

IAS PLUS

**Deloitte  
Touche  
Tohmatsu**

# IFRS

in your  
POCKET

May 2003

## Our Mission: To Help Our Clients and Our People Excel

This guide is one of a series of publications and other resources from Deloitte Touche Tohmatsu intended to assist users in understanding International Financial Reporting Standards. These include:

International Accounting Standards: A Guide to Preparing Accounts	3rd Edition. Written by Deloitte & Touche, United Kingdom. Published by ABG Professional Information: <a href="http://www.abgweb.com">www.abgweb.com</a>
International Financial Reporting Standards – A Practical Guide	3rd Edition. Model financial statements and presentation and disclosure checklist prepared under International Financial Reporting Standards.
IAS Plus Newsletter	A quarterly newsletter on recent developments in International Financial Reporting Standards and accounting updates for individual countries. To subscribe, visit our IAS Plus website.
<a href="http://www.iasplus.com">www.iasplus.com</a>	Our IAS Plus website provides up-to-date news on IASB developments as well as summaries of standards and interpretations and reference materials for download.
Financial Instruments – Applying IAS 32 and IAS 39	Related summaries, guidance, examples, and US GAAP comparisons.
GAAP Differences in your Pocket: IAS and US GAAP	Explanation of differences between International Financial Reporting Standards and US GAAP.
GAAP Differences in your Pocket: IAS and GAAP in the People's Republic of China	Explanation of differences between International Financial Reporting Standards and Chinese GAAP.
IFRS in your Pocket	Not just this booklet in English, but also translations into French, Spanish, Polish, Danish, Finnish, Chinese, and other languages.

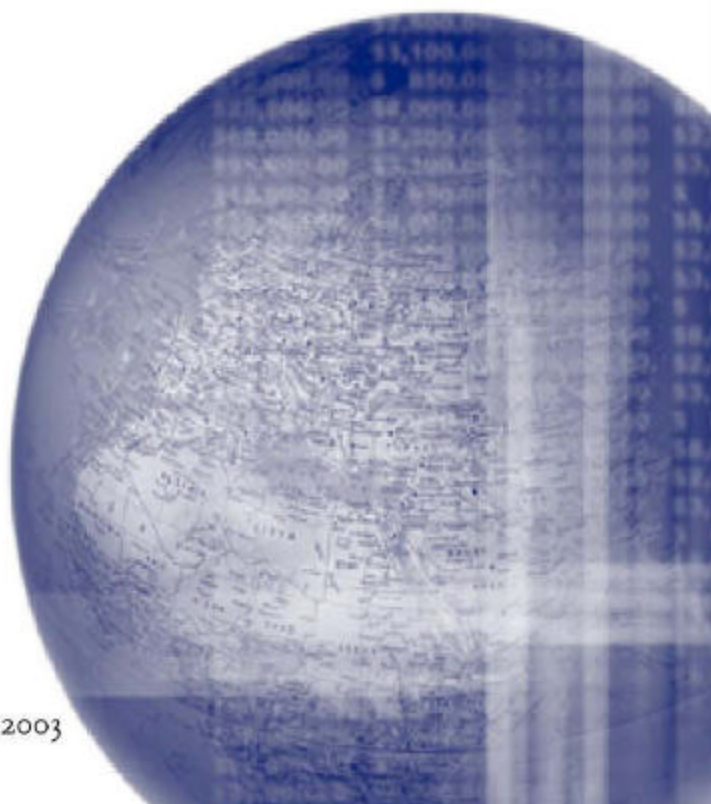
You can find links to these and many other IFRS-related publications at [www.iasplus.com/dttpubs/pubs.htm](http://www.iasplus.com/dttpubs/pubs.htm).

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May 2003

Today, the world's capital markets know no borders. The participants in those markets need high quality, transparent, and comparable financial information to enable them to make sound economic decisions. For over 30 years, the International Accounting Standards Board and its predecessor, the International Accounting Standards Committee, have been working to develop, in the public interest, a single set of high quality, understandable, and enforceable International Financial Reporting Standards (IFRS) to serve equity investors, lenders, and other information users.

This third edition of *IFRS in your Pocket* is a terrific guide to help you know and understand IFRS and how they are being adopted around the world. We've seen significant progress in recent years:

- ❑ The International Organization of Securities Commissions has recommended that the world's securities regulators permit foreign issuers to use IFRS in preparing financial statements for cross-border offerings and listings.
- ❑ The European Union is requiring IFRS in the consolidated financial statements of virtually all listed companies starting in 2005. This applies not only to the 15 EU member states but also to the three European Economic Area states and to the 10 additional countries that have been approved for EU membership starting in May 2004.
- ❑ Many other countries are replacing their national GAAP with IFRS for some or all domestic companies including, in the past year alone, Bulgaria, Estonia, Jamaica, Kyrgyzstan, New Zealand, Nicaragua, Russia, Tajikistan, Tanzania, and Ukraine.
- ❑ Other countries have adopted policies of approving IFRS word-for-word (or very close to that) as their national GAAP, including Australia, Hong Kong, and Singapore.

Often, the transition to IFRS requires great effort. I believe those efforts will be rewarded with greater economic vitality and productivity. Global business requires a global capital market. The foundation of that market will be good governance, good laws, and a set of globally accepted accounting standards. A single set of accounting practices is a precursor to a truly global market.

With the increased focus on IFRS and the growing number of companies that must adopt IFRS within the next few years, you'll find *IFRS in your Pocket* to be a useful guide. By summarising the key information about IASB standards and interpretations, the guide provides you with an excellent introduction to an exciting new language – one that soon may be a part of your daily life.

**William G. Parrett**  
**Chief Executive Officer**  
**Deloitte Touche Tohmatsu**  
**May 2003**

"Developments over the past year and more have strongly reinforced the logic of achieving and implementing high-quality international accounting standards. In an age when capital flows freely across borders, it simply makes sense to account for economic transactions, whether they occur in the Americas, Asia, or Europe, in the same manner. Providing improved transparency and comparability will certainly help ensure that capital is allocated efficiently. Not so incidentally, generally accepted international standards will reduce the cost of compliance with multiple national standards.

"I do not think it reasonable today, if it ever was, to take the position that U.S. GAAP should, de facto, be the standards for the entire world. Rather, the International Accounting Standards Board, whose oversight Trustees I chair, is now working closely with national standard setters throughout the world to develop common solutions to the accounting challenges of the day. The aim is to find a consensus on clearly defined principles, and I am delighted that the American authorities appear sympathetic to that objective."

**Hon. Paul A. Volcker**  
**Chairman, IASC Foundation Trustees**

**Speaking on "Accounting, Accountants, and Accountability in an Integrated World Economy"**  
**at the World Congress of Accountants**

**Hong Kong**  
**19 November 2002**



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Deloitte Touche Tohmatsu's [www.iasplus.com](http://www.iasplus.com) website provides comprehensive information about international financial reporting in general and IASB activities in particular. Unique features include:

- ❑ Updates on accounting activity in over 30 countries.
- ❑ Many IFRS-related publications available for download.
- ❑ Model IFRS financial statements and disclosure and presentation checklist.
- ❑ An electronic library of several hundred IFRS resources.
- ❑ All Deloitte Touche Tohmatsu comment letters to IASB.
- ❑ Links to several hundred international accounting websites.

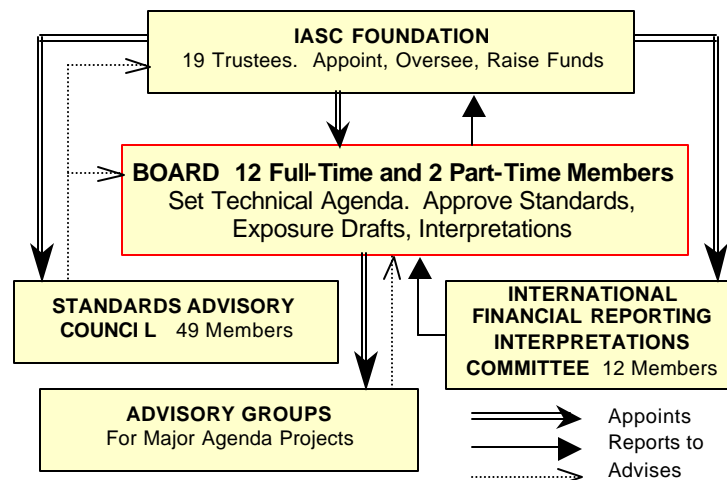
## ABBREVIATIONS

The following abbreviations are used in this publication:

EEA	European Economic Area
EC	European Commission
EFRAG	European Financial Reporting Advisory Group
EU	European Union
FASB	Financial Accounting Standards Board (US)
GAAP	Generally Accepted Accounting Principle(s)
IAS	International Accounting Standard(s)
IASC	International Accounting Standards Committee
IASB	International Accounting Standards Board
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standard(s)
IFRIC	International Financial Reporting Interpretations Committee of the IASB
IOSCO	International Organization of Securities Commissions
SEC	Securities and Exchange Commission (US)
SIC	Interpretation(s) issued by the Standing Interpretations Committee of the IASB

## IASB STRUCTURE AND CONTACT DETAILS

### Current IASB Structure



### IASB Contact Information

International Accounting Standards Board  
30 Cannon Street, London EC4M 6XH, United Kingdom

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#### Chairman and Senior Technical Officers:

Sir David Tweedie	IASB Chairman	<a href="mailto:dtweedie@iasb.org.uk">dtweedie@iasb.org.uk</a>
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Wayne S. Upton	Director of Research	<a href="mailto:wupton@iasb.org.uk">wupton@iasb.org.uk</a>

- 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 IAS.
- 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 IAS 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 for preparing financial statements used in cross-border offerings.
- 1997** Standing Interpretations Committee (SIC) is formed. 12 voting members. Mission to develop interpretations of IAS for final approval by the IASC.  
Strategy Working Party is formed to make recommendations regarding the future structure and operation of IASC following completion of the core standards.
- 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 IMF urge support for IAS 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 IAS and SIC adopted by IASB.  
IASB moves into its new offices at 30 Cannon St., 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 IAS and IFRS but also to provide timely guidance on matters not addressed in an IAS or IFRS.  
Europe requires IFRS for listed companies starting 2005.  
IASB and FASB issue joint memorandum of understanding on convergence.
- 2003** IASB holds public roundtable discussions on financial instruments. Representatives of 108 organisations participate.

