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IAS 23 Borrowing Cost

Borrowing Costs Overview Prescribes accounting when borrowings are made to acquire or construct an asset. Recognition of borrowing costs as a cost of construction Borrowing costs directly attributable to the acquisition or construction of a qualifying asset are included in the cost of that asset. All other borrowing costs are expensed when incurred. A qualifying asset is one that takes a substantial period to make it ready for its intended use or sale. If funds are borrowed generally and used to obtain a qualifying asset, a capitalization rate (using a weighted average of the borrowing costs over the period) is used. The borrowing costs eligible for capitalization cannot exceed the number of borrowing costs incurred. Interpretations None Changes effective this year IAS 23 is amended to clarify that when a qualifying asset is ready for its intended use or sale, a company treats any outstanding borrowing to obtain that qualifying asset as part of general borrowings. The amendments are effective for annual periods beginning on or after 1 January 2019. Pending changes None History Issued in 1993 it was included in the initial set of Standards adopted for 2005. The option of immediate recognition of borrowing costs as an expense was removed for annual periods beginning on or after 1 January 2009.

IAS 24 Related Party Disclosures Overview Sets out disclosure requirements to make investors aware that the financial position and results of operations may have been affected by the existence of related parties. IFRS in your pocket |2019 48 Related parties A related party is a person or entity that is related to the reporting entity. A related party includes a person who has or has a close family member who has control or joint control of, or significant influence over, the reporting entity or is a member of its, or its parent’s, key management personnel. Entities that such a person controls jointly control, has significant influence over, or of which they are a member of the key management personnel are also related parties. Another entity is related to the reporting entity if it is a member of the same group; either entity is an associate or a joint venture of the other, they are joint ventures of the same third party; one entity is a joint venture of a third entity and the other entity is an associate of the third entity; the other entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity; or the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or the parent of the reporting entity. Disclosure The Standard requires disclosure of relationships involving control, even when there have been no transactions. For related party transactions, disclosure is required of the nature of the relationship and with sufficient information to enable an understanding of the potential effect on the transactions. There is a partial exemption for government-related entities. Interpretations None Changes effective this year None Pending changes None IFRS in your pocket |2019 49 History The 1993 version was Included in the initial set of Standards adopted for 2005. It was revised for annual periods beginning on or after 1 January 2011 to give partial relief for government-related entities. IAS 26 Accounting and Reporting by Retirement Benefit Plans Overview Specifies the measurement and disclosure principles for the financial reports of retirement benefit plans. Summary Sets out the reporting requirements for the reporting by defined contribution and defined benefit plans, including the need for actuarial valuation of the benefits for defined benefits and the use of fair values for plan investments. Interpretations None Changes effective this year None Pending changes None History Originally issued in 1987, it was included in the original set of Standards effective for annual periods beginning on or after 1 January 2005.

IAS 27 Separate Financial Statements Overview Prescribes the accounting for investments in subsidiaries, joint ventures, and associates in separate financial statements. Accounting In separate financial statements, investments in subsidiaries, associates, and joint ventures are accounted for either at cost or as investments under IFRS 9 or using the equity method as described in IAS 28. Interpretations None IFRS in your pocket |2019 50 Changes effective this year None Pending changes None History Included in the initial set of improved Standards adopted for 2005. In 2011 IAS 27 was revised and renamed when the requirements for consolidated financial statements were moved from IAS 27 into IFRS 10, effective for periods beginning on or after 1 January 2013. It was amended in 2012 to add disclosures about investment entities and in 2014 to allow a parent to use the equity method for its investments in subsidiaries, associates, and joint ventures in its separate financial statements.

