting a constant periodic rate of return on the lessor's net investment.
- Operating leases – Lessee's Accounting:
  - recognise lease payments as an expense in the income statement on a straight-line basis over the lease term, unless another systematic basis is more representative of the pattern of benefit.
- Operating leases – Lessor's Accounting:
  - assets held for operating leases should be presented in the lessor's balance sheet according to the nature of the asset; and
  - lease income should be recognised on a straight-line basis over the lease term, unless another systematic basis is more representative of the pattern of benefit.
- Lessors must spread initial direct costs over the lease term (immediate expensing prohibited).
- Accounting for sale and leaseback transactions depends on whether these are essentially finance or operating leases.

## Interpretations

### SIC 15 *Operating Leases – Incentives*

Lease incentives (such as rent-free periods) should be recognised by both the lessor and the lessee as a reduction of rental income and expense, respectively, over the lease term.

### SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*

If a series of transactions involves the legal form of a lease and can only be understood with reference to the series as a whole, then the series should be accounted for as a single transaction.

### IFRIC 4 *Determining whether an Arrangement contains a Lease*

Arrangements that depend on a specific asset or convey the right to control the use of a specific asset generally are leases under IAS 17.

## IAS 18 *Revenue* (revised 1993)

### Effective date

Periods beginning on or after 1 January 1995.

### Objective

To prescribe the accounting treatment for revenue arising from certain types of transactions and events.

### Summary

- Revenue should be measured at the fair value of the consideration received/receivable.
  - Recognition:
    - from sale of goods: when significant risks and rewards have been transferred to buyer, loss of effective control by seller, and amount can be reliably measured;
    - from sale of services: percentage of completion method; and
    - for interest, royalties, and dividends: Recognised when it is probable that economic benefits will flow to the entity.
- Interest – using the effective interest method as set out in IAS 39.
- Royalties – on an accrual basis in accordance with the substance of the agreement.
- Dividends – when shareholder's right to receive payment is established.

## Interpretations

### SIC 31 *Revenue – Barter Transactions Involving Advertising Services*

Recognise revenue from barter transactions involving advertising services only if substantial revenue is also received from non-barter transactions.

IAS 19 *Employee Benefits* (revised 2004)**Effective date**

Periods beginning on or after 1 January 1999. Certain revisions effective on or after 1 January 2001; other revisions effective for periods ending 31 May 2002. Revision in 2004 to permit recognition of actuarial gains and losses in equity and introduce additional disclosure requirements is effective 1 January 2006 (early application encouraged).

**Objective**

To prescribe the accounting and disclosure for employee benefits, including short-term benefits (wages, annual leave, sick leave, annual profit-sharing, bonuses and non-monetary benefits); pensions; post-employment life insurance and medical benefits; and other long-term employee benefits (long-service leave, disability, deferred compensation, and long-term profit-sharing and bonuses).

**Summary**

- Underlying principle: the cost of providing employee benefits should be recognised in the period in which the benefit is earned by the employee, rather than when it is paid or payable.
- Short-term employee benefits (payable within 12 months) should be recognised as an expense in the period in which the employee renders the service.
- Profit-sharing and bonus payments are to be recognised only when the entity has a legal or constructive obligation to pay them and the costs can be reliably estimated.
- Post-employment benefit plans (such as pensions and health care) are categorised as either defined contribution plans or defined benefit plans.
- Under defined contribution plans, expenses are recognised in the period the contribution is payable.

- Under defined benefit plans, a liability is recognised in the balance sheet equal to the net of:
  - the present value of the defined benefit obligation (the present value of expected future payments required to settle the obligation resulting from employee service in the current and prior periods);
  - deferred actuarial gains and losses and deferred past service cost; and
  - the fair value of any plan assets at the balance sheet date.
- Actuarial gains and losses may be (a) recognised immediately in profit or loss, (b) deferred up to a maximum, with any excess amortised in profit or loss (the "corridor approach"), or (c) recognised immediately directly in equity.
- Plan assets include assets held by a long-term employee benefit fund and qualifying insurance policies.
- For group plans, the net cost is recognised in the separate financial statements of the entity that is legally the sponsoring employer unless a contractual agreement or stated policy for allocating the cost exists.
- Long-term employee benefits should be recognised and measured the same way as post-employment benefits under a defined benefit plan. However, unlike defined benefit plans, actuarial gains or losses and past service costs must always be recognised immediately in earnings.
- Termination benefits should be recognised when the entity is demonstrably committed to terminating one or more employees before the normal retirement date or to providing termination benefits as a result of an offer made to encourage voluntary redundancy.

- Effective 2005, equity compensation benefits are covered by IFRS 2, not IAS 19.

**Interpretations**

None.

*IAS 20 Accounting for Government Grants and Disclosure of Government Assistance*

**Effective date**

Periods beginning on or after 1 January 1984.

**Objective**

To prescribe the accounting for, and disclosure of, government grants and other forms of government assistance.

**Summary**

- Recognise government grants only when there is reasonable assurance that the entity will comply with the conditions attached to the grants, and the grants will be received. Non-monetary grants are usually recognised at fair value, though recognition at nominal value is permitted.
- Grants should not be credited directly to equity, but should be recognised in profit or loss over the periods necessary to match them with the related costs.
- Income-related grants may either be presented as a credit in the income statement or deduction in reporting the related expense.
- Asset-related grants may be presented as either deferred income in the balance sheet, or deducted in arriving at the carrying amount of the asset.
- Repayment of a government grant is accounted for as a change in accounting estimate with different treatment for income- and asset-related grants.

**Interpretations**

**SIC 10 Government Assistance – No Specific Relation to Operating Activities**

Government assistance to entities that is aimed at encouragement or long-term support of business activities either in certain regions or industry sectors should be treated as a government grant under IAS 20.

*IAS 21 The Effects of Changes in Foreign Exchange Rates (revised 2003)*

**Effective date**

Annual periods beginning on or after 1 January 2005.

**Objective**

To prescribe the accounting treatment for an entity's foreign currency transactions and foreign operations.

**Summary**

- First, determine the reporting entity's functional currency – the currency of the primary economic environment in which the entity operates.
- Then translate all foreign currency items into the functional currency:
  - at date of transaction, record using the transaction-date exchange rate for initial recognition and measurement;
  - at subsequent balance sheet dates:
    - use closing rate for monetary items;
    - use transaction-date exchange rates for non-monetary items carried at historical cost; and
    - use valuation-date exchange rates for non-monetary items that are carried at fair value; and
  - exchange differences arising on settlement of monetary items and on translation of monetary items at a rate different than when initially recognised are included in profit or loss, with one exception:
    - exchange differences arising on monetary items that form part of the reporting entity's net investment in a foreign operation are recognised in the consolidated financial statements that include the foreign operation in a separate component of equity; such differences will be recognised in profit or loss on disposal of the net investment.