USE OF IFRS FOR DOMESTIC REPORTING  
BY LISTED COMPANIES

Country	IFRS Not Permitted	IFRS 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 few use US GAAP)
Australia	X			
Bahamas				X
Bahrain			Banks	
Barbados				X
Bangladesh				X
Belgium		X		2005
Benin	X			
Bermuda		X		
Bolivia		X		
Botswana		X		
Brazil	X			
Brunei Darussalam		X		
Bulgaria				X (starting 2003)
Burkina Faso	X			
Cambodia	X			
Cayman Is.		X		
Canada	X			
Chile	X			
China			X	
Cote D'Ivoire	X			
Colombia	X			
Costa Rica				X
Croatia				X
Cyprus				X
Czech Republic		X	X	2005 (new EU member)
Denmark		X		2005
Dominica		X		
Dominican Republic				X
Ecuador				X

Country	IFRS Not Permitted	IFRS Permitted	Required for Some Domestic Listed Companies	Required for All Domestic Listed Companies
Egypt				X
El Salvador		X		
Estonia		X		2005 (new EU member)
Finland		X		2005
Fiji	X			
France	X			2005
Germany		X		2005
Georgia				X
Ghana	X			
Greece	X			2003
Guam	No stock exchange. Companies use US GAAP.			
Guatemala				X
Guyana				X
Haiti				X
Honduras				X
Hong Kong		X		
Hungary		X	X	2005 (new EU member)
Iceland	X			2005 (member of EEA)
India	X			
Indonesia	X			
Ireland	X			2005
Israel	X			
Italy	X			2005
Jamaica				X
Japan	X			
Jordan				X
Kenya				X
Korea (South)	X			
Kuwait				X
Kyrgyzstan				2003
Laos		X		
Latvia		X		2005 (new EU member)
Lebanon				X (plus unlisted financial institutions)

Country	IFRS Not Permitted	IFRS Permitted	Required for Some Domestic Listed Companies	Required for All Domestic Listed Companies
Liechtenstein				2005 (member of EEA)
Lesotho		X		
Lithuania		X		2005 (new EU member)
Luxembourg		X		2005
Macedonia				X
Malawi				X
Mali	X			
Malta				X
Malaysia	X			
Mauritius				X
Mexico	X			
Moldova	X			
Myanmar		X		
Namibia		X		
Netherlands		X		2005
NL Antilles		X		
Nepal				X
New Zealand	X			2007 (proposed)
Niger	X			
Norway	X			2005 (member of EEA)
Oman				X
Pakistan	X			
Panama				X
Papua New Guinea				X
Peru				X
Philippines	X			
Poland	X			2005 (new EU member)
Portugal	X			2005
Romania			Companies of national importance. In 2005 for all large companies	

Country	IFRS Not Permitted	IFRS Permitted	Required for Some Domestic Listed Companies	Required for All Domestic Listed Companies
Russian Federation			X	
Saudi Arabia	X			
Singapore	X			
Slovenia	X			2005 (new EU member)
Slovak Republic	X			2005 (new EU member)
South Africa		X		2005
Spain	X			2005
Sri Lanka	X			
Sweden	X			2005
Syria	X			
Swaziland		X		
Switzerland		X		
Taiwan	X			
Tajikistan				2003
Tanzania				2004
Thailand	X			
Togo	X			
Trinidad and Tobago				X
Tunisia	X			
Turkey		X		
Uganda		X		
Ukraine			Banks	2003
United Arab Emirates			Banks	
United Kingdom	X			2005
United States	X			
Uruguay	X			
Uzbekistan	X			
Venezuela	X			
Vietnam	X			
Yugoslavia				X
Zambia		X		
Zimbabwe		X		

## ADOPTION OF IFRS IN EUROPE

## Accounting Regulation Adopted in Europe

To implement a “financial reporting strategy” adopted by the European Commission in June 2000, the Parliament and Council of the European Union have approved an Accounting Regulation requiring all EU listed companies to follow IASB standards in their consolidated financial statements starting no later than 2005. Member States may extend the IFRS requirement to non-listed companies and parent company statements. Member States may exempt certain companies temporarily from the IFRS requirement – but only until 2007 – in two limited cases: (1) 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 (2) companies that have only publicly traded debt securities. The IFRS requirement applies not only in the 15 EU countries but also in the 3 European Economic Area countries and 10 additional countries approved for EU membership starting May 2004. Many large companies in Switzerland (not an EU or EEA member) already use IFRS.

## EFRAG Recommends EC Endorsement of All Existing IFRS

In response to a request from the European Commission, the private sector European Financial Reporting Advisory Group (EFRAG) reviewed IAS 1-41 and related SICs and, in June 2002, concluded that (a) they are not contrary to the 4th and 7th Directives and (b) they meet the required criteria of understandability, relevance, reliability, and comparability. Accordingly, EFRAG recommended EU endorsement of the current standards ‘en bloc’.

Remaining steps before the IFRS regulation is effective are (a) translation of IFRS into the various EU languages and (b) endorsement of IFRS by a European Commission Accounting Regulatory Committee.

## Enforcement

In March 2003, the Committee of European Securities Regulators published its Standard No. 1, Enforcement of Standards on Financial Information in Europe, aimed at developing and implementing a common approach to the enforcement of IFRS throughout the EU. The document sets out 21 high level principles that define enforcement and describe principles that EU member states should adopt in enforcing IFRS, including the structure of their enforcement authority; selection of financial information to be reviewed for enforcement purposes; actions available to enforcers (including, in particular, asking for public correction); cross-border coordination; and reporting by enforcement agencies.

## USE OF IFRS IN THE UNITED STATES

A foreign company registered with the Securities and Exchange Commission may submit IFRS or local GAAP financial statements, but a reconciliation of earnings and net assets to US GAAP figures is required. In effect, this forces companies to “keep two sets of books”. In February 2000, the SEC issued a Concept Release, *International Accounting Standards*, inviting views on whether and how IFRS might be permitted for foreign registrants, and possibly domestic registrants as well. The matter continues to be under study by the SEC.

The movement to IFRS around the world will have a significant impact on the SEC, especially in relation to the requirements in the Sarbanes-Oxley Act for a review of all registrant filings at least once every three years. Roughly 1,400 foreign companies are listed with the SEC, from about 59 different countries. Approximately 40% are from Europe. Therefore, by 2005 there will be an additional 500 to 600 registrants filing IFRS statements with the SEC. Currently, only about 50 foreign companies file IFRS financial statements and reconcile to US GAAP.

In October 2002, IASB and FASB jointly issued a memorandum of understanding, formalising their commitment to the convergence of US and international accounting standards. The two boards presented the agreement to the chairs of leading national standard setters at a two-day meeting in London. The boards agreed, as a matter of high priority, to:

- ☐ undertake a short-term project aimed at removing a variety of individual differences between US GAAP and IFRS;
- ☐ remove other differences by undertaking new joint projects that both boards would address concurrently;
- ☐ continue progress on the joint projects that they are currently undertaking; and
- ☐ encourage their respective interpretative bodies (EITF and IFRIC) to coordinate their activities.

Shortly thereafter, both the FASB and the IASB added to their agendas a number of projects relating to the above agreement, including a short-term international convergence project with a target completion date of 31 December 2003 as well as several joint standards projects. The joint projects include application of the purchase method of accounting for business combinations and revenue recognition concepts.



### USE OF IFRS IN CANADA

There is no current plan to allow domestic companies to use IFRS in place of Canadian GAAP. The securities regulators are considering whether to allow foreign issuers to use IFRS or a number of foreign GAAPs rather than Canadian GAAP.

### USE OF IFRS IN ASIA-PACIFIC COUNTRIES

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

#### Adoption of IFRS in Place of National GAAP

New Zealand is taking this approach with respect to listed companies, compulsory in 2007, permitted starting 2005. Bangladesh also requires IFRS for domestic companies.

#### New National Standards Are Generally Word-for-Word IFRS

Australia, Hong Kong, Philippines, and Singapore are taking this approach, but none of those jurisdictions has adopted all IFRS and in some instances changes are made to IFRS.

#### IFRS Are Looked to in Developing National GAAP

This is done to varying degrees in most of the rest of Asia-Pacific.

#### Some Domestic Listed Companies May Use IFRS

This is true in China, Laos, and Myanmar.

#### In Some Countries, Foreign Listed Companies May Use IFRS

This is true for stock exchanges in Australia, Hong Kong, New Zealand, Pakistan, Singapore, and Thailand. Japan has also permitted foreign companies to use IFRS in several cases.



**Sir David Tweedie, Chairman.** Sir David served as the first full-time Chairman of the UK Accounting Standards Board, with a term from 1990-2000. Prior to the UK Board Chairmanship, he was national technical partner for KPMG and has served as 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 previous IASC Board.

**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 United States.

**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.

**Hans-Georg Bruns** Liaison to the German standard setter. 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.

**Anthony T. Cope.** Mr. Cope, a British citizen, joined the US Financial Accounting Standards Board (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.

**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.

**Gilbert Gelard** Liaison to the French standard setter. 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 served as a member of the former IASC Board.

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



**Warren McGregor** Liaison to the Australian and New Zealand standard setters. 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.

**Patricia O'Malley** Liaison to the Canadian standard setter. 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 vast experience on work with financial instruments. Before joining the Canadian Board, Ms. O'Malley was a Technical Partner at KPMG in Canada.

**Harry K. Schmid** Harry Schmid brings over 40 years of experience as a preparer of financial statements for Nestle. Mr. Schmid lived in Latin America for 17 years before returning to his native Switzerland and was responsible for finance and control of a Latin American subsidiary. Mr. Schmid speaks four languages. He served as a member of the former IASC Board and the Standing Interpretations Committee.

**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.

**Geoffrey Whittington** Liaison to the UK standard setter. 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.

**Tatsumi Yamada** Liaison to the Japanese standard setter. 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.

IASB members are appointed for terms of up to five years, renewable once. At least five members must have backgrounds as auditors, three as financial statement preparers, three as users of financial statements, and one as an academician. There is no prescribed geographical mix. Twelve serve full time and two serve part time.