IAS 28 Investments in Associates and Joint Ventures Overview Sets out the accounting when an entity has an investment in an associate or joint venture. The definition of an associate is an entity over which the investor has significant influence. There is a rebuttable presumption that an investor that holds an investment, directly and indirectly, of 20 percent or more of the voting power of the investee has significant influence. The guidance for assessing joint control and whether an entity has an investment in a joint venture is set out in IFRS 11. Accounting method The equity method is used to account for investments in associates and joint ventures. However, if the investor is a venture capital firm, mutual fund, unit trust, or a similar entity, it can elect to measure such investments at fair value through profit or loss following IFRS 9. When the investor is presenting its separate financial statements it accounts for an investment in an associate or a joint venture following IAS 27. IFRS in your pocket |2019 51 The equity method The investment is recorded initially at cost and is subsequently adjusted by the investor’s share of changes in the investee’s net assets. The investor’s statement of comprehensive income reflects its share of the investee’s post-acquisition profit or loss. The accounting policies of the associate and joint venture need to be the same as those of the investor for like transactions and events in similar circumstances. However, if an entity that is not itself an investment entity but has an interest in an associate or joint venture that is an investment entity, the entity is permitted to retain the fair value measurements applied by an investment entity associate or joint venture to its interests in subsidiaries. The end of the reporting period of an associate or a joint venture cannot be more than three months different from the investor’s end of the reporting period. Impairment Equity method investments are assessed for impairment following IAS 36. The impairment indicators in IFRS 9 apply. An investment in an associate or joint venture is treated as a single asset for impairment purposes. Changes in ownership interest When an entity stops using the equity method (for example, as a result of a change in ownership), the investment retained is remeasured to its fair value, with any gain or loss recognized in profit or loss. For transactions involving assets that constitute a business (see IFRS 3), the gain or loss is recognized in full. Thereafter, IFRS 9 is applied to the remaining holding unless the investment becomes a subsidiary in which case the investment is accounted for following IFRS 3. Interpretations None Changes effective this year IAS 28 is amended to clarify that an entity’s interests long-term interests in an associate or joint venture that form part of its net investment in the associate or joint venture are subject to the impairment requirements in IFRS 9. This amendment is effective for annual periods beginning on or after 1 January 2019. IFRS in your pocket |2019 52 Pending changes Amendments issued in September 2014 clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed are a business. However, the IASB decided in December 2015 to defer indefinitely the effective date of the amendments, although entities may elect to apply them. The IASB is planning a research project to assess whether practice problems that arise using the equity method (for investments in associates and joint ventures) could be addressed by amending the equity method or whether a more fundamental review is needed. History Included in the initial set of improved Standards adopted for 2005 but revised when IFRS 10 was issued, with effect for annual periods beginning on or after 1 January 2013.

IAS 29 Financial Reporting in Hyperinflationary Economies Overview Sets out the requirements for entities reporting in the currency of a hyperinflationary economy. Hyperinflation Generally, an economy is hyperinflationary when the cumulative inflation rate over three years is approaching or exceeds 100 percent. Change in measurement basis When an entity’s functional currency is the currency of a hyperinflationary economy its financial statements are restated so that all amounts are measured at current amounts at the end of the reporting period. The adjusting gain or loss on the net monetary position is recognized in profit or loss. Comparative figures for the prior period(s) are also restated into the same current measuring unit. When an economy is no longer hyperinflationary When an economy ceases to be hyperinflationary, the amounts expressed in the measuring unit current at the end of the previous reporting period become the basis for the carrying amounts in subsequent financial statements. IFRS in your pocket |2019 53 Interpretations IFRIC 7 Applying the Restatement Approach under IAS 29 clarifies that when the economy of an entity’s functional currency becomes hyperinflationary, the entity applies the requirements of IAS 29 as though the economy had always been hyperinflationary. Changes effective this year None Pending changes The IASB plans to examine a scope extension of this Standard to cover economies subject to only high inflation. History Originally issued for periods beginning on or after 1 January 1990, it was adopted by the IASB and included in the original set of Standards effective for annual periods beginning on or after 1 January 2005

Interpretations IFRIC 7 Applying the Restatement Approach under IAS 29 clarifies that when the economy of an entity’s functional currency becomes hyperinflationary, the entity applies the requirements of IAS 29 as though the economy had always been hyperinflationary.

Changes effective this year

None

Pending changes

The IASB plans to examine a scope extension of this Standard to cover economies subject to only high inflation.

History Originally issued for periods beginning on or after 1 January 1990, it was adopted by the IASB and included in the original set of Standards effective for annual periods beginning on or after 1 January 2005.

IAS 32 Financial Instruments: Presentation

Overview

Prescribes the accounting for classifying and presenting financial instruments as liabilities or equity and for offsetting financial assets and liabilities.