- The results and financial position of an entity whose functional currency is not the currency of a hyperinflationary economy are translated into a different presentation currency using the following procedures:
  - assets and liabilities for each balance sheet presented (including comparatives) are translated at the closing rate at the date of that balance sheet;
  - income and expenses for each income statement (including comparatives) are translated at exchange rates at the dates of the transactions; and
  - all resulting exchange differences are recognised as a separate component of equity.
- Special rules for translating into a presentation currency the results and financial position of an entity whose functional currency is hyperinflationary.
  - capitalisation model: capitalise borrowing costs directly attributable to the acquisition or construction of a qualifying asset, but only when it is probable that these costs will result in future economic benefits to the entity, and the costs can be measured reliably. All other borrowing costs that do not satisfy the conditions for capitalisation are to be expensed when incurred.
- A qualifying asset is one that requires a substantial period of time to make it ready for its intended use or sale. Examples include manufacturing plants, investment properties and some inventories.
- If funds are borrowed generally and used for the purpose of obtaining the qualifying asset, apply a capitalisation rate (weighted average of borrowing costs applicable to the general outstanding borrowings during the period) to expenditure incurred during the period, to determine the amount of borrowing costs eligible for capitalisation.

Interpretations

**SIC 7 Introduction of the Euro**

Explained how to apply IAS 21 when the Euro was first introduced.

Interpretations

None.

*IAS 23 Borrowing Costs*

- Effective date**      Periods beginning on or after 1 January 1995.
- Objective**            To prescribe the accounting treatment for borrowing costs.
- Summary**
- Borrowing costs include interest, amortisation of discounts or premiums on borrowings, and amortisation of ancillary costs incurred in the arrangement of borrowings.
  - Two accounting models are allowed:
    - expense model: charge all borrowing costs to expense when incurred; and

*IAS 24 Related Party Disclosures (revised 2003)*

- Effective date**      Annual periods beginning on or after 1 January 2005.
- Objective**            To ensure that financial statements draw attention to the possibility that the financial position and results of operations may have been affected by the existence of related parties.
- Summary**
- Related parties are parties that control or have significant influence over the reporting entity (including parent companies, owners and their families, major investors, and key management personnel) and parties that are controlled or significantly influenced by the reporting

entity (including subsidiaries, joint ventures, associates, and post-employment benefit plans).

- Requires disclosure of:
  - relationships involving control, even when there have been no transactions;
  - related party transactions; and
  - management compensation (including an analysis by type of compensation).
- For related party transactions, disclosure is required of the nature of the relationship and of sufficient information to enable an understanding of the potential effect of the transaction.
- Examples of related party transactions that must be disclosed:
  - purchases or sales of goods;
  - purchases or sales of assets;
  - rendering or receiving of services;
  - leases;
  - transfers of research and development;
  - transfers under licence agreements;
  - transfers under finance arrangements (including loans and equity contributions);
  - provision of guarantees or collateral; and
  - settlement of liabilities on behalf of the entity or by the entity on behalf of another party.

#### Interpretations

None.

### IAS 26 *Accounting and Reporting by Retirement Benefit Plans*

<b>Effective date</b>	Periods beginning on or after 1 January 1998.
<b>Objective</b>	To specify the measurement and disclosure principles for the financial reports of retirement benefit plans.
<b>Summary</b>	<ul style="list-style-type: none"> <li>• Sets out the reporting requirements for both defined contribution and defined benefit plans, including a statement of net assets available for benefits and disclosure of the actuarial present value of promised benefits (split between vested and non-vested).</li> <li>• Specifies the need for actuarial valuation of the benefits for defined benefits and the use of fair values for plan investments.</li> </ul>
<b>Interpretations</b>	None.

### IAS 27 *Consolidated and Separate Financial Statements* (revised 2003)

<b>Effective date</b>	Annual periods beginning on or after 1 January 2005.
<b>Objective</b>	<p>To prescribe requirements for preparing and presenting consolidated financial statements for a group of entities under the control of a parent.</p> <p>To prescribe how to account for investments in subsidiaries, jointly controlled entities and associates in separate financial statements.</p>
<b>Summary</b>	<ul style="list-style-type: none"> <li>• A subsidiary is an entity controlled by another entity, known as the parent. Control is the power to govern the operating and financial policies.</li> </ul>

- Consolidated financial statements are financial statements of a group (parent and subsidiaries) presented as those of a single economic entity.
- Consolidated financial statements must include all subsidiaries. No exemption for “temporary control” or “subsidiary that operates under severe long-term funds transfer restrictions”. However, if, on acquisition, a subsidiary meets the criteria to be classified as held for sale under IFRS 5, it is accounted for under that Standard.
- Intragroup balances, transactions, income and expenses are eliminated in full.
- All entities in the group must use the same accounting policies.
- Reporting dates of subsidiaries cannot be more than three months different from the group reporting date.
- Minority interest is reported in equity in the balance sheet and is not deducted in measuring the group’s profit or loss. However, group profit or loss is allocated between minority and the parent’s shareholders on the face of the income statement.
- In the parent’s separate financial statements: account for all of its investments in subsidiaries, associates and joint ventures (other than those that are classified as held for sale under IFRS 5) either at cost or as investments under IAS 39.

Interpretations

**SIC 12 Consolidation – Special Purpose Entities**

An entity should consolidate a special purpose entity (SPE) when, in substance, it controls the SPE. SIC 12 provides indicators of control.

*IAS 28 Investments in Associates (revised 2003)*

<b>Effective date</b>	Annual periods beginning on or after 1 January 2005.
<b>Objective</b>	To prescribe the investor’s accounting for investments in associates over which it has significant influence.
<b>Summary</b>	<ul style="list-style-type: none"> <li>• Applies to all investments in which an investor has significant influence unless the investor is a venture capital firm, mutual fund or unit trust, and it elects to measure such investments at fair value through profit or loss under IAS 39.</li> <li>• Interests in associates that are classified as held for sale in accordance with IFRS 5 are accounted for in accordance with that Standard.</li> <li>• Otherwise, an investor must use the equity method for all investments in associates over which it has significant influence.</li> <li>• Rebuttable presumption of significant influence if investment held, directly and indirectly, is more than 20% of associate.</li> <li>• Under the equity method, the investment is initially recorded at cost. It is subsequently adjusted by the investor’s share of the investee’s post acquisition change in net assets. Investor’s income statement reflects its share of the investee’s post-acquisition profit or loss.</li> <li>• Associate’s accounting policies must be the same as those of the investor.</li> <li>• Reporting dates of associates cannot be more than three months different from the investor’s reporting date.</li> <li>• Even if consolidated accounts are not prepared, for example, because the investor has no subsidiaries, equity accounting is required. However, the investor does not apply the equity method when presenting “separate financial</li> </ul>

statements” as defined in IAS 27. Instead, the investor accounts for the investment either at cost or as an investment under IAS 39.