New International Accounting Standard	Effective for Annual Statements for Periods Beginning on or After
IAS 10, Events After the Balance Sheet Date	1 January 2000
IAS 39, Financial Instruments: Recognition and Measurement	1 January 2001 (financial years beginning on or after)
IAS 40, Investment Property	1 January 2001
IAS 41, Agriculture	1 January 2003
IAS 12, 19, 39, Limited Revisions	1 January 2001
IAS 19, Employee Benefits ('Asset Ceiling' Amendment)	Accounting periods ending on or after 31 May 2002

New Interpretation	Effective Date
SIC 17, Equity – Costs of an Equity Transaction	Annual periods beginning on or after 30 January 2000
SIC 18, Consistency – Alternative Methods	Annual periods beginning on or after 1 July 2000
SIC 19, Reporting Currency – Measurement and Presentation	Annual periods beginning on or after 1 January 2001
SIC 20, Equity Accounting Method – Recognition of Losses	15 July 2000 (financial years beginning on or after)
SIC 21, Taxes – Revalued Assets	15 July 2000
SIC 22, Business Combinations – Subsequent Adjustments	Annual periods ending on or after 15 July 2000
SIC 23, Inspection/Overhaul Cost	15 July 2000
SIC 24, EPS – Contracts that May Be Settled in Shares	1 December 2000
SIC 25, Changes in the Tax Status	15 July 2000
SIC 27, Substance of a Lease	31 December 2001
SIC 28, 'Date of Exchange' and Fair Value of Equity Instruments	Acquisitions on or after 31 December 2001
SIC 29, Service Concessions	31 December 2001
SIC 30, Presentation Currency	Annual periods beginning on or after 1 January 2002
SIC 31, Barter Transactions	31 December 2001
SIC 32, Web Site Costs	25 March 2002

On pages 21-69 we summarise the provisions of all International Accounting Standards and Interpretations that are in effect in May 2003. The IASB has issued a number of exposure drafts (EDs) of proposals to amend or replace some of those Standards and Interpretations, specifically:

- ❑ ED of Improvements to International Financial Reporting Standards.
- ❑ ED of Proposed Amendments to IAS 32 and IAS 39.
- ❑ ED 1, First-Time Application of IFRS.
- ❑ ED 2, Share-Based Payment.
- ❑ ED 3, Business Combinations, and Related EDs of Proposed Amendments to IAS 36 and IAS 38.

**Following our summary of each affected Standard or Interpretation, we indicate the key proposals for change that are set out in the above exposure drafts.**

The IASB is expected to issue exposure drafts on insurance contracts (Phase I) and the purchase method of accounting for business combinations by mid-year 2003. Because they were not issued at the time this booklet was prepared, they are not reflected in the “key proposals for change” noted below.

### IAS 1, Presentation of Financial Statements (revised 1997)

#### *Effective Date*

Periods beginning on or after 1 July 1998.

#### *Objective*

To set out the basis for presenting general purpose financial statements, including guidelines for their structure and the minimum requirements for the content of financial statements and notes.

#### *Key Features*

- Fundamental principles underlying the preparation of financial statements (including going concern presumption, consistency in presentation and classification, accrual basis of accounting, and materiality); the basis for selecting and disclosing accounting policies; rules for offsetting assets and liabilities, and income and expenses; presenting comparative amounts.
- All IAS and SIC should be complied with. Non-compliance is permitted in very rare circumstances to achieve true and fair view, with comprehensive disclosure requirements.
- A complete set of financial statements should include a balance sheet, income statement, statement

showing changes in equity, cash flow statement, accounting policies and explanatory notes.

- 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.
- Specifies minimum line items to be presented on the face of the balance sheet and income statement and guidance for the identification of additional line items.
- Requirements and guidance on presentation and disclosure for each financial statement component.

#### *Related SIC*

### **SIC 8, First-Time Application of IASs as the Primary Basis of Accounting**

When an entity adopts IFRS for the first time, it must restate prior periods using the Standards in effect during those periods – as if the financial statements had always been prepared in accordance with IFRS.

### **SIC 18, Consistency – Alternative Methods**

If IFRS allows a choice of accounting policy, an entity should choose and apply consistently one of those policies unless the IFRS specifically provides for use of different policies.

### **SIC 29, Disclosure – Service Concession Arrangements**

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

#### *Key Proposals in ED on Improvements*

- Whether to classify balance sheet between current and non-current will no longer be a free choice. Current/non-current split will be the norm.
- Post balance sheet refinancing should not be a factor in classifying liabilities as current/non-current at balance sheet date.
- Will add guidance addressing the extremely rare circumstances in which management concludes that compliance with an IFRS or Interpretation would be so misleading that it would conflict with the objectives of financial statements.

*Key Proposals  
in ED 1*

- Delete “results of operating activities” as required income statement line item.
- When a restatement would cause undue cost or effort, an entity would be exempted from restating comparative information under IAS 1.
- SIC 8 (an interpretation of IAS 1 regarding first-time adoption of IFRS) would be replaced with a new IFRS that would require that:
  - An entity adopting IFRS for the first time must prepare an opening IFRS balance sheet at the date of transition to IFRS (the beginning of the earliest period for which it presents full comparative information under IFRS in its first IFRS financial statements). For example, if an entity’s first IFRS financial statements are for the year ended 31 December 2005, it will generally need to prepare an opening IFRS balance sheet at 1 January 2004.
  - The first-time adopter must comply with each IFRS in effect at the time of switching to IFRS, with a few exemptions to retrospective restatement. For example, if a first-time adopter’s first IFRS financial statements are for the year ended 31 December 2005, it would need to comply with each IFRS in effect at that date. The exemptions relate to certain measurements of property, plant, and equipment; pension obligations; foreign currency translation adjustments; hedging relationships; past business combinations; and certain revaluations of assets under the entity’s former GAAP.

**IAS 2, Inventories (revised 1993)**

- Effective Date* Periods beginning on or after 1 January 1995. Revised text of certain paragraphs due to IAS 41, Agriculture effective on or after 1 January 2003.
- Objective* To prescribe the accounting treatment for inventories under the historical cost system.
- Key Features*
- Inventories are required to be stated at the lower of cost and net realisable value.

- Guidance on the determination of cost of inventories and any write down to net realisable value.
- For inventory items that are not interchangeable, specific costs are attributed to the specific individual items of inventory.
- For interchangeable items: benchmark cost formula used to assign costs to inventories is either FIFO or weighted average cost, with the allowed alternative of LIFO.
- When inventories are sold, the carrying amount of those inventories should be recognised as an expense in the period in which the related revenue is recognised.

*Related SIC*

**SIC 1, Consistency – Different Cost Formulas for Inventories**

The same cost formula (such as FIFO or weighted average) should be used for all inventories having the same characteristics.

*Key Proposals  
in ED on  
Improvements*

- LIFO should be eliminated.
- Require disclosure of the amount of inventory write-downs.

**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, which classifies cash flows during the period according to operating, investing, and financing activities.

*Key Features*

- Analyses changes in cash and cash equivalents during a period.
- Cash equivalents include investments that are short term (less than 3 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 must be analysed between operating, investing, and financing activities.

- Cash flows for operating activities to be reported using either the direct (recommended) or indirect methods.
- Cash flows arising from taxes on income are classified as operating unless they can be specifically identified with financing or investing activities.
- Cash flows relating to extraordinary items should be classified as arising from operating, investing, or financing activities as appropriate and separately disclosed.
- 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.

*Related SIC* None.

#### IAS 8, Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies (revised 1993)

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

*Objective* To prescribe the classification, disclosure, and accounting treatment of certain items in the income statement so that all entities prepare and present an income statement on a consistent basis.

- Key Features*
- All items of income and expense recognised in a period should be included in the determination of the net profit or loss for the period unless an IFRS requires or permits otherwise, such as revaluation surpluses (IAS 16, Property, Plant and Equipment).
  - Items of unusual size, nature, or incidence from ordinary activities to be separately disclosed.
  - Changes in accounting estimates (for example,

change in useful life of an asset) are to be accounted for in the current year, or future years, or both (no restatement).

- A change in accounting policy should only be made if required by statute or by a standard-setting body or so as to give a more appropriate presentation.
- A change made on the basis of a new IFRS is accounted for in accordance with the transitional provisions specified in the new Standard.
- For correction of fundamental errors that occurred in prior years, and other non-mandated changes in accounting policies – specifies a benchmark treatment (restatement and adjustment to opening retained earnings) and allowed alternative treatment (cumulative effect in net profit or loss for the period plus proforma information).
- Disclosure requirements.

#### *Key Proposals in ED on Improvements*

- Hierarchy of sources of IFRS GAAP.
- All errors (fundamental or otherwise), and all non-mandated changes in accounting policy, require restatement of prior financial statements.
- Eliminate extraordinary item classification.
- Disclosure of the nature and effect of new IFRS that are issued but not yet mandatory.

#### IAS 10, Events After the Balance Sheet Date (revised 1999)

*Effective Date* Periods beginning on or after 1 January 2000.

*Objective* To prescribe:

- When an entity should adjust its financial statements for events after the balance sheet date.
- The disclosures that an entity should make about the date when the financial statements were authorised for issue and about events after the balance sheet date.

#### *Key Features*

- 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 balance sheet date (such as resolution of a court case after 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 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.
- Disclosure of the date financial statements are authorised for issue.

*Related SIC* None.

*Key Proposal  
in ED on  
Improvements*

Clarify that a liability should not be recognised for dividends declared or proposed after the balance sheet date because it is not a present obligation at the balance sheet date as described in IAS 37, Provisions, Contingent Liabilities and Contingent Assets.

**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.

- Key Features*
- 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.

*Related SIC* 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.

- Key Features*
- Requires the recognition of current tax liabilities and assets for current and prior period taxes, measured at the rates applicable for the period.
  - Requires the recognition of deferred tax liabilities (assets) of the future tax consequences of all taxable (deductible) temporary differences with certain

exceptions. The exceptions include:

- Undistributed profits of subsidiaries, branches, associates, and joint ventures to the extent that the investor is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.
  - Losses of subsidiaries, branches, associates, and joint ventures to the extent that a taxable profit will not be available against which the temporary difference can be utilised and it is probable that the temporary difference will not reverse in the foreseeable future.
  - Goodwill (if goodwill amortisation is not deductible for tax purposes) and negative goodwill treated as deferred income.
  - Initial recognition of an asset (liability) in a non-business combination transaction, that does not affect accounting or taxable profit (loss).
- A business combination classified as an acquisition can give rise to deferred tax liabilities (assets) where the tax bases of the identifiable assets and liabilities are different from the fair value of the assets and liabilities. Consequently these deferred tax liabilities (assets) affect goodwill or negative goodwill.
  - Deferred tax liabilities (assets) should be measured at the tax rates that are expected to apply to the period when the liability is settled or asset is realised, based on tax rates/laws that have been enacted or substantively enacted by the balance sheet date.
  - Prohibits discounting of deferred tax assets (liabilities).
  - Sets out guidance for the recognition of deferred tax assets arising from unused tax losses or unused tax credits.
  - Requires that the income tax consequences (both current and deferred) of dividends be recognised in net profit or loss when the liability for the dividend is recognised (with certain exceptions). Withholding tax is charged to equity as part of the dividends.
  - Presentation and disclosure requirements for income taxes.