Classification of an instrument is based on its substance rather than its form and the assessment is made at the time of issue and is not altered subsequently. An equity instrument is an instrument that evidences a residual interest in the assets of the entity after deducting all of its liabilities. A financial liability is an instrument that obligates an entity to deliver cash or another financial asset, or the holder has a right to demand cash or another financial asset. Examples are bank loans and trade payables, but also mandatorily redeemable preference shares. Puttable instruments and instruments that impose on the entity an obligation to deliver a pro-rata share of net assets only on liquidation that is subordinate to all other classes of instruments and meet additional criteria are classified as equity instruments even though they would otherwise meet the definition of a liability.

An issuer classifies separately the debt and equity components of a single compound instrument such as convertible debt, at the time of issue. The cost of treasury shares is deducted from equity. Resales of treasury shares are accounted for as equity issuances.

Cost Costs of issuing or reacquiring equity instruments are accounted for as a deduction from equity.

Offsetting Financial assets and liabilities can only be offset, and the net amount reported when an entity has a legally enforceable right to set off the amounts and intends either to settle on a net basis or simultaneously.

Statement of financial performance

Interest, dividends, gains, and losses relating to an instrument classified as liability are reported as income or expense.

Interpretations IFRIC 2 Members’ Shares in Co-operative Entities and Similar Instruments clarifies that these are liabilities unless the co-op has the legal right not to redeem on demand.

Changes effective this year

None

Pending changes

The IASB is exploring whether it can improve the requirements in IAS 32 for classifying financial instruments into equity and liabilities and issued a DP in 2018.

History Issued in the set of improved Standards effective for annual periods beginning on or after 1 January 2005. In December 2005 all of the disclosure requirements were moved to IFRS 7. The IASB also amended IAS 32 for puttable financial instruments in October 2009.

IAS 36 Impairment of Assets

Overview

Sets out requirements to ensure that assets are carried at no more than their recoverable amount and to prescribe how recoverable amount and an impairment loss or its reversal are calculated.

Scope IAS 36 applies to assets that are not in the scope of other Standards. Assets that have separate requirements are inventories (IAS 2), contract assets and costs to fulfill a contract (IFRS 15), deferred tax assets (IAS 12), assets from employee benefits (IAS 19), financial assets (IFRS 9), investment property measured at fair value (IAS 40), biological assets measured at fair value fewer costs to sell (IAS 41), contracts in the scope of IFRS 17 and non-current assets classified as held for sale (IFRS 5).

Identifying impairments

At the end of each reporting period, assets are reviewed to look for any indication that they may be impaired. Intangible assets with an indefinite useful life and goodwill must be tested annually irrespective of whether there is any indication of impairment.

Recognition An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. An impairment loss is recognized in profit or loss for assets carried at cost and treated as a revaluation decrease for assets carried at the revalued amount. Reversal of prior years’ impairment losses is required in some cases but is prohibited for goodwill.

Recoverable amount

Recoverable amount is the higher of an asset’s fair value fewer costs of disposal 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 its disposal at the end of its useful life. The discount rate used is the pre-tax 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. The discount rate must not reflect risks for which future cash flows have been adjusted. Fair value is defined in IFRS 13. Examples for costs of disposal are set out in IAS 36, for example, legal costs, costs of removing an asset, and direct incremental costs to bring an asset into condition for its sale.

Cash generating units (CGUs)

If it is not possible to determine the recoverable amount for an individual asset, then the recoverable amount of the CGU to which the asset belongs is determined. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Goodwill The impairment test for goodwill is performed at the lowest level within the entity at which goodwill is monitored for internal management purposes, provided that the unit or group of units to which goodwill is allocated is not larger than an operating segment as reported following IFRS 8. Interpretations Refer to IAS 34 for a summary of IFRIC 10 Interim Financial Reporting and Impairment.

Changes effective this year

None

Pending changes

The IASB is exploring whether the existing impairment test for goodwill can be improved or simplified. History Originally issued to apply to goodwill and intangible assets acquired in business combinations for which the agreement date is on or after 31 March 2004 and to all other assets prospectively for periods beginning on or after 31 March 2004, it was adopted by the IASB and included in the original set of Standards effective for annual periods beginning on or after 1 January 2005.

IAS 37 Provisions, Contingent Liabilities, and Contingent Assets

Overview Sets out recognition criteria and measurement bases for provisions, contingent liabilities and assets, and the related disclosure requirements.