- Requirement for impairment testing in accordance with IAS 36. The impairment indicators in IAS 39 also apply.

#### Interpretations

None.

### IAS 29 *Financial Reporting in Hyperinflationary Economies*

#### Effective date

Periods beginning on or after 1 January 1990.

#### Objective

To prescribe specific standards for entities reporting in the currency of a hyperinflationary economy, so that the financial information provided is meaningful.

#### Summary

- The financial statements of an entity that reports in the currency of a hyperinflationary economy should be stated in terms of the measuring unit current at the balance sheet date.
- Comparative figures for prior period(s) should be restated into the same current measuring unit.
- Generally an economy is hyperinflationary when there is 100% inflation over 3 years.

#### Interpretations

##### **IFRIC 7 *Applying the Restatement Approach under IAS 29***

When the economy of an entity's functional currency becomes hyperinflationary, the entity must apply the requirements of IAS 29 as though the economy had always been hyperinflationary.

### IAS 30 *Disclosures in Financial Statements of Banks and Similar Institutions*

#### Effective date

Periods beginning on or after 1 January 1991. Superseded by IFRS 7 effective in 2007.

#### Objective

To prescribe appropriate presentation and disclosure standards for banks and similar financial institutions, as a supplement to the requirements of other IFRSs.

#### Summary

- Requires banks to classify items in the income statement and balance sheet by their nature, and to present assets in order of relative liquidity.
- Identifies certain minimum income statement and balance sheet line items for banks.
- Disclosure requirements include concentration of assets, liabilities, and off-balance items; losses on loans and advances; contingencies; asset pledges; and general banking risks.

#### Interpretations

None.

### IAS 31 *Interests in Joint Ventures (revised 2003)*

#### Effective date

Annual periods beginning on or after 1 January 2005.

#### Objective

To prescribe the accounting treatment required for interests in joint ventures (JVs), regardless of the structure or legal form of the JV activities.

#### Summary

- Applies to all investments in which investor has joint control unless the investor is a venture capital firm, mutual fund or unit trust, and it elects to measure such investments at fair value through profit or loss under IAS 39.



- The key characteristic of a JV is a contractual arrangement to share control. JVs may be classified as jointly controlled operations, jointly controlled assets or jointly controlled entities. Different recognition principles for each type of JV.
- Jointly controlled operations: venturer recognises the assets it controls, and expenses and liabilities it incurs, and its share of income earned, in both its separate and consolidated financial statements.
- Jointly controlled assets: venturer recognises its share of the joint assets, any liabilities that it has incurred directly, and its share of any liabilities incurred jointly with the other venturers, income from the sale or use of its share of the output of the joint venture, its share of expenses incurred by the joint venture, and expenses incurred directly in respect of its interest in the joint venture. These rules apply to both separate and consolidated financial statements.
- Jointly controlled entities: two accounting policy choices are permitted:
  - proportionate consolidation: under this method, the venturer's balance sheet includes its share of the assets that it controls jointly and its share of the liabilities for which it is jointly responsible. Its income statement includes its share of the income and expenses of the jointly controlled entity; and
  - the equity method, as described in IAS 28.
- Interests in jointly controlled entities that are classified as held for sale in accordance with IFRS 5 are accounted for in accordance with that Standard.
- Even if consolidated accounts are not prepared (for example, because the venturer has no subsidiaries), proportionate consolidation/ equity accounting is required. However, in the

venturer's "separate financial statements" as defined in IAS 27, interests in joint ventures should be accounted for either at cost or as investments under IAS 39.

### Interpretations

#### **SIC 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers**

Recognition of proportionate share of gains or losses on contributions of non-monetary assets in exchange for an equity interest is generally appropriate.

### IAS 32 *Financial Instruments: Disclosure and Presentation* (revised 2005)

#### Effective date

Annual periods beginning on or after 1 January 2005. Disclosure provisions are superseded on adoption of IFRS 7, effective in 2007.

#### Objective

To enhance users' understanding of the significance of on-balance sheet and off-balance sheet financial instruments to an entity's financial position, performance, and cash flows.

#### Summary

- Issuer's classification of an instrument either as a liability or an equity instrument:
  - based on substance, not form of the instrument;
  - classification is made at the time of issuance and is not subsequently altered;
  - an instrument is a financial liability if the issuer may be obligated to deliver cash or another financial asset or the holder has a right to demand cash or another financial asset. An example is mandatorily redeemable preferred shares;
  - an instrument that does not give rise to such a contractual obligation is an equity instrument; and

- interest, dividends, gains and losses relating to an instrument classified as a liability should be reported as income or expense as appropriate.
- At issuance, an issuer must classify separately the debt and equity components of a single compound instrument such as convertible debt and debt issued with detachable rights or warrants.
- A financial asset and a financial liability should be offset and the net amount reported when, and only when, an entity has a legally enforceable right to set off the amounts, and intends either to settle on a net basis or simultaneously.
- Cost of treasury shares is deducted from equity, and resales of treasury shares are equity transactions.
- Costs of issuing or reacquiring equity instruments (other than in a business combination) are accounted for as a deduction from equity, net of any related income tax benefit.
- Disclosure requirements include:
  - risk management and hedging policies;
  - hedge accounting policies and practices, and gains and losses from hedges;
  - terms and conditions of, and accounting policies for, all financial instruments;
  - information about exposure to interest rate risk;
  - information about exposure to credit risk;
  - fair values of all financial assets and financial liabilities, except those for which a reliable measure of fair value is not available; and
  - information about derecognition, collateral, impairment, defaults and breaches, and reclassifications.

## Interpretations

## Useful Deloitte publication

## IFRIC 2 *Members' Shares in Co-operative Entities and Similar Instruments*

These are liabilities unless the co-op has the legal right not to redeem on demand.

## iGAAP 2006: Financial Instruments: IAS 32, IAS 39 and IFRS 7 Explained

2nd edition (February 2006). Guidance on how to apply these complex standards, including illustrative examples, and interpretations.