*Related SIC*

**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.

*Key Features*

- Applies to entities whose equity or debt securities are publicly traded and to entities in the process of issuing securities to the public. In addition, any enterprise voluntarily providing segment information should comply with the requirements of IAS 14.
- Requires that an enterprise 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 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.
- Disclosure requirements for primary and secondary segments.

- Considerably less disclosure for the secondary segments.

*Related SIC* None.

### IAS 15, Information Reflecting the Effects of Changing Prices

*Effective Date* Periods beginning on or after 1 January 1983.

*Objective* To encourage disclosures reflecting the effects of changing prices on the measurements used in the determination of an entity's results of operations and its financial position.

*Key Features*

- IAS 15 is not mandatory, but entities are encouraged to disclose information reflecting the effects of changing prices and, where they do so, to disclose the items required by IAS 15.
- Comprehensive disclosures computed on the basis of either a general purchasing power approach or a current cost approach.

*Related SIC* None.

*Key Proposal in ED on Improvements* IAS 15 should be withdrawn.

### IAS 16, Property, Plant & Equipment (revised 1998)

*Effective Date* Periods beginning on or after 1 July 1999.

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

*Key Features*

- 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.
- Subsequent expenditure – add to the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the asset will flow to the entity.

All other subsequent expenditure should be recognised as an expense when it is incurred.

- For depreciable assets – identify and select depreciation method that reflects the consumption of benefits.
- Subsequent to initial recognition – measure using either the benchmark treatment (cost less accumulated depreciation and impairment losses) or allowed alternative (revaluation less subsequent depreciation of the revalued amount).
- Revaluation to be carried out regularly and for the entire class of asset.
- Any revaluation surplus or deficit to go directly to equity, except where the carrying amount is reduced below depreciated historical cost. Revaluation surplus may be transferred directly to retained earnings when the surplus is realised, but not to income.

*Related SIC*

### SIC 14, Property, Plant and Equipment – Compensation for the Impairment or Loss of Items

An entity should account separately for impairments, related compensation from third parties, and repair/restoration costs.

### SIC 23, Property, Plant and Equipment – Major Inspection or Overhaul Costs

The cost of a major inspection or overhaul generally should be expensed as incurred unless the item being overhauled has been depreciated as a separate asset component.

*Key Proposals  
in ED on  
Improvements*

- Clarifies that a components approach to depreciation on all items of property, plant, and equipment is required.
- All exchanges of property, plant, and equipment should be measured at fair value, including exchanges of similar items, except when the fair value of neither of the assets can be measured reliably.
- Subsequent expenditure should be added to the carrying amount of an asset only if the expenditure increases the asset's future economic benefits above those reflected in its most recently assessed level of performance.
- Acquisition cost should include the estimated cost of dismantling and removing that asset and restoring the site, where the cost is recognised as a provision and represents the initial carrying amount of the provision or changes in the initial carrying amount of the provision.
- Deduct incidental revenue during construction or development of an asset from the asset's cost only if the income-producing activity is a necessary part of bringing the asset to operating condition. Otherwise, report incidental revenue and related expenses in the income statement.
- Depreciation continues for assets temporarily idle or held for sale or disposal.

**IAS 17, Leases (revised 1997)**

*Effective Date* Periods beginning on or after 1 January 1999.

*Objective* To prescribe, for lessees and lessors, the appropriate accounting policies and disclosures to apply in relation to finance and operating leases.

- Key Features*
- A lease is classified as a finance lease if it transfers substantially all of the risks and rewards incident to ownership.
  - All other leases are classified as operating leases.
  - Substance over form requirement when determining

the lease type.

- Finance leases – Lessee's Accounting:
  - Recognise asset and liability at the lower of the present value of minimum lease payments and the fair value of the asset.
  - Depreciation policy – as for owned assets.
  - Finance lease payment – apportioned between interest and reduction in liability.
- Finance leases – Lessor's Accounting:
  - Recognise as a receivable at an amount equal to the net investment in the lease.
  - 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.
  - 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.
- Accounting for sale and leaseback transactions depends on whether these are essentially finance or operating leases.

*Related SIC*

**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**

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

*Key Proposals  
in ED on  
Improvements*

- A lease of both land and buildings should be split into two elements – lease of land and lease of building(s). Land element is generally an operating lease. Building element is an operating or finance lease based on the criteria in IAS 17.
- Lessors must spread initial direct costs over the lease term (immediate expensing prohibited).

**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.

- Key Features*
- 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.
    - For interest, royalties and dividends – recognised when it is probable that economic benefits will flow to the entity:
      - Interest – on a time proportion basis, taking into account the effective yield on the asset.
      - Royalties – on an accrual basis in accordance with the substance of the agreement.
      - Dividends – when shareholder's right to receive payment is established.
  - Disclosure requirements include revenue recognition accounting policies.

*Related SIC*

**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 2000)**

*Effective Date* Periods beginning on or after 1 January 1999. Certain revisions effective on or after 1 January 2001. 'Asset ceiling' revisions – periods ending 31 May 2002.

*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; other long-term employee benefits (long-service leave, disability, deferred compensation, long-term profit-sharing and bonuses, and equity compensation).

- Key Features*
- Establishes the underlying principle that 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.
  - Gives recognition criteria for short-term employee benefits (payable within 12 months). These 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 constructive obligation to pay them and the costs can be reliably estimated.
  - Post-employment benefit plans (such as pensions and health care) are split in two different categories: defined contribution plans and defined benefit plans.
  - Under defined contribution plans, expenses are recognised in the period the contribution is payable. The payable is recognised in exchange for services rendered by employees during the period.
  - Under defined benefit plans, the amount recognised in the balance sheet should be 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). This amount, reduced by the fair value of any plan assets at the balance sheet date, is then adjusted for unrecognised actuarial gains and losses and unrecognised past service costs. Extensive guidance is given in the Standard on how

to determine these items.

- Plan assets include assets held by a long-term employee benefit fund and qualifying insurance policies.
- 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, the deferral of actuarial gains or losses and past service costs is prohibited.
- Termination benefits should be recognised when the entity is demonstrably committed to the termination of one or more employees before the normal retirement date or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.
- The Standard does not specify recognition and measurement requirements for equity compensation benefits. However, disclosures are required.

*Related SIC*

None.

*Key proposals in ED 2 on Share-Based Payment*

- IAS 19 does not address accounting for share-based payments (including employee share options). Nor does it require disclosure of the fair value of employee options granted. The IASB has issued ED 2, which proposes:
  - All share-based payment transactions should be recognised at fair value.
  - Fair value should be measured at grant date.
  - Expense should be recognised when the goods or services received are sold or consumed, on a units-of-service method.
  - Same standards for all entities, listed and non-listed.

**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.

*Key Features*

- 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.
- Apply the income approach systematically (recognise income over periods necessary to match it with the related costs), and not the capital approach (credited directly to shareholders' interests).
- 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.

*Related SIC*

**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 1993)**

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

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

*Key Features*

- Foreign currency transactions, and translation of foreign operations integral to the reporting entity:
  - 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
  - use valuation-date exchange rates for non-monetary items that are carried at fair value.
- Exchange differences are recognised through income statement, with limited exceptions.
- Translation of self-sustaining foreign entities:
  - Assets and liabilities, both monetary and non-monetary, are translated using the closing rate.
  - Income statement items are translated at transaction-date exchange rates.
  - Exchange differences are classified as a separate component of equity, until disposal of the net investment.
  - Disposal of a foreign entity – recognise the deferred exchange differences as income/expense in the same period in which the gain/loss on disposal is recognised.
  - Special rules for foreign entities operating in a hyperinflationary economy.
- Change in classification of a foreign operation – apply translation procedure for the revised classification from the date of change.

*Related SIC***SIC 7, Introduction of the Euro**

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

**SIC 11, Foreign Exchange – Capitalisation of Losses Resulting from Severe Currency Devaluations**

Provides clarification on the conditions to be met before foreign exchange losses can be included in the carrying amount of related assets.

**SIC 19, Reporting Currency – Measurement and Presentation of Financial Statements under IAS 21 and IAS 29**

Clarifies that selection of a measurement currency is not a free choice under IAS 21. Criteria are provided.

**SIC 30, Reporting Currency – Translation from Measurement Currency to Presentation Currency**

Provides guidance for the exchange rate(s) to use when presenting financial statements in other than the measurement currency.

*Key Proposals in ED on Improvements*

- All derivatives covered by IAS 39, Financial Instruments: Recognition and Measurement, and all hedging-related material should be removed from the scope of IAS 21.
- The option to carry goodwill and fair value adjustments to assets and liabilities arising on acquisition of a foreign entity at historical rate should be eliminated. The closing rates should be always be used.
- SIC 19 should be incorporated into IAS 21 replacing the notion of the “reporting currency” with reference to a “functional currency” (the measurement currency) and “presentation currency” (currency in which financial statements are presented).
- Functional currency should not be a matter of choice, rather a matter of fact as the currency of the country whose economy drives the business.
- A reporting entity should be permitted to choose its presentation currency. Should this be different from the functional currency, the translation requirements of IAS 21 should be applied.
- Indicators of an integral foreign operation as opposed to a foreign entity should be incorporated into the indicators of the entity’s functional currency. Therefore, the functional currency of an integral foreign operation should be that of the reporting entity.
- Allowed alternative to capitalise certain foreign exchange differences should be eliminated.

**IAS 22, Business Combinations (revised 1998)**

*Effective Date* Periods beginning on or after 1 July 1999.

*Objective* To prescribe the accounting treatment for business combinations (both acquisitions and, in exceptional instances in which the acquirer cannot be identified, unitings of interests).

*Key Features*

- Guidance on the classification of a business combination, which includes whether an acquirer can be identified, and whether shareholders of the combining entities share mutually in the risks and

benefits of the combined entity.

- Prescribes the purchase method of accounting (using fair value of the purchase consideration or similar) for acquisitions:
  - Recognise in the balance sheet the acquiree's identifiable assets and liabilities and any goodwill or negative goodwill arising from the acquisition.
  - Thereafter incorporate in the income statement the results of the operations of the acquired entity.
- Allocate the cost between the assets and liabilities acquired by reference to the fair values at the date of the transaction, minority's proportion of pre-acquisition net assets (fair value of minority's portion is an allowed alternative), and goodwill or negative goodwill.
- The amount recognised for an intangible asset for which the fair value cannot be measured by reference to an active market, should be limited to an amount that does not create or increase negative goodwill.
- Goodwill must be amortised over a maximum useful life of 20 years (rebuttable presumption) on a straight-line basis.
- Negative goodwill is presented as a 'negative asset' and released to income based on an analysis of the circumstances from which it resulted.
- Prescribes the pooling of interests method of accounting for unitings of interests – involves the aggregation of carrying amounts of the individual financial statements with minimal changes.