Provisions A provision is recognized when a past event (the obligation event) has created a legal or constructive obligation, an outflow of resources is probable and the amount of the obligation can be estimated reliably. The amount recognized is the best estimate of the settlement amount at the end of the reporting period. If the effect of the time value of money is material, such as might be the case for restoration or decommissioning costs that must be settled well into the future, the provision is measured at the present value of the expenditures expected to be required to settle the obligation. The unwinding of the discount is recognized in profit or loss as a finance cost. Provisions are reviewed at the end of each reporting period to adjust for changes in the estimate, for other than the time-value of money. Planned future expenditure, even when authorized 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. On a similar basis, future operating losses cannot be recognized as a provision, because there is no obligation at the end of the reporting period. The expectation of future operating losses will trigger the need for an impairment review (see IAS 36).

Onerous contracts

An executory contract is a contract (or a portion of a contract) that is equally unperformed – neither party has fulfilled any of its obligations, or both parties have partially fulfilled their obligations to an equal extent. Examples include maintenance or service contracts and employee contracts. The asset and liability are combined so that no asset or liability is recognized in the statement of financial position.

An executory contract becomes onerous when the unavoidable costs of meeting the obligations exceed the expected economic benefits from it. This would be the case, for example, when an entity cannot cancel and must continue to pay for, a cleaning contract even though it has vacated the premises to which the contract relates. An onerous contract gives rise to a provision. Care must be taken, however, not to include in the provision of future operating losses.

Contingent liabilities

Contingent liabilities are not recognized but are disclosed unless the possibility of outflow is remote. They are not recognized because either it is only a possible obligation that is contingent on a future event that is outside the control of the entity or there is a present obligation, but it is not probable that an outflow of resources will be required or the amount cannot be measured with sufficient reliability (which will be rare).

Contingent assets

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by future events not wholly within the control of the entity. Contingent assets require disclosure only. If the realization of income is virtually certain, the related asset is not a contingent asset, and recognition is required.

Interpretations IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities clarifies that provisions are adjusted for changes in the amount or timing of future costs and changes in the market-based discount rate. IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Funds deals with the accounting, in the financial statements of the contributor, for interests in decommissioning, restoration and environmental rehabilitation funds established to fund some or all of the costs of decommissioning assets or to undertake environmental rehabilitation. IFRIC 6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment guides the accounting for liabilities for waste management costs. The event that triggers liability recognition is participation in the market during a measurement period.

IFRIC 21 Levies guides when to recognize a liability for a levy imposed by a government. The obligating event is the activity that triggers the payment of the levy. If that event occurs over a period the liability is recognized progressively. If the levy is triggered on reaching a minimum threshold, the liability is recognized when that minimum is reached.

Changes effective this year

One of the more common contracts that can become onerous is an operating lease. With the effective date of IFRS 16 for annual periods beginning on or after 1 January 2019, most leases will require the recognition of a right-of-use asset, which would be subject to the impairment requirements in IAS 36.

Pending changes

The IASB proposed to clarify the onerous contract requirements in an ED issued in 2018. In 2018 the IASB decided to start a project in 2019 or 2020 to review the accounting for pollutant pricing mechanisms (emission rights). The IASB is undertaking a research project to gather evidence around provisions. Based on the findings, the IASB will decide whether to add a standard-setting or maintenance project on provisions.

History Originally issued for periods beginning on or after 1 July 1999, it was adopted by the IASB and included in the original set of Standards effective for annual periods beginning on or after 1 January 2005.

IFRS 1

IFRS 1 First-time Adoption of International Financial Reporting Standards

Overview Sets out the procedures when an entity adopts IFRS Standards for the first time as the basis for preparing its general purpose financial statements.

Selection of accounting policies

An entity that adopts IFRS Standards for the first time (by an explicit and unreserved statement of compliance with IFRS Standards) in its annual financial statements for the year ended 31 December 2019 would be required to select accounting policies based on IFRS Standards effective at 31 December 2019 (with the early application of any new IFRS Standard not yet mandatory being permitted).