Information at [www.iasplus.com/dttdpubs/pubs.htm](http://www.iasplus.com/dttdpubs/pubs.htm)

## IAS 33 *Earnings per Share* (revised 2003)

## Effective date

Annual periods beginning on or after 1 January 2005.

## Objective

To prescribe principles for determining and presenting earnings per share (EPS) amounts in order to improve performance comparisons between different entities in the same period and between different accounting periods for the same entity. Focus of IAS 33 is on the denominator of the EPS calculation.

## Summary

- Applies to publicly traded entities, entities in the process of issuing such shares, and any other entity voluntarily presenting EPS.
- EPS to be reported for profit or loss attributable to ordinary equity holders of the parent entity (face of the income statement), for profit or loss from continuing operations attributable to ordinary equity holders of the parent entity (face of the income statement), and for any discontinued operations (face of the income statement or the notes).
- Present basic and diluted EPS on the face of the income statement:
  - for each class of ordinary share that has a different right to share in profit for the period;

- with equal prominence;
- for all periods presented.
- In consolidated financial statements, EPS reflects earnings attributable to the parent's shareholders.
- Dilution is a reduction in EPS or an increase in loss per share on the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued when specified conditions are met.
- Basic EPS calculation:
  - earnings numerator: should be after deduction of all expenses including tax and minority interests, and after deduction of preference dividends; and
  - denominator: weighted average number of shares outstanding during the period.
- Diluted EPS calculation:
  - earnings numerator: the net profit for the period attributable to ordinary shares is increased by the after-tax amount of dividends and interest recognised in the period in respect of the dilutive potential ordinary shares (such as options, warrants, convertible securities and contingent insurance agreements), and adjusted for any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares;
  - denominator: should be adjusted for the number of shares that would be issued on the conversion of all of the dilutive potential ordinary shares into ordinary shares; and
  - anti-dilutive potential ordinary shares are to be excluded from the calculation.

**Interpretations**

None.

**IAS 34 *Interim Financial Reporting*****Effective date**

Periods beginning on or after 1 January 1999.

**Objective**

To prescribe the minimum content of an interim financial report (IFR) and the recognition and measurement principles for an IFR.

**Summary**

- Applies only when the entity is required or elects to publish an IFR in accordance with IFRSs.
- Local regulators (not IAS 34) mandate:
  - which entities should publish interim financial reports;
  - how frequently; and
  - how soon after the end of an interim period.
- An IFR is a complete or condensed set of financial statements for a period shorter than an entity's full financial year.
- Minimum components of an IFR are a condensed balance sheet, income statement, statement of changes in equity, cash flow statement, and selected explanatory notes.
- Prescribes the comparative periods for which interim financial statements are required to be presented.
- Materiality is based on interim financial data, not forecasted annual amounts.
- The notes in an IFR should provide an explanation of events and transactions significant to understanding the changes since the last annual financial statements.
- Same accounting policies as annual.
- Revenue and costs to be recognised when they occur, not anticipated or deferred.
- Change in accounting policy – restate previously reported interim periods.

**Interpretations**

None.

## Useful Deloitte publication

## Interim financial reporting: A guide to IAS 34

Guidance on the requirements of the Standard (March 2006), model interim financial report and compliance checklist. Available for download at [www.iasplus.com/dttdpubs/pubs.htm](http://www.iasplus.com/dttdpubs/pubs.htm)

IAS 36 *Impairment of Assets* (revised 2004)

## Effective date

Applies to goodwill and intangible assets acquired in business combinations for which the agreement date is on or after 31 March 2004, and to all other assets prospectively for periods beginning on or after 31 March 2004.

## Objective

To ensure that assets are carried at no more than their recoverable amount, and to prescribe how recoverable amount is calculated.

## Summary

- IAS 36 applies to all assets except inventories (see IAS 2), assets arising from construction contracts (see IAS 11), deferred tax assets (see IAS 12), assets arising from employee benefits (see IAS 19), financial assets (see IAS 39), investment property measured at fair value (see IAS 40), and biological assets related to agricultural activity measured at fair value less estimated point-of-sale costs (see IAS 41).
- Impairment loss to be recognised when the carrying amount of an asset exceeds its recoverable amount.
- Recognise impairment loss through income statement for assets carried at cost; treat as a revaluation decrease for assets carried at revalued amount.
- Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

- Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset, and from its disposal at the end of its useful life.
- Discount rate is the pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset. The discount rate should not reflect risks for which future cash flows have been adjusted and should equal the rate of return that investors would require if they were to choose an investment that would generate cash flows equivalent to those expected from the asset.
- At each balance sheet date, review assets to look for any indication that an asset may be impaired. If impairment is indicated, calculate recoverable amount.
- Goodwill and other intangibles with indefinite useful lives must be tested for impairment at least annually, and recoverable amount calculated.
- If it is not possible to determine the recoverable amount for the individual asset, then determine recoverable amount for the asset's cash-generating unit. The impairment test for goodwill should be performed at lowest level within the entity at which goodwill is monitored for internal management purposes, provided that the unit or group of units to which goodwill is allocated is not larger than a segment under IAS 14.
- Reversal of prior years' impairment losses allowed in certain instances (prohibited for goodwill).

## Interpretations

None.

## IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

### Effective date

Periods beginning on or after 1 July 1999.

### Objective

To prescribe appropriate recognition criteria and measurement bases for provisions, contingent liabilities and contingent assets, and to ensure that sufficient information is disclosed in the notes to the financial statements to enable users to understand their nature, timing and amount. IAS 37 thus aims to ensure that only genuine obligations are dealt with in the financial statements. Planned future expenditure, even where authorised by the board of directors or equivalent governing body, is excluded from recognition, as are accruals for self-insured losses, general uncertainties, and other events that have not yet taken place.

### Summary

- Recognise a provision only when a past event has created a legal or constructive obligation, an outflow of resources is probable, and the amount of the obligation can be estimated reliably.
- Amount recognised as a provision is the best estimate of settlement amount at balance sheet date.
- Requires a review of provisions at each balance sheet date to adjust for changes in estimate.
- Utilise provisions only for original purposes.
- Examples of provisions may include onerous contracts, restructuring provisions, warranties, refunds and site restoration.
- Contingent liability arises when:
  - there is a possible obligation to be confirmed by a future event that is outside the control of the entity; or
  - a present obligation may, but probably will not, require an outflow of resources; or
  - a sufficiently reliable estimate of the

amount of a present obligation cannot be made (this is rare).

- Contingent liabilities require disclosure only (no recognition). If the possibility of outflow is remote, then no disclosure.
- Contingent asset arises when the inflow of economic benefits is probable, but not virtually certain, and occurrence depends on an event outside the control of the entity.
- Contingent assets require disclosure only. If the realisation of income is virtually certain, the related asset is not a contingent asset and recognition is appropriate.