#### Related SIC

#### **SIC 9, Business Combinations – Classification either as Acquisitions or Unitings of Interests**

The overriding criterion to distinguish an acquisition from a uniting of interests is whether an acquirer can be identified.

#### **SIC 22, Business Combinations – Subsequent Adjustment of Fair Values and Goodwill Initially Reported**

Guidance on circumstances in which adjustments are appropriate and how to calculate them.

#### **SIC 28, Business Combinations – “Date of Exchange” and Fair Value of Equity Instruments**

- Provides guidance for identifying the “date of exchange” when an acquisition is achieved through a single exchange transaction or in stages.
- The best evidence of a quoted equity instrument's fair value is the published price at the date of exchange, except in rare circumstances.

#### *Key Proposals in ED 3 and EDs of Amendments to IAS 36 and IAS 38*

- Purchase method would be used for all business combinations; uniting (pooling) of interests prohibited.
- Goodwill and other intangible assets with indefinite lives would not be amortised, but they would be tested for impairment at least annually.
- Goodwill is impaired if its carrying amount exceeds its implied value. Implied value is the recoverable amount of the cash generating unit (CGU) to which the goodwill has been allocated and the current fair value of the CGU's identifiable net assets.
- Amortisation continues for finite-life intangible assets; no presumption of a maximum life.
- Negative goodwill will be an immediate gain.
- Minority's share of acquired assets measured at fair value.
- Minority interest reported within equity in the balance sheet.

#### **IAS 23, Borrowing Costs**

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

*Objective* To prescribe the accounting treatment for borrowing costs.

- Key Features*
- Borrowing costs include interest, amortisation of discounts or premiums on borrowings, and amortisation of ancillary costs incurred in the arrangement of borrowings.
  - The benchmark treatment is to expense all borrowing costs when incurred.
  - The allowed alternative is to capitalise borrowing

costs that are 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.
- Where 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.
- Disclosure includes the accounting policy adopted for borrowing costs.

*Related SIC*

**SIC 2, Consistency – Capitalisation of Borrowing Costs**

An entity whose accounting policy is to capitalise borrowing costs must apply that policy consistently for all qualifying assets and periods.

**IAS 24, Related Party Disclosures**

*Effective Date* Periods beginning on or after 1 January 1986.

*Objective* To specify the disclosures required for relationships and transactions with related parties displaying elements of control or significant influence.

- Key Features*
- Guidance on the types of related party relationships for which disclosure is required.
  - Requires disclosure of the relationships involving control, even when there have been no transactions.
  - Guidance on the level of transaction-related disclosure.
  - Identifies situations where disclosure is not required.

*Related SIC* None.

*Key Proposals in ED on Improvements*

- Related parties should also include parties with joint control over the reporting entity and joint ventures in which the reporting entity is a venturer.
- Disclosure of management compensation, expense allowances, and similar items paid in the ordinary course of business should not be required by IAS 24.
- Separate disclosure of related party transactions and outstanding balances, terms, conditions, security, guarantees, and bad debt allowances.
- Clarify that IAS 24 does not require remeasurement to an arm's-length amount.

**IAS 26, Accounting and Reporting by Defined Benefit Plans**

*Effective Date* Periods beginning on or after 1 January 1998.

*Objective* To specify the measurement and disclosure principles for the financial reports of retirement benefit plans.

*Key Features* Sets out the reporting requirements for both defined contribution and defined benefit plans, including a statement of net assets available for benefits. Specifies the need for actuarial valuation of the benefits for defined benefits and the use of fair values for plan investments.

*Related SIC* None.

**IAS 27, Consolidated Financial Statements and Accounting for Investments in Subsidiaries**

*Effective Date* Periods beginning on or after 1 January 1990. Certain paragraphs amended by IAS 39, Financial Instruments: Recognition and Measurement effective on or after 1 January 2001.

- Objective* To prescribe:
- requirements for preparing and presenting consolidated financial statements for a group of entities under the control of a parent, and
  - the accounting treatment for investments in subsidiaries in a parent's separate financial statements.

*Key Features*

- Defines a subsidiary in terms of control and provides guidance on the definition of control.
- All subsidiaries should be consolidated except if:
  - temporary control at acquisition, or
  - subsidiary operates under severe long-term restrictions that significantly impair its ability to transfer funds to the parent.

Such subsidiaries should be accounted for in accordance with IAS 39, Financial Instruments: Recognition and Measurement.
- Requires separate line-item balance sheet and income statement presentation for minority interests.
- Parent's separate financial statements: account for all of its investments in subsidiaries either at cost, equity method (IAS 28, Accounting for Investments in Associates), or as available-for-sale financial assets as per IAS 39.
- Specifies impairment testing requirement for these investments.

*Related SIC*

**SIC 12, Consolidation – Special Purpose Entities**

An enterprise should consolidate a special purpose entity (SPE) when, in substance, the enterprise controls the SPE.

**SIC 33, Consolidation and Equity Method – Potential Voting Rights and Allocation of Ownership Interests**

An entity should consider potential voting rights in assessing whether it controls or significantly influences another entity.

*Key Proposals in ED on Improvements*

- The exemption of a wholly owned subsidiary from preparing consolidated financial statements will be tightened.
- Minority interests should be presented in equity, separate from parent shareholders' equity.
- All entities in a group will be required to use the same accounting policies for like transactions (current practicability exemption would be deleted).
- When an investment in a subsidiary is not consolidated because control is viewed as temporary, the guidance relating to the timing of the intended

disposal – currently “in the near future” – should be replaced with “within twelve months of acquisition”.

- A subsidiary should not automatically be excluded from consolidation if it operates under severe long-term restrictions that significantly impair its ability to transfer funds to its parent. Instead IAS 27 will suggest that such restrictions on the ability to transfer funds might indicate lack of control.
- Investments in subsidiaries that are consolidated in the consolidated financial statements should be either carried at cost or accounted for under IAS 39, Financial Instruments: Recognition and Measurement, in the parent's separate financial statements. The equity method alternative would be eliminated. The method chosen should be applied to all consolidated subsidiaries in the parent's separate financial statements.
- Investment in subsidiaries that are accounted for under IAS 39 in the consolidated financial statements (because control is temporary) should be accounted for in the same way in the parent's separate financial statements.
- The existence of consolidated financial statements should be mentioned in the notes to the separate financial statements prepared by the parent.

*Other Comments*

SIC 33 will be incorporated into the revised IAS 27. However, SIC 12 will not be. Instead, IASB is working on a separate agenda project on Consolidation, Including Special Purpose Entities.

**IAS 28, Accounting for Investments in Associates (revised 2000)**

*Effective Date*

Periods beginning on or after 1 January 1990, except for paragraphs 23 and 24 (on or after 1 July 1999), and paragraphs 8 and 10 (on or after 1 January 2001).

*Objective*

To prescribe the accounting treatment to be adopted by an investor for investments in associates over which it has significant influence.

*Key Features*

- Equity method of accounting required in consolidated financial statements if investor has significant influence except in the following two circumstances, when such investments should be

accounted for in accordance with IAS 39, Financial Instruments: Recognition and Measurement:

- investment held exclusively with a view to its disposal in the near future, and
- associate operates under severe long term restrictions that significantly impair its ability to transfer funds to the investor.
- Rebuttable presumption of significant influence if investment held, directly and indirectly, is more than 20% of investee.
- Under the equity method, investment is initially recorded at cost, and 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 results.
- Separate financial statements of investor that issues consolidated financial statements – option to use cost or as available-for-sale financial asset in accordance with IAS 39 instead of the equity method.
- Requirement for impairment testing in accordance with IAS 36, Impairment of Assets.

*Related SIC*

**SIC 3, Elimination of Unrealised Profits and Losses on Transactions with Associates**

Unrealised gains and losses resulting from transactions with associates should be eliminated proportionately.

**SIC 20, Equity Accounting Method – Recognition of Losses**

The investor normally stops recording its share of the continuing losses of an associate once the carrying amounts of instruments that convey equity rights are reduced to nil.

*Key Proposal s  
in ED on  
Improvements*

- Guidance would be added to identify circumstances when the 20% presumption of significant influence can be overcome. Disclosure should be required of the supporting reasons where the presumption has been overcome.
- Investments in associates accounted for under the equity method in the consolidated financial statements should be either carried at cost or accounted for under IAS 39, in the investor's separate financial statements. (An investor should be permitted to use cost or IAS 39 to account for associates only in separate financial statements.) The method chosen should be applied to all investments in associates in the investor's separate financial statements.
- When an investor does not prepare consolidated financial statements because it does not have any subsidiaries, investments in associates should be accounted for using the equity method.
- IAS 28 would require the amount to be reduced to nil when an associate incurs losses to include not only investments that convey equity rights but also other long-term interests.
- SIC 3 and SIC 33 would be incorporated into IAS 28.
- When investments in associates are not accounted for under the equity method because significant influence is viewed as temporary, the guidance relating to the timing of the intended disposal – currently “in the near future” – should be replaced with “within twelve months of acquisition”.
- An associate is not automatically excluded from the equity method if it operates under severe long term restrictions on its ability to transfer funds to its parent. Instead IAS 28 will suggest that such restrictions may indicate lack of significant influence.
- IAS 28 does not apply to investments in associates held by venture capital organisations, mutual funds, unit trusts, and similar entities that are measured at fair value in accordance with IAS 39, when such measurement is a well-established industry practice.

## 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.

**Key Features**

- Provides a list of indicators to identify a hyperinflationary economy.
- Allows judgement as to when restatement of financial statements becomes necessary (normally required when there is 100% inflation over 3 years), and provides detailed implementation guidance for such restatement.

**Related SIC** **SIC 19, Reporting Currency – Measurement and Presentation of Financial Statements under IAS 21 and IAS 29**

If the measurement currency is the currency of a hyperinflationary economy –financial statements have to be restated under IAS 29.

**SIC 30, Reporting Currency – Translation from Measurement Currency to Presentation Currency**

In a hyperinflationary economy, all financial statement items (including comparatives) are translated from the measurement currency to the presentation currency at the closing rate at the balance sheet date.

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

**Effective Date** Periods beginning on or after 1 January 1991.

**Objective** To prescribe appropriate presentation and disclosure standards for banks and similar financial institutions – as a supplement to the requirements of other Standards.

**Key Features**

- Requirement for classification of items in the income statement and balance sheet by their nature, and for the balance sheet in order of relative liquidity.
- Identifies the income statement and balance sheet line items requiring disclosure.
- Additional disclosure requirements, including concentration of assets, liabilities and off-balance

items, losses on loans and advances, and general banking risks.