Presentation of financial statements

The entity presents an opening statement of financial position that is prepared on 1 January 2018. That opening statement of financial position is the entity’s first IFRS financial statements. Therefore, at least, three statements of financial position are presented. A first-time adopter can report selected financial data on an IFRS basis for periods before 2018. As long as they do not purport to be full financial statements, the opening IFRS statement of financial position would still be 1 January 2018. The opening statement of financial position, the financial statements for the 2019 financial year, and the comparative information for 2018 are prepared as if the entity had always used the IFRS accounting policies it has selected. However, IFRS 1 contains some exceptions and relief from the full retrospective application that an entity can elect to apply.

Interpretations None

Changes effective this year

None

Pending changes

A proposal to simplify the first-time application of IFRS Standards by a subsidiary will be included in the next Annual Improvements ED.

History The original IFRS 1 was issued in 2003. It was restructured and this version was issued in 2008, effective for first IFRS financial statements for periods beginning on or after 1 July 2009.

IFRS 2 Share-based Payment

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

Share-based payments

All share-based payment transactions are recognized in the financial statements, using a fair value measurement basis. An expense is recognized when the goods or services received are consumed (including transactions for which the entity cannot specifically identify some or all of the goods or services received).

Fair value Transactions in which goods or services are received are measured at the fair value of the goods or services received. However, if the fair value of the goods or services cannot be measured reliably, the fair value of the equity instruments is used. Transactions with employees and others providing similar services are measured at the fair value of the equity instruments granted because it is typically not possible to estimate reliably the fair value of employee services received. Fair value is defined as the “amount for which an asset could be exchanged, a liability settled, or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm’s length transaction.” Because this definition differs from that in IFRS 13, the specific guidance in IFRS 2 is followed.

Measurement date

The fair value of the equity instruments granted (such as transactions with employees) is estimated at the grant date, is when the entity and the counterparty have a shared understanding of the terms and conditions of the arrangement. The fair value of the goods or services received is estimated at the date of receipt of those goods or services.

Equity-settled share-based payments

Equity-settled share-based payment transactions are recorded by recognizing an increase in equity and the corresponding goods or services received at the measurement date.

Cash-settled share-based payments

A cash-settled share-based payment transaction is a share-based payment transaction in which the entity acquires goods or services by incurring liability to transfer cash or other assets to the supplier of those goods or services for amounts that are based on the price (or value) of equity instruments (including shares or share options) of the entity or another group entity. Cash-settled share-based payment transactions are recorded by recognizing a liability and the corresponding goods or services received at fair value at the measurement date. Until the liability is settled, it is measured at the fair value at the end of each reporting period and the date of settlement, with any changes in fair value recognized in profit or loss for the period.

Vesting conditions

IFRS 2 uses the notion of vesting conditions for service conditions and performance conditions only. If a condition does not meet the definition of these two types of conditions but needs to be satisfied for the counterparty to become entitled to the equity instruments granted, this condition is called a non-vesting condition. A service condition requires the counterparty to complete a specified period of service to the entity. Performance conditions require the completion of a specified period of service and specified performance targets to be met that are defined by reference to the entity’s operations or activities (non-market conditions) or the price of the entity’s equity instruments (market conditions). The period for achieving the performance target must not extend beyond the end of the service period. When determining the grant date fair value of the equity instruments granted, the vesting conditions (other than market conditions) are not taken into account. However, they are taken into account subsequently by adjusting the number of equity instruments included in the measurement of the transaction. Market-based vesting conditions and non-vesting conditions are taken into account when estimating the fair value of the shares or options at the relevant measurement date, with no subsequent adjustments made in respect of such conditions

Group transactions

IFRS 2 includes specific guidance on accounting for share-based payment transactions among group entities.

Interpretations None

Changes effective this year

None

Pending changes None

History IFRS 2 was issued in 2004, effective for annual periods beginning on or after 1 January 2005. It was amended to incorporate the guidance contained in two related Interpretations (IFRIC 8 Scope of IFRS 2 and IFRIC 11 IFRS 2 – Group and Treasury Share Transactions). The amendments applied for annual periods beginning on or after 1 January 2010

IFRS 3 Business Combinations

Overview An acquirer of a business recognizes the assets acquired and liabilities assumed at their acquisition-date fair values and discloses information that enables users to evaluate the nature and financial effects of the acquisition.