### Interpretations

#### **IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities***

Adjust the provision for changes in the amount or timing of future costs and for changes in the market-based discount rate.

#### **IFRIC 5 *Rights to Interests Arising from Decommissioning, Restoration and Environmental Funds***

Addresses how a contributor accounts for its interest in the fund and its obligation to make additional contributions.

#### **IFRIC 6 *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment***

The event that triggers liability recognition is participating in the market during the measurement period, not the original sale of the equipment.

IAS 38 *Intangible Assets* (revised 2004)

**Effective date** 1 April 2004.

**Objective** To prescribe the accounting treatment for recognising, measuring and disclosing all intangible assets that are not dealt with specifically in another IFRS.

**Summary**

- Requires an entity to recognise an intangible asset, whether purchased or self-created, if:
  - it is probable that the future economic benefits that are attributable to the asset will flow to the entity; and
  - the cost of the asset can be measured reliably.
- Additional recognition criteria for internally-generated intangible assets.
- All research costs are charged to expense when incurred.
- Development costs are capitalised only after technical and commercial feasibility of the resulting product or service have been established.
- Intangible assets, including in-process research and development, acquired in a business combination should be recognised separately from goodwill if they arise as a result of contractual or legal rights or are separable from the business.
- Internally-generated goodwill, brands, mastheads, publishing titles, customer lists, start-up costs, training costs, advertising costs and relocation costs should not be recognised as assets.
- If an intangible item does not meet both the definition and the recognition criteria for an intangible asset, expenditure on the item is recognised as an expense when it is incurred, except if the cost is incurred as part of a business combination, in which

case it should form part of the amount attributed to goodwill at the date of acquisition.

- For the purpose of accounting subsequent to initial acquisition, intangible assets are classified as:
  - indefinite life: no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity. 'Indefinite' does not mean 'infinite'; and
  - finite life: a limited period of benefit to the entity.
- Intangible assets may be accounted for using a cost model or a revaluation model (permitted only in limited circumstances – see below). Under the cost model, assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.
- If the intangible asset has a quoted market price in an active market, an accounting policy choice of a revaluation model is permitted. Under the revaluation model, the asset is carried at revalued amount, which is fair value at revaluation date less any subsequent depreciation and any subsequent impairment losses.
- The cost (residual value is normally zero) of an intangible asset with a finite useful life is amortised over that life. Impairment testing under IAS 36 is required whenever there is an indication that the carrying amount exceeds the recoverable amount of the intangible asset.
- Intangible assets with indefinite useful lives are not amortised but must be tested for impairment at each reporting date. If recoverable amount is lower than the carrying amount, an impairment loss is recognised. The assessment must also consider whether the intangible continues to have an indefinite life.

- Under the revaluation model, revaluations must be carried out regularly. All items of a given class must be revalued (unless there is no active market for a particular asset). Revaluation increases are credited to equity. Revaluation decreases are charged first against the revaluation surplus in equity related to the specific asset, and any excess against profit or loss. When the revalued asset is disposed of, the revaluation surplus in equity remains in equity and is not recycled through profit or loss.
- Normally, subsequent expenditure on an intangible asset after its purchase or completion is recognised as an expense. Only rarely can the asset recognition criteria be met.

## Interpretations

### SIC 32 *Intangible Assets – Web Site Costs*

Certain initial infrastructure development and graphic design costs incurred in web site development may be capitalised.

## IAS 39 *Financial Instruments: Recognition and Measurement* (revised 2005)

### Effective date

Annual periods beginning on or after 1 January 2005, except the 2004 and 2005 revisions for the fair value option, cash flow hedge accounting of forecast intragroup transactions, and financial guarantees are effective 1 January 2006.

### Objective

To establish principles for recognising, derecognising and measuring financial assets and financial liabilities.

### Summary

- All financial assets and financial liabilities, including all derivatives and certain embedded derivatives, must be recognised on the balance sheet.
- Financial instruments are initially measured at fair value on date of acquisition or issuance. Usually this is the same as cost, but sometimes an adjustment is required.

- An entity has an option of recognising normal purchases and sales of securities in the market place consistently either at trade date or settlement date. If settlement date accounting is used, IAS 39 requires recognition of certain value changes between trade and settlement dates.
- For the purpose of measuring a financial asset subsequent to initial recognition, IAS 39 classifies financial assets into four categories:
  1. Loans and receivables not held for trading.
  2. Held-to-maturity (HTM) investments, such as debt securities and mandatorily redeemable preferred shares, that the entity intends and is able to hold to maturity. If an entity sells any HTM investments (other than in exceptional circumstances), all of its other HTM investments must be reclassified as available-for-sale (category 4 below) for the current and next two financial reporting years.
  3. Financial assets measured at fair value through profit or loss, which includes those held for trading (short-term profit taking) and any other financial asset that the entity designates (the “fair value option”). Derivative assets are always in this category unless they are designated as hedging instruments.
  4. Available-for-sale financial assets (AFS) – all financial assets that do not fall into one of the other three categories. This includes all investments in equity instruments that are not measured at fair value through profit or loss. Additionally, an entity may designate any loans and receivables as AFS.
- In 2005, the IASB restricted the use of the “fair value option” (3 above) to eliminating accounting or economic mismatches, or when two items are managed jointly.

- Subsequent to initial recognition:
  - all financial assets in categories 1 and 2 above are carried at amortised cost subject to a test for impairment;
  - all financial assets in category 3 above are carried at fair value, with value changes recognised in profit or loss; and
  - all financial assets in category 4 above (AFS) are measured at fair value in the balance sheet, with value changes recognised in equity, subject to impairment testing. If the fair value of an AFS asset cannot be measured reliably, the asset is carried at cost.
- After acquisition, most financial liabilities are measured at original recorded amount less principal repayments and amortisation. Three categories of liabilities are measured at fair value with value changes recognised in profit or loss:
  - derivative liabilities;
  - liabilities held for trading (short sales); and
  - any liabilities that the entity designates, at issuance, to be measured at fair value through profit or loss (the “fair value option”). This designation has also been restricted during 2005 – see above.
- Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction. The IAS 39 fair value hierarchy:
  - best is quoted market price in an active market;
  - otherwise use a valuation technique that makes maximum use of market inputs and includes recent arm’s length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis, and option pricing models.