**Related SIC** None.

## IAS 31, Financial Reporting of Interests In Joint Ventures (revised 2000)

**Effective Date** Periods beginning on or after 1 January 1992. Paragraphs 39-41 were revised effective 1 July 1999 to implement IAS 36, Impairment of Assets. Paragraph 35 was revised effective 1 January 2001 to implement IAS 39, Financial Instruments: Recognition and Measurement.

**Objective** To prescribe the accounting treatment required for interests in joint ventures, regardless of the structure or legal form of the joint venture activities .

**Key Features**

The key characteristic of a joint venture (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 in both its separate and consolidated financial statements.
- Jointly controlled entities – Benchmark treatment is proportionate consolidation. The allowed alternative treatment is the equity method of accounting.

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

Recognition of proportionate share of gains or losses on contributions of non-monetary assets is generally appropriate.

*Key Proposals  
in ED on  
Improvements*

- Investments in jointly controlled entities that are proportionately consolidated or accounted for under the equity method in the consolidated financial statements should be either carried at cost or accounted for under IAS 39, Financial Instruments: Recognition and Measurement, in the investor's separate financial statements. The method chosen by the investor should be applied to the entire category of investments in jointly controlled entities in its separate financial statements.
- When interests in jointly controlled entities are excluded from proportionate consolidation or equity method because joint control is viewed as temporary, the guidance relating to the timing of the intended disposal – currently “in the near future” – should be replaced with “within twelve months of acquisition”.
- An interest in a jointly controlled entity should not automatically be excluded from proportionate consolidation or the equity method if it operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor. Instead IAS 31 will suggest that such restrictions on the ability to transfer funds might indicate lack of joint control.
- IAS 31 should not apply to investments in joint ventures held by venture capital organisations, mutual funds, unit trusts, and similar entities that are measured at fair value in accordance with IAS 39 when such measurement is a well established practice of the industry.

**IAS 32, Financial Instruments: Disclosure and Presentation (revised 1998)***Effective Date*

Periods beginning on or after 1 January 1996. Certain revisions effective on or after 1 January 2001.

*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.
- To prescribe how to present financial instruments and what information that should be disclosed about

them.

- IAS 32 does not address recognition and measurement principles.

*Key Features*

- Presentation addresses:
  - Classifying an instrument as either a liability or an equity instrument, according to its substance.
  - Classification is made on the basis of assessments at the time of initial recognition and is not subsequently altered.
  - A financial liability involves a contractual obligation either to deliver cash or another financial asset, or to issue another financial instrument under terms that are potentially unfavourable to the issuer.
  - An instrument that does not give rise to such a contractual obligation is an equity instrument.
  - If the holder can elect whether to take cash or equity, the instrument is a liability.
  - If the issuer is required to pay cash, the instrument is a liability. An example is mandatorily redeemable preferred shares.
  - 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.
  - Interest, dividends, gains, and losses relating to an instrument classified as a liability should be reported as income or expense as appropriate.
  - 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 to realise the asset and settle the liability simultaneously.
- Disclosure requirements:
  - The extent and nature of the financial instruments, including significant terms and conditions.
  - Accounting policies and methods adopted.
  - Information about exposure to interest rate risk.

- Information about exposure to credit risk.
- Information about the fair values of all financial instruments, or a statement that it is not practicable to provide such information.
- A revision in 2000 elaborated on the definition of financial liability to include settlement in the form of the entity's own equity securities.

*Related SIC***SIC 5, Classification of Financial Instruments – Contingent Settlement Provisions**

Such instruments are liabilities unless the possibility of cash settlement is remote.

**SIC 16, Share Capital – Reacquired Own Equity Instruments (Treasury Shares)**

Treasury shares should be presented in the balance sheet as a deduction from equity, not as an asset.

**SIC 17, Equity – Costs of an Equity Transaction**

Such costs should be accounted for as a deduction from equity.

*Key Proposals in ED of Amendments to IAS 32 and IAS 39*

- Puttable instruments for which the amount of the put to the issuer is variable, should be recognised as a liability for the issuer.
- A derivative indexed to the price of own shares and requiring net cash or net share settlement, or giving the counterparty a choice of net cash or net share settlement, should be a derivative asset or liability (not an equity instrument).
- In applying split accounting for the liability and equity elements of an issued compound instrument, measurement should be made of the liability component first with any residual amount assigned to the equity element.

*Useful DTT Publication***Financial Instruments – Applying IAS 32 and IAS 39 Summaries, Guidance, Examples and US GAAP Comparisons**

This 250-page guide contains comprehensive summaries of IAS 32 and IAS 39 as well as 165 Q&A, 151 examples (many with journal entries), and 52 US GAAP comparisons. Download without charge from [www.iasplus.com](http://www.iasplus.com).

**IAS 33, Earnings Per Share**

*Effective Date* Periods beginning on or after 1 January 1999.

*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.

*Key Features*

- Applies to publicly traded entities, entities in the process of issuing such shares, and any other entity voluntarily presenting EPS.
- Present basic and diluted EPS on the face of the income statement:
  - For each class of ordinary shares.
  - With equal prominence.
  - For all periods presented.
- Basic EPS calculation:
  - Earnings numerator – should be after deduction of all expenses including tax, extraordinary items, and minority interests, and after deduction of preference dividends.
  - 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.
  - Anti-dilutive potential ordinary shares are to be

excluded from the calculation.

*Related SIC*

**SIC 24, Earnings Per Share – Financial Instruments that May Be Settled in Shares**

All instruments that may result in the issuance of ordinary shares, whether at the option of the issuer or the holder, are potential ordinary shares.

*Key Proposals in ED on Improvements*

- Per share amounts should be presented on the face of the income statement for income from continuing operations as well as for net income.
- Anti-dilution should be assessed based on income from continuing operations, not net income.
- Contracts that may be settled in common shares or in cash at the issuer's option should be included in the calculation of the number of potential ordinary shares in the diluted EPS calculation based on a rebuttable presumption that the contract will be settled in shares. SIC 24 would consequently be withdrawn.
- If an entity purchases its own preference shares for more than their carrying amount, the excess should be treated as a preferred dividend in calculating basic EPS.
- Additional computational guidance on more complex matters is being added, such as the effects of contingently issuable shares.

**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).
- Recognition and measurement principles for an interim period.

*Key Features*

- Applies only when the entity is required or elects to publish an IFR in accordance with IFRS.
- 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 condensed balance sheet, income statement, statement showing 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 – restatement of previously reported interim periods.

*Related SIC*

None

**IAS 35, Discontinuing Operations**

*Effective Date*

Periods beginning on or after 1 January 1999.

*Objective*

To enhance the ability to make financial projections by segregating information about discontinuing operations from information about continuing operations. IAS 35 does not establish any recognition or measurement principles in relation to discontinuing operations – these are dealt with under other IFRS. In particular, IAS 35 provides guidance on how to apply IAS 36, Impairment of Assets, and IAS 37, Provisions, Contingent Liabilities and Contingent Assets, to discontinuing operations.

*Key Features*

- A discontinuing operation is a relatively large component of a business enterprise, such as a business or geographical segment under IAS 14,

Segment Reporting – that the entity, pursuant to a single plan, either is disposing of substantially in its entirety or is terminating through abandonment or piecemeal sale.

- Disclosure begins when a detailed formal plan for disposal has been adopted and announced or when the entity has already contracted for the disposal. Disclosure continues until completion of disposal.
- Disclosures would be made if a plan for disposal is approved and publicly announced after the end of an entity's financial reporting period but before the financial statements for that period are authorised for issue.
- Disclosure includes the following for the discontinuing operation: carrying amount of total assets and liabilities at balance sheet date; amount of revenue, expenses, pre-tax profit or loss, and income tax expense for the current period; cash flow information for the period.
- Separate disclosure for each discontinuing operation.
- Presentation of required disclosures:
  - Either on the face of the financial statements or in the notes – by segregating the continuing and discontinuing assets, liabilities, income expenses and cash flows.
  - Not an extraordinary item.
- Restatement of prior periods.

*Related SIC* None.

### IAS 36, Impairment of Assets

*Effective Date* Periods beginning on or after 1 July 1999. Revised paragraph 1 based on IAS 41, Agriculture, effective on or after 1 January 2003.

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

*Key Features*

- IAS 36 applies to all assets except inventories (see IAS 2, Inventories), assets arising from construction contracts (see IAS 11, Construction Contracts), deferred tax assets (see IAS 12, Income Taxes),

assets arising from employee benefits (see IAS 19, Employee Benefits), financial assets (see IAS 39, Financial Instruments: Recognition and Measurement), investment property measured at fair value (see IAS 40, Investment Property), biological assets related to agricultural activity measured at fair value less estimated point-of-sale costs (see IAS 41, Agriculture).

- Impairment loss to be recognised when carrying amount of an asset exceeds its recoverable amount.
- Recognise impairment loss through income statement for assets carried at cost; treat as a decrease in the revaluation surplus for assets carried at revalued amount.
- Recoverable amount is the higher of an asset's net selling price 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, by reference to internal and external indicators of impairment identified in IAS 36.
- 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.
- Reversal of prior years' impairment losses allowed in certain instances (more restrictive for goodwill).
- Disclose impairment losses by class of assets and by segment (if applying IAS 14, Segment Reporting).
- Disclosure for reversal of impairment losses.

*Related SIC* None.

*Key Proposals  
in ED of  
Amendments  
to IAS 36*

- Subsequent to initial recognition, the impairment approach, rather than the amortisation approach, should be applied to goodwill and any other intangible asset with an indefinite useful life.
- Revised IAS 36 will incorporate amendments addressing goodwill impairment testing.
  - Goodwill and any other intangible asset with an indefinite useful life should be tested for impairment annually even if there are no specific indicators of impairment.
  - The test should be performed at the smallest group of cash-generating units to which goodwill can be allocated on a reasonable and consistent basis. Such grouping of cash-generating units should be consistent with management's grouping to evaluate financial performance internally, and should not be larger than a primary reportable segment under IAS 14. Guidance clarifying the level at which management tests goodwill for impairment will be included in the revised IAS 36.
  - Guidance should be provided in the revised standard relating to the basis for estimating cash flow projections for the related cash-generating unit, as in IAS 36.27.
  - Impairment of goodwill's cash generating unit should be determined by comparing the recoverable amount (the higher of 'value in use' and 'net selling price') of the cash-generating units with the carrying amount of the recognised net assets.
  - If impairment of goodwill is identified, it should be measured by comparing the carrying amount of goodwill with its implied value. (The implied value is the difference between recoverable amount of the cash-generating units to which the goodwill belongs and the fair value of the net assets that would be identified and recognised if the unit were acquired at the date of the impairment test.)
  - Reversals of goodwill impairment losses should be prohibited.

### 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.

- Key Features*
- Recognise a provision only when there is a liability resulting from past events, a present obligation that gives rise to a probable outflow of resources, and the amount of the obligation can be measured 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 policy, site restoration.
  - Comprehensive disclosures are required for provisions.
  - 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 that 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, the occurrence of which will depend on an event that is outside the control of the entity.
- Contingent assets require disclosure only, but where the realisation of income is virtually certain, then the related asset is not a contingent asset and recognition is appropriate.

*Related SIC* None.

### IAS 38, Intangible Assets

*Effective Date* Periods beginning on or after 1 July 1999.

*Objective* To prescribe the accounting treatment for intangible assets that are not dealt with specifically in another IFRS. IAS 38 requires an entity to recognise an intangible asset if, and only if, certain criteria are met. IAS 38 also specifies how to measure the carrying amount of intangible assets and what to disclose regarding intangible assets.

- Key Features*
- Requires an entity to recognise an intangible asset (at cost), whether purchased or self-created if, and only 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.
  - Requires all expenditure on research to be recognised as an expense when it is incurred.
  - Development costs are capitalised only after technical and commercial feasibility of the asset for sale or use have been established.
  - 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 criteria for the recognition of an

intangible asset, expenditure on this item is recognised as an expense when it is incurred, except if the cost is incurred as part of a purchase business combination, in which case it should form part of the amount attributed to goodwill (negative goodwill) at the date of acquisition.

- Subsequent expenditure on an intangible asset after its purchase or completion should be recognised as an expense when it is incurred unless:
  - it enhances the benefits originally expected from the asset, and
  - the expenditure can be measured and attributed to the asset reliably.
- If these conditions are met, the subsequent expenditure should be added to the cost of the intangible asset.
- After initial recognition, an intangible asset is measured either at cost less accumulated amortisation and impairment losses or, if there is a quoted market price in an active market, under the allowed alternative treatment, at a revalued amount less subsequent amortisation and impairment.
- Amortisation: over useful life (presumption of not more than 20 years), based on pattern of benefits (straight-line is the default).

*Related SIC*

#### SIC 6, Costs of Modifying Existing Software

Expenditure to restore or maintain the economic benefits from software should not be capitalised.

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

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

*Key Proposals in ED of Amendments to IAS 38*

- Intangible assets, including in-process research and development (IPR&D), 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. Subsequent expenditure on the acquired IPR&D project should be accounted for in accordance with IAS 38 for research and development expenditure of an internal project.
- The rebuttable presumption in IAS 38 that the useful

life of an intangible asset is less than 20 years would be removed.

- Intangible assets, whether or not acquired in a business combination, can have indefinite useful lives. 'Indefinite' does not mean 'infinite'.
- Intangible assets with indefinite useful lives should not be subject to the amortisation requirements in IAS 38 but should be tested for impairment at each financial year-end (or more frequently if there are indications of asset impairment) by comparing the asset's recoverable amount with its carrying amount. The recoverable amount of intangible assets with indefinite useful lives should continue to be measured, and impairment losses in respect of these assets should continue to be accounted for, under IAS 36, Impairment of Assets.
- Intangible assets with indefinite useful lives and that trade in an active market (very rare) should continue to be permitted to be carried at revalued amounts in accordance with IAS 38.

### IAS 39, Financial Instruments: Recognition and Measurement

*Effective Date* Periods beginning on or after 1 January 2001.

*Objective* To establish principles for recognising, measuring, and disclosing information about financial assets and financial liabilities. IAS 39 supplements the disclosure provisions of IAS 32, Financial Instruments: Disclosure and Presentation.

- Key Features*
- All financial assets and financial liabilities, including all derivatives and certain embedded derivatives, should be recognised on the balance sheet.
  - Financial instruments should initially be measured at cost, which is the fair value of the consideration given or received to acquire the financial asset or liability.
  - Cost includes transaction costs such as commissions, fees, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include premium or discount, financing costs, or allocations of internal administrative or holding costs.
  - 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, this Standard classifies financial assets into four categories:
  1. Loans and receivables originated by the entity and 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. The Standard imposes punitive treatment if an entity sells any HTM investments: 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 held for trading – that is, acquired for the purpose of generating a profit from short-term fluctuations in price. Derivative assets are always deemed held for trading unless they are designated as hedging instruments.
  4. Available-for-sale financial assets – all financial assets that do not fall into one of the other three categories. This includes all investments in equity instruments that are not held for trading.
- Subsequent to initial recognition, all financial assets should be remeasured to fair value, except for the following, which should be carried at amortised cost subject to a test for impairment:
  - loans and receivables originated by the entity and not held for trading,
  - held-to-maturity investments, and
  - available for sale and held for trading investments whose fair value cannot be reliably measured (limited to some unquoted equity instruments where other methods of estimating fair value reasonably are inappropriate or unworkable, and some derivatives that are linked to and must be settled by delivery of such unquoted equity instruments).

- After acquisition, most financial liabilities should be measured at original recorded amount less principal repayments and amortisation. Only derivatives and liabilities held for trading (short sales) should be remeasured to fair value.
- 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).
- Financial assets and liabilities that are designated as hedging instruments are subject to special hedge accounting rules.
- For those financial assets and liabilities that are remeasured to fair value, an entity has a single, entity-wide option to either:
  - recognise the entire adjustment in net profit or loss for the period, or
  - recognise in net profit or loss for the period only those changes in fair value relating to financial assets and liabilities held for trading, with the value changes for non-trading assets (available for -sale) reported in equity until the financial asset is sold or determined to be impaired, at which time the gain or loss is reported in net profit or loss.
- Hedge accounting (recognising the offsetting effects on net profit or loss symmetrically) is permitted in certain circumstances, provided that the hedging relationship is clearly defined, measurable, and actually effective.
- Three types of hedges with different accounting treatment: fair value hedge, cash flow hedge, and hedge of a net investment in a foreign entity (as defined in IAS 21, The Effects of Changes in Foreign Exchange Rates), which is accounted for as a cash flow hedge.
- Fair value hedge – recognise gain/loss through income statement for both the hedged item and hedging instrument.
- Cash flow hedge – gain/loss on the effective portion of hedging instrument – directly to equity, and any remaining gain/loss (ineffective portion) through net profit/loss. Special rules apply if a non-derivative is

used to hedge a foreign exchange gain/loss.

- Supplements the disclosure requirements of IAS 32 regarding financial instruments.

#### *Related SIC*

#### **SIC 33, Consolidation and Equity Method – Potential Voting Rights and Allocation of Ownership Interests**

Certain instruments containing potential voting rights must be accounted for in accordance with IAS 39.

#### *Key Proposals in ED of Amendments to IAS 39*

- An entity should be permitted to designate a financial asset that would otherwise be classified as a loan or receivable originated by the entity as an available-for-sale financial asset.
- Fixed maturity should not be a precondition for classification of a financial asset as a loan or receivable originated by the entity.
- An entity should be permitted to measure any financial instrument at fair value, with changes in fair value recognised in net profit or loss, by designating it irrevocably at inception as held for trading. To impose discipline on this approach, an entity is to be precluded from reclassifying financial instruments into (or out of) the category.
- The option to recognise changes in fair value of the available-for-sale portfolio in the income statement should be eliminated. Therefore all fair value changes should be recognised in equity.
- An entity should have the option, rather than being required, to measure a hybrid financial instrument containing an embedded derivative that is not closely related to the host contract at fair value with changes in fair value reported in net profit or loss.
- Hedges of firm commitments should be classified as fair value hedges and not cash flow hedges.
- A basis adjustment should be prohibited when a cash flow hedge of a forecasted transaction results in the recognition of an asset or a liability.
- Only loans individually assessed for impairment and found to be unimpaired should be included in a group of loans with similar risk attributes for purposes of collective assessment of impairment.
- The methodology for measuring impairment should ensure that an impairment loss is not recognised on

initial recognition of the assets.

- The derecognition provisions in IAS 39 should be clarified by establishing as the guiding principle a continuing involvement approach that disallows derecognition to the extent to which the transferor has continuing involvement in an asset or a portion of an asset it has transferred.

*IAS 39  
Guidance*

IAS 39 Implementation Guidance: An IAS 39 Implementation Guidance Committee, chaired by John T. Smith of Deloitte & Touche (USA), developed approximately 250 questions and answers, which are published as part of the IASB's Bound Volume of IFRS. No further Q&A are being developed.

*Useful DTT  
Publication*

**Financial Instruments – Applying IAS 32 and IAS 39 Summaries, Guidance, Examples and US GAAP Comparisons.**

This 250-page guide contains comprehensive summaries of IAS 32 and IAS 39 as well as 165 Q&A, 151 examples (many with journal entries), and 52 US GAAP comparisons. Download without charge from [www.iasplus.com](http://www.iasplus.com).

**IAS 40, Investment Property**

*Effective Date* Periods beginning on or after 1 January 2001.

*Objective* To prescribe the accounting treatment for investment property and related disclosure requirements.

- Key Features*
- 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.
  - Cost model – investment property is measured at

depreciated cost less any accumulated impairment losses. Fair value of the investment property is still required to be disclosed.

- The chosen measurement model is to 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 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).
- Disclosure includes:
  - Method of determining fair value.
  - Extent of use of independent valuer in determining fair value.
  - Criteria that were used to classify property as investment property or not.

*Related SIC* None.

*Key Proposal  
in ED on  
Improvements*

The definition of an investment property would be amended to permit a property interest held by a lessee under an operating lease to qualify as investment property provided that the lessee uses the fair value model of IAS 40. In this case, the lessee should account for the lease as if it were a finance lease.

**IAS 41, Agriculture**

*Effective Date* Periods beginning on or after 1 January 2003.

*Objective* To establish standards of accounting for agricultural activity – the management of the biological transformation of biological assets (living plants and animals) into agricultural produce.

- Key Features*
- 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.
  - 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.

- Change in fair value of biological assets during a period is reported in net profit or loss.
- Exception to fair value model for biological assets: if there is no active market at time of recognition in the financial statements, and no other reliable measurement method – apply the cost model to the specific biological asset only. The biological asset should be measured at depreciated cost less any accumulated impairment losses.
- Quoted market price in 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.
- Fair value measurement stops at harvest. IAS 2, Inventories, applies after harvest.
- Disclosure to include:
  - Description of an entity’s biological assets, by broad category.
  - Carrying amount of each category.
  - Change in fair value during the period.
  - Reconciliation of changes in the carrying amount of biological assets, showing separately changes in value, purchases, sales, harvesting.
  - Basis for determining fair value.