- IAS 39 establishes conditions for determining when control over a financial asset or liability has been transferred to another party and, therefore, it should be removed from the balance sheet (derecognised). Derecognition is not permitted to the extent to which the transferor has continuing involvement in an asset or a portion of an asset it has transferred.
- Hedge accounting (recognising the offsetting effects of fair value changes of both the hedging instrument and the hedged item in the same period’s profit or loss) is permitted in certain circumstances, provided that the hedging relationship is clearly defined, measurable, and actually effective. IAS 39 provides for three types of hedges:
  - fair value hedge: if an entity hedges a change in fair value of a recognised asset or liability or firm commitment, the change in fair values of both the hedging instrument and the hedged item are recognised in profit or loss when they occur;
  - cash flow hedge: if an entity hedges changes in the future cash flows relating to a recognised asset or liability or a probable forecast transaction, then the change in fair value of the hedging instrument is recognised directly in equity until such time as those future cash flows occur; and
  - hedge of a net investment in a foreign entity: this is treated as a cash flow hedge.
- A hedge of foreign currency risk in a firm commitment may be accounted for as a fair value hedge or as a cash flow hedge.
- 2004 “macro hedging” amendment: a portfolio hedge of interest rate risk (hedging an amount rather than a specific asset or liability) can qualify as a fair value hedge.



- 2005 financial guarantees amendment: financial guarantees are now in the scope of IAS 39 unless an entity has used insurance accounting for guarantees in the past.
- All financial instruments disclosures are in IAS 32, not IAS 39 and, effective 2007, those disclosures are moved to IFRS 7.

## Interpretations

### IFRIC 9 *Reassessment of Embedded Derivatives*

Generally, determination of whether to account for an embedded derivative separately from the host contract is made when the entity first becomes a party to the host contract, and not subsequently reassessed.

## IAS 39 guidance

During 1999-2000, an IASC committee developed approximately 250 questions and answers on IAS 39. Approximately 100 of those were incorporated into the 2003 revisions to IAS 39. The remaining Q&As are included as implementation guidance in the IASB's annual bound volume of IFRSs.

## Useful Deloitte publication

### iGAAP 2006: Financial Instruments: IAS 32, IAS 39 and IFRS 7 Explained

2nd edition (February 2006). Guidance on how to apply these complex standards, including illustrative examples, and interpretations. Information at [www.iasplus.com/dtppubs/pubs.htm](http://www.iasplus.com/dtppubs/pubs.htm)

## IAS 40 *Investment Property* (revised 2004)

### Effective date

Annual periods beginning on or after 1 January 2005.

### Objective

To prescribe the accounting treatment for investment property and related disclosures.

### Summary

- Investment property is land or buildings held (whether by the owner or under a finance lease) to earn rentals or for capital appreciation or both.

- IAS 40 does not apply to owner-occupied property or property that is being constructed or developed for future use as investment property, or property held for sale in the ordinary course of business.
- Permits an entity to choose either the fair value model or cost model:
  - fair value model: investment property is measured at fair value, and changes in fair value are recognised in the income statement; and
  - cost model: investment property is measured at depreciated cost less any accumulated impairment losses. Fair value of the investment property must still be disclosed.
- The chosen measurement model must be applied to all of the entity's investment property.
- If an entity uses the fair value model but, when a particular property is acquired, there is clear evidence that the entity will not be able to determine fair value on a continuing basis, the cost model is used for that property – and it must continue to be used until disposal of the property.
- Change from one model to the other is permitted if it will result in a more appropriate presentation (highly unlikely for change from fair value to cost model).
- A property interest held by a lessee under an operating lease can qualify as investment property provided that the lessee uses the fair value model of IAS 40. In this case, the lessee accounts for the lease as if it were a finance lease.

## Interpretations

None.

IAS 41 *Agriculture*

<b>Effective Date</b>	Periods beginning on or after 1 January 2003.
<b>Objective</b>	To prescribe accounting for agricultural activity – the management of the biological transformation of biological assets (living plants and animals) into agricultural produce.
<b>Summary</b>	<ul style="list-style-type: none"> <li>• Measure all biological assets at fair value less expected point-of-sale costs at each balance sheet date, unless fair value cannot be measured reliably.</li> <li>• Measure agricultural produce at fair value at the point of harvest less expected point-of-sale costs. Because harvested produce is a marketable commodity, there is no “measurement reliability” exception for produce.</li> <li>• Change in fair value of biological assets during a period is reported in net profit or loss.</li> <li>• Exception to fair value model for biological assets: if there is no active market at the time of recognition in the financial statements, and no other reliable measurement method, then apply the cost model to the specific biological asset only. The biological asset should be measured at depreciated cost less any accumulated impairment losses.</li> <li>• Quoted market price in an active market generally represents the best measure of fair value of a biological asset or agricultural produce. If an active market does not exist, IAS 41 provides guidance for choosing another measurement basis.</li> <li>• Fair value measurement stops at harvest. IAS 2 applies after harvest.</li> </ul>
<b>Interpretations</b>	None.

## Current IASB agenda projects

The following is a summary of the IASB's agenda projects at 1 March 2006.

**Accounting Standards for Small and Medium-Sized Entities**

**Status** Discussion Paper and Recognition and Measurement Questionnaire issued. Public round-tables held. The IASB is developing an Exposure Draft:

- Standards intended to be suitable for entities that do not have public accountability (not listed, not a financial institution).
- Will be a single volume IFRS for SMEs, organised topically.
- There is general agreement that disclosure reductions are needed. The main area of debate is about simplification of recognition and measurement principles in IFRSs for SMEs.

**What's next?** An Exposure Draft of an IFRS for SMEs is targeted for 30 June 2006, though that may be a bit optimistic.

**Business Combinations – Phase II**

**Status** In June 2005, the IASB issued Exposure Drafts dealing with:

- Application of the purchase method (joint with FASB; this Exposure Draft would amend IFRS 3).
- Non-controlling (minority) interests (this Exposure Draft would amend IAS 27).
- Non-financial liabilities (this Exposure Draft would amend the principles for measuring provisions under IAS 37).

Among the proposals:

- Recognise full goodwill, including minority share.
- Recognise contingent assets as well as liabilities.
- When a parent obtains control, all assets and liabilities of the subsidiary (including goodwill) are measured at fair value.
- When parent loses control, the retained interest is remeasured to fair value and gain or loss is recognised.
- After control is obtained, any changes in ownership interests are equity transactions as long as control is retained.
- All transaction costs are expensed.
- Probability-weighted expected value method to measure provisions, rather than most likely outcome.

**What's next?** Final Standard is expected in mid-2007.

## Conceptual Framework

**Status** This is a joint project with the FASB designed to align the two Boards' conceptual frameworks. The project is being addressed in eight phases:

- Objectives and qualitative characteristics.
- Elements: Recognition and measurement attributes.
- Initial and subsequent measurement.
- Reporting entity.
- Presentation and disclosure.
- Status of Framework in GAAP hierarchy.
- Applicability to not-for-profit.
- Reconsideration of entire Framework.

**What's next?** Each of the eight phases will be examined in a Discussion Paper. Papers on objectives and qualitative characteristics are planned for late 2006. Papers on elements and reporting entity are planned for 2007. This project is of more than just academic interest because IAS 8 now requires an entity to look to the Framework if it cannot find guidance on accounting for a particular kind of transaction in the Standards or Interpretations.

## Consolidation, Including Special Purpose Entities

**Status** The objective of this project is to clarify and provide more rigorous guidance on the concept of "control" as the basis for preparing consolidated financial statements, including applying that concept to "special purpose entities". The Board's most recent thinking on the definition of control is as follows:

- Ability to direct the strategic financing and operating policies.
- Ability to access benefits.
- Ability to use power to maintain, increase, or protect benefits.

**What's next?** The project is likely to lead to revisions of IAS 27. An Exposure Draft is expected late 2006 or, more likely, 2007.

## Financial Instruments Puttable at Fair Value

**Status** This is the last remaining "small" financial instruments project on the Board's active agenda – though, of course, comprehensive reconsideration of IAS 39 is an active research project. Currently, IAS 32 classifies an instrument as a liability if the issuer cannot avoid paying cash,

such as through a holder's put option or a mandatory redemption feature. For many entities – including many small and medium-sized entities that have buy-sell agreements with owners, as well as most partnerships and cooperatives – IAS 32 classifies as debt what these entities have traditionally regarded as equity capital. Often it is their only investor capital. This project seeks to identify criteria by which financial instruments puttable at a pro rata share of the fair value of the residual interest in the issuer would appropriately be classified as equity.

**What's next?** An Exposure Draft is expected 2006.

## Government Grants and Emissions Trading Schemes

**Status** IAS 20 provides many options in accounting for government grants. This project is addressing ways to improve IAS 20, including possibly replacing it with a new Standard.

Additionally, in December 2004, IFRIC issued Interpretation 3 on emission rights, which are a form of government grant. The IASB subsequently withdrew that Interpretation. The matter of accounting for emission rights is now included in the IAS 20 project.

**What's next?** The Board has noted that certain issues related to recognising and measuring obligations under grants with conditions attached are similar to issues related to recognising and measuring provisions under IAS 37. Because the Board is currently reconsidering IAS 37 as part of the Business Combinations Phase II project, in February 2006 the Board decided to defer work on the IAS 20 project pending final decisions on revision of IAS 37, which are expected in mid-2007.

## Insurance Contracts Phase II

**Status** The insurance contracts project was carried forward from the former IASC. It is a comprehensive project addressing all issues on accounting for insurance contracts. However, in May 2002, the IASB agreed to split the project into two phases, so that some components could be put in place by 2005 without delaying the rest of the project.

**Phase I** This phase involved issuing an interim standard (IFRS 4) to provide guidance on how existing IFRSs should be applied to insurance contracts. Phase I is now completed. IFRS 4 is described elsewhere in this booklet.

**Phase II** This phase is taking a fresh look at accounting for insurance contracts. In January 2003, the Board suspended work on Phase II pending completion of Phase I. Work on Phase II resumed in September 2004 with appointment of a new Working Group on Insurance. In announcing the working group, the Board noted that its predecessor had published an Issues Paper and a Draft Statement of Principles, and the IASB itself has

discussed the project at many Board meetings. The Board said that it will “regard the past work as a useful resource, but will not feel bound by it. The only restrictions on a fresh look are the IASB’s Framework and the general principles established in the IASB’s existing standards.”

**What’s next?** The next step in the Phase II project will be for the IASB to publish a Discussion Paper in 2006 or 2007.

## Performance Reporting (Reporting Comprehensive Income)

**Status** Joint project with FASB. Project divided into two segments:

- Segment A:
  - Which financial statements? Tentatively decided to require an opening (as well as closing) balance sheet, and a statement of all recognised income and expenses.
  - Comparative information.
- Segment B:
  - Presentation of information on the face of the required financial statements: What information? In what format (line items, columns, and so on)?
  - Recycling.
  - Disaggregation (such as segment information).
  - Totals and subtotals.

**What’s next?** IASB expects to issue an Exposure Draft on Segment A in first half of 2006. The FASB will not publish an Exposure Draft on Segment A but, rather, will address the topics in Segments A and B together. Timetable not established for Segment B.

## Revenue Recognition

**Status** This is a joint project with FASB. Tentative decisions:

- Revenue should be recognised on the basis of changes in assets and liabilities arising from contracts with customers – without consideration of additional criteria, such as realisation and completion of an earnings process.
- Revenue arises as a result of (a) an unconditional right to receive consideration because a contract deliverable has been delivered and (b) the extinguishment of the reporting entity’s performance obligations to its customers.

- The Boards are exploring a revenue recognition approach under which performance obligations would be measured by allocating the customer consideration rather than at the fair value of the obligation (that is, the amount the reporting entity would be required to pay to transfer the performance obligation to a willing third party of comparable credit standing).

**What’s next?** Discussion Paper in third quarter 2006.

## Short-Term Convergence of IFRSs and US GAAP

**Status** The objective of this project is to eliminate a variety of differences between IFRSs and US GAAP. The project, which is being carried out jointly by FASB and IASB, grew out of an agreement reached by the two Boards in September 2002. From the IASB side, some aspects of this project have been completed, including many of the changes to IASs in December 2003 as a result of the IASB’s Improvements Project; IFRS 3 on business combinations and the related revisions to IAS 36 and IAS 38; and IFRS 5 on asset disposals and discontinued operations. Likewise, FASB has converged on a number of points.

**What’s next?** Current convergence projects are in the following areas:

- **IAS 12 Income Taxes** An Exposure Draft is expected in the first half of 2006. Among the likely changes:
  - eliminate the IAS 12 exception from recognising deferred taxes on initial recognition of an asset;
  - accrue deferred tax related to undistributed earnings of domestic subsidiaries;
  - valuation allowance approach for deferred tax assets;
  - allocate tax to components of profit and loss or equity; and
  - balance sheet classification of deferred tax based on related asset or liability.
- **IAS 14 Segment Reporting** An Exposure Draft was issued January 2006. Proposes to adopt the US FAS 131 “management approach” for both defining segments and determining what information is disclosed.
- **IAS 23 Borrowing Costs** Currently, IAS 23 allows both capitalisation and immediate expensing. The IASB has agreed to require capitalisation and prohibit immediate expensing, thereby converging with the FAS 34 approach. An Exposure Draft is expected in the first half of 2006.