*Related SIC* None.

## Preface to IFRS

*Adoption* Adopted by the IASB in May 2002.

*Key Features* Covers, among other things, the objectives of the IASB, the scope of IFRS, due process for developing IFRS and Interpretations, equal status of “black letter” and “grey letter” paragraphs, policy on effective dates, and use of English as the official language.

## First-Time Adoption of IFRS

**Status.** ED 1 was issued in July 2002. Comment period ended 31 October 2002. Under ED 1, a first-time adopter would comply with the latest version of each IFRS, with limited exemptions (see page 23 of this publication). Since IAS 1 requires comparative financial statements, generally one prior year would be restated using current IFRS. ED 1 would replace SIC 8.

**What’s next?** The IASB expects to issue a final IFRS in the second quarter of 2003, effective for an entity’s first IFRS financial statements for a period beginning on or after 1 January 2004. Earlier application encouraged.

## Amendments to IAS 32 and IAS 39, Financial Instruments

**Status.** An exposure draft issued in July 2002 proposed major changes to IAS 32 and IAS 39. The principal proposed changes to IAS 32 are set out starting on page 53 of this publication, following the summary of IAS 32. The principal proposed changes to IAS 39 are set out starting on page 66 of this publication, following the summary of IAS 39.

The IASB received over 170 letters of comment on the exposure draft, many expressing significant disagreements with aspects of the proposals. The Board devoted nearly all of its two-day meeting with the Standards Advisory Council in February 2003 to the proposed changes. And 108 of the commentators presented their views in face-to-face discussions with the IASB at five days of public roundtable discussions in Brussels and London in March 2003.

**What’s next?** Final standards are expected in third quarter of 2003, effective for 2005.

## Improvements to IFRS

**Status:** In May 2002, the IASB published an exposure draft of proposed amendments to 14 standards and consequential amendments to a number of other standards. The main changes would be to IAS 1, 2, 8, 10, 15, 16, 17, 21, 24, 27, 28, 31, 33, and 40. They are noted in our summaries of those standards earlier in this publication.

The Board received over 150 letters of comment on its exposure draft. It began its consideration of those comments in November 2002.

**What’s next?** Final standards expected in second and third quarters of 2003, effective for 2005.

## Share-Based Payment

**Status.** ED 2 was issued in November 2002. Comments were due 7 March 2003. Earlier in this publication, following our summary of IAS 19, are the key proposals in ED 2. The most fundamental proposal is to require that entities recognise the cost of all share-based payments, including employee share options.

FASB invited comments on ED 2, as did all of the IASB's partner national standard setters. As a result of the comments received, FASB added accounting for stock options to its agenda and, in April 2003, voted to expense stock options.

**What's next?** Final standard is expected in fourth quarter of 2003, effective for 2005.

### Business Combinations – Phase I

**Status.** Exposure Drafts were issued in December 2002, one (ED 3) proposing a new IFRS to replace IAS 22, Business Combinations, and the others proposing amendments to IAS 36, Impairment of Assets, and IAS 38, Intangible Assets. The comment period ended 4 April 2003. Following the summaries of those three standards earlier in this booklet, the key proposals for change are highlighted. Most fundamentally, uniting (pooling) of interests would be prohibited, and goodwill and other intangibles with indefinite lives would no longer be amortised but would be tested for impairment at least annually.

**What's next?** Final standards expected in fourth quarter of 2003, effective for 2005.

### Business Combinations – Phase II

**Status.** Phase II of IASB's Business Combinations project has three components:

- ☐ Issues related to the application of the purchase method.
- ☐ Accounting for business combinations in which separate entities or operations of entities are brought together to form a joint venture, including consideration of "fresh start accounting".
- ☐ Issues that were excluded from Phase I:
  - Business combinations involving entities (or operations of entities) under common control.
  - Business combinations involving two or more mutual entities (such as mutual insurance companies or mutual cooperative entities).
  - Business combinations in which separate entities are brought together to form a reporting entity by contract only without the obtaining of an ownership interest.

The purchase method component is now an active IASB project being conducted jointly with FASB, with a goal of achieving convergence in the procedures for applying the purchase method.

**What's next?** Exposure draft expected in second quarter of 2003, final standard in 2004, effective for 2005.

### The Income Statement (Performance Reporting)

**Status.** This project is addressing broadly how to present all recognised changes in assets and liabilities from transactions or other events except

those related to owners' investments and withdrawals (sometimes called comprehensive income).

The IASB has tentatively concluded that all changes in assets and liabilities other than owner transactions should be presented in a single performance statement – the income statement. Here's the Board's tentative thinking about the format of the income statement:

	<i>Column 1</i> Total (2 + 3)	<i>Column 2</i> Income and Expenses Other than Remeasure- ments	<i>Column 3</i> Income and Expenses Resulting from Remeasure- ments
Operations	xxx	xxx	xxx
Financing	xxx	xxx	xxx
Income Taxes	xxx	xxx	xxx
Discontinuing Operations	xxx	xxx	xxx
Net Income or Comprehensive Income	xxx	xxx	xxx

This format would apply to all companies in all industries. Subtotals within comprehensive income (for example, 'operating profit') will be prohibited except when they are subtotals of other amounts required to be displayed on the face. There would be no 'recycling' of items across columns or rows from one period to another.

**What's next?** An exposure draft is planned for fourth quarter 2003. The Board has indicated, however, that it does not expect to make a final standard mandatory in time for 2005 financial reporting.

### Short-Term Convergence Project: IFRS and US GAAP

**Status.** The objective of this project is to eliminate a variety of differences between International Financial Reporting Standards and US GAAP. The project, which is being done jointly by FASB and IASB, grew out of an agreement reached by the two Boards in September 2002. Some differences being considered in this project arose as a result of recent IASB exposure drafts. These include classification of liabilities as current or noncurrent, asset exchanges, voluntary accounting changes, and revisions to IAS 32 and IAS 39. The IASB is taking a close look at these as it redeliberates the EDs.

Other differences have arisen in statements recently issued by FASB. These include the definition and presentation of discontinued activities;

costs associated with exit or disposal activities (including provisions for restructuring costs), assets held for sale, and government grants.

Still other differences are more long-standing but may be capable of resolution in a relatively short time. These include idle capacity and spoilage costs of inventories; accounting policies, changes in estimates, and errors; depreciation of assets held for disposal or idle; application of the temporary difference approach to income taxes; construction contracts; investments in joint ventures; interim financial reporting; and research and development costs.

**What's next?** An exposure draft is planned for the third quarter of 2003, with a final standard in 2004, effective for 2005.

### Insurance Contracts

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

The first phase is addressing the application of existing IFRS to companies that issue insurance contracts. Phase II is now the comprehensive project. Also, the Board is trying to avoid requiring changes in Phase I that might be reversed in Phase II. Moreover, the Board does not intend to develop specific recognition and measurement requirements in Phase I for most aspects of insurance contracts.

**What's next?** For Phase I, an exposure draft expected in the second quarter of 2003, with a final standard in 2004, effective for 2005. The IASB has not established a timetable for Phase II.

### Activities of Financial Institutions

**Status.** The Board has agreed on a financial risk disclosure principle, which states that a financial institution should disclose information that enables users of its financial statements to evaluate the nature and extent of the entity's exposure to financial risks during the reporting period.

To apply that principle, qualitative and quantitative information would be required about:

- ☐ Credit risk.
- ☐ Quality of assets – past due and impaired financial assets.
- ☐ Liquidity risk.
- ☐ Market risk.

The Board has also tentatively agreed to require disclosure of capital requirements imposed by external parties (for example, a regulator).

**What's next?** An exposure draft is planned for third quarter 2003. The Board has indicated, however, that it does not expect to make a final standard mandatory in time for 2005 financial reporting.

### Revenue, Liabilities, and Equity: Concepts

**Status.** This project addresses three interrelated issues:

- ☐ Distinction between liabilities and equity.
- ☐ Definition of and recognition criteria for liabilities.
- ☐ General principles for recognising revenue.

The IASB is focusing first on revenue recognition in a joint project with the FASB. They aim to develop a comprehensive set of principles for revenue recognition that will eliminate the inconsistencies in the existing standards and practices. The project is in the study phase, with no decisions yet made.

**What's next?** The project is likely to lead to revisions of both the IASB Framework and IAS 18, Revenue, with an exposure draft in 2003 and final IFRS in 2004.

### Consolidation, Including Special Purpose Entities

**Status.** The objective of this project is to reconfirm the basis on which an entity should consolidate its investments and to provide more rigorous guidance around the concept of "control".

**What's next?** The project is likely to lead to revisions of IAS 27. IASB has not yet established a timetable.

### IASB's Active Research Topics

These are likely to become active agenda projects soon:

- ☐ The application of IFRS to small and medium-sized entities and in emerging economies.
- ☐ Lease accounting.
- ☐ Accounting concepts, including a strategic review of the basic elements of accounting and design work on measurement, focusing initially on impairments.
- ☐ Aspects of accounting for financial instruments.
- ☐ Accounting for associates and joint ventures.
- ☐ Extractive industries.

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


**Websites:**
**❑ Deloitte Touche Tohmatsu**

[www.deloitte.com](http://www.deloitte.com)

[www.iasplus.com](http://www.iasplus.com)

**❑ IASB**

[www.iasb.org.uk](http://www.iasb.org.uk)

**❑ IASB's Liaison Standard Setting Bodies**

Australian Accounting Standards Board      [www.aasb.com.au](http://www.aasb.com.au)

Canadian Accounting Standards Board      [www.cica.ca](http://www.cica.ca)

France Conseil National de la Comptabilité      [www.finances.gouv.fr/CNCompta](http://www.finances.gouv.fr/CNCompta)

German Accounting Standards Board      [www.drsc.de](http://www.drsc.de)

Japan Accounting Standards Board      [www.asb.or.jp/index\\_e.html](http://www.asb.or.jp/index_e.html)

New Zealand Financial Reporting Standards Board      [www.icanz.co.nz](http://www.icanz.co.nz)

United Kingdom Accounting Standards Board (ASB)      [www.asb.org.uk](http://www.asb.org.uk)

United States of America Financial Accounting Standards Board (FASB)      [www.fasb.org](http://www.fasb.org)

**❑ International Auditing and Assurance Standards Board**

[www.ifac.org/iaasb](http://www.ifac.org/iaasb)

**❑ International Federation of Accountants**

[www.ifac.org](http://www.ifac.org)

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