In February 2006, the two Boards released an update of the September 2002 agreement identifying several additional convergence projects they intend to undertake in the near future. For IASB, that entails a new joint project with FASB on impairment of assets.

# IASB's active research topics

The following are likely to become active IASB agenda projects soon. The IASB has several other research topics that are inactive at present, including intangibles and hyperinflation.

**Extractive industries** Primary emphasis of this research is addressing reporting reserves and other resources (definition, measurement and, if a cost model is used, which costs should be capitalised). A Discussion Paper is planned for mid-2007.

**Financial instruments** This research is addressing:

- Measurement of all financial instruments at fair value, with value changes recognised in profit or loss.
- Simplifying or eliminating hedge accounting.
- The distinction between liabilities and equity.
- A new standard on derecognition.

**Investment entities** Reporting by investment trusts, unit trusts, mutual funds. Project timetable not yet announced.

**Joint ventures** Currently IAS 31 allows both the equity method and proportionate consolidation. This project is considering the appropriate accounting for joint ventures. The Board has indicated on several occasions that it does not favour the proportionate consolidation method. Timing not yet announced.

**Leases** The Board has indicated that it favours capitalising all property interests (rights) acquired via leases, even if the lease does not cover substantially all of the leased asset. Staff research is under way, with a Discussion Paper planned for late 2006.

**Management Commentary** Also known as Management Discussion and Analysis (MD&A) and Operating and Financial Review (OFR). Traditionally these disclosures have been regulatory requirements that differ from jurisdiction to jurisdiction. But the fact is that they contain considerable financial data for which only limited standards exist even at the national level. In October 2005, the IASB published a Discussion Paper setting out a staff proposal that the IASB develop a global standard for a Management Commentary that would replace national regulatory requirements. The Board has not yet taken a position on this proposal.

**Measurement objective** There is a trend toward increased use of fair values in IFRSs. The CFA Institute (a worldwide financial analysts' organisation) has said that fair value is the only relevant measure for all assets and liabilities from an investor's point of view. But reliability and earnings management issues persist. The IASB Framework identifies a number of measurement bases that are used currently in IFRSs but does not provide conceptual guidance as to when each is most appropriate. There are two active components of the IASB's measurement project:

- In November 2005, the IASB issued a Discussion Paper on measurement at initial recognition, which was prepared by the Canadian Accounting Standards Board. The Discussion Paper has not yet been debated by the IASB.
- The FASB is about to adopt a standard with guidance on fair value measurement. The FASB standard would not change the circumstances when fair value is required, just provide guidance on how to do it. The IASB plans to issue a "wrap-around" Exposure Draft of the FASB's guidance in mid-2006.

Our [www.iasplus.com](http://www.iasplus.com) website has the latest information about the IASB's and IFRIC's agenda projects and research topics, including summaries of decisions reached at each IASB and IFRIC meeting.

# Interpretations

## IFRIC Interpretations

The following Interpretations have been issued by the International Financial Reporting Interpretations Committee (IFRIC) starting in 2004 through 1 March 2006:

- IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*
- IFRIC 2 *Members' Shares in Co-operative Entities and Similar Instruments*
- IFRIC 3 *Emission Rights – withdrawn*
- IFRIC 4 *Determining whether an Arrangement contains a Lease*
- IFRIC 5 *Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*
- IFRIC 6 *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment*
- IFRIC 7 *Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies*
- IFRIC 8 *Scope of IFRS 2*
- IFRIC 9 *Reassessment of Embedded Derivatives*

## SIC Interpretations

The following Interpretations, issued by the Standing Interpretations Committee (SIC) from 1997-2001, remain in effect. All other SIC Interpretations were superseded when the improvements to IASs were adopted in December 2003:

- SIC 7 *Introduction of the Euro*
- SIC 10 *Government Assistance – No Specific Relation to Operating Activities*
- SIC 12 *Consolidation – Special Purpose Entities*
- SIC 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*
- SIC 15 *Operating Leases – Incentives*
- SIC 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets*
- SIC 25 *Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders*
- SIC 27 *Evaluating the Substance of Transactions in the Legal Form of a Lease*

- SIC 29 *Disclosure – Service Concession Arrangements*
- SIC 31 *Revenue – Barter Transactions Involving Advertising Services*
- SIC 32 *Intangible Assets – Website Costs*

## Items not added to IFRIC agenda

We maintain on [www.iasplus.com](http://www.iasplus.com) a list of nearly 100 issues that IFRIC considered adding to its agenda but decided not to do so. In each case, IFRIC announces its reason for not taking the issue onto its agenda. By their nature, those announcements provide helpful guidance in applying IFRSs. You will find the list at [www.iasplus.com/ifric/notadded.htm](http://www.iasplus.com/ifric/notadded.htm)

Interpretations of IASs and IFRSs are developed by the International Financial Reporting Interpretations Committee (IFRIC), which replaced the Standing Interpretations Committee (SIC) in 2002. Interpretations are part of IASB's authoritative literature. Therefore, financial statements may not be described as complying with International Financial Reporting Standards unless they comply with all the requirements of each applicable Standard and each applicable Interpretation.

# Deloitte's IFRS e-learning



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## Some national standard-setting bodies

Australian Accounting Standards Board	<a href="http://www.aasb.com.au">www.aasb.com.au</a>
Canadian Accounting Standards Board	<a href="http://www.acsbcanada.org">www.acsbcanada.org</a>
China Accounting Standards Committee	<a href="http://www.casc.gov.cn/internet/internet/en.html">www.casc.gov.cn/internet/internet/en.html</a>
Conseil National de la Comptabilité (France)	<a href="http://www.minefi.gouv.fr/directions_services/CNCompta/">www.minefi.gouv.fr/directions_services/CNCompta/</a>
German Accounting Standards Board	<a href="http://www.drsc.de">www.drsc.de</a>
Japan Accounting Standards Board	<a href="http://www.asb.or.jp/index_e.html">www.asb.or.jp/index_e.html</a>
Korea Accounting Standards Board	<a href="http://www.kasb.or.kr/enghome.nsf">www.kasb.or.kr/enghome.nsf</a>
New Zealand Financial Reporting Standards Board	<a href="http://www.icanz.co.nz">www.icanz.co.nz</a>
Accounting Standards Board (United Kingdom)	<a href="http://www.asb.org.uk">www.asb.org.uk</a>
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