Business combination

A business combination is a transaction or event in which an acquirer obtains control of one or more businesses. A business is defined as an integrated set of activities and assets that is capable of being conducted and managed to provide a return directly to investors or other owners, members, or participants. Recognition of assets and liabilities

The acquisition method is used for all business combinations. The acquirer recognizes the identifiable assets acquired, the liabilities assumed and any noncontrolling interest (NCI) in the acquiree. Intangible assets, including in-process research and development, acquired in a business combination are recognized separately from goodwill if they arise as a result of contractual or legal rights, or if they are separable from the business. In these circumstances, the recognition criteria are always considered to be satisfied (see also IAS 38).

Measurement Assets and liabilities are measured at their fair values (with a limited number of specified exceptions) at the date the entity obtains control of the acquiree. If the initial accounting for a business combination can be determined only provisionally by the end of the first reporting period, the combination is accounted for using provisional values. Adjustments to provisional values relating to facts and circumstances that existed at the acquisition date are permitted within one year. The acquirer can elect to measure the components of NCI in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity’s net assets in liquidation either at fair value or at the NCI’s proportionate share of the net assets.

Contingent consideration

Among the items recognized will be the acquisition-date fair value of contingent consideration. Changes to contingent consideration resulting from events after the acquisition date are recognized in profit or loss.

Goodwill and bargain purchases

If the consideration transferred exceeds the net of the assets, liabilities, and NCI, that excess is recognized as goodwill. If the consideration is lower than the net assets acquired, a bargain purchase is recognized in profit or loss.

Acquisition costs

All acquisition-related costs (e.g. finder’s fees, professional or consulting fees, costs of internal acquisition department) are recognized in profit or loss except for costs to issue debt or equity, which are recognized following IFRS 9 and IAS 32. Business combinations achieved in stages

If the acquirer increases an existing equity interest to achieve control of the acquiree, the previously held equity interest is remeasured at acquisition-date fair value and any resulting gain or loss is recognized in profit or loss.

Other guidance IFRS 3 includes guidance on business combinations achieved without the transfer of consideration, reverse acquisitions, identifying intangible assets acquired, un-replaced and voluntarily replaced share-based payment awards, pre-existing relationships between the acquirer and the acquiree (e.g. reacquired rights); and the reassessment of the acquiree’s contractual arrangements at the acquisition date.

Interpretations None

Changes effective this year

Amendments to clarify that, when an entity gets control of a joint operation that is a business, any previously held interest is remeasured. Those amendments are effective for annual periods beginning on or after 1 January 2019.

Pending changes

As a result of the PIR of IFRS 3, the Standard has been amended for a revised definition of a business. This amendment will be effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Also, the IASB currently has a project on business combinations under common control.

History The IASB issued the original version of IFRS 3 in 2004, effective for periods beginning on or after 1 January 2005. That version of IFRS 3 was replaced in 2008 by a version developed jointly with the FASB and applies to business combinations in periods beginning on or after 1 July 2009.

IFRS 4 Insurance Contracts

Overview Prescribes the financial reporting for insurance contracts put in place pending the application of IFRS 17Recognition and measurement

This Standard applies to insurance contracts that an entity issues. Insurers are exempted from applying the IASB Framework and some Standards. Catastrophe reserves and equalization provisions are prohibited. The Standard requires a test for the adequacy of recognized insurance liabilities and an impairment test for reinsurance assets. Insurance liabilities may not be offset against related reinsurance assets. Accounting policy changes are restricted. Some disclosures are required.

Financial guarantees

Financial guarantee contracts are outside the scope of IFRS 4 unless the issuer had previously (before initial adoption of IFRS 4) asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts. In such circumstances, the issuer may elect to apply either IAS 32, IFRS 7 and IFRS 9 or IFRS 4, on a contract-by-contract basis. The election is irrevocable.

Interpretations None

Changes effective this year

None

Pending changes

IFRS 4 will be superseded upon application of IFRS 17, which is effective for annual periods beginning on or after 1 January 20212. Until IFRS 17 comes into effect, IFRS 4 provides special concessions about the application of IFRS 9.

History The IASB issued IFRS 4 in 2004 for inclusion in the original set of Standards effective for annual periods beginning on or after 1 January 2005.

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

Overview Sets out the accounting for non-current assets held for sale and the presentation and disclosure of discontinued operations.

Non-current assets held for sale

Non-current assets are ‘held for sale’ either individually or as part of a disposal group when the entity has the intention to sell them, they are available for immediate sale and disposal within 12 months is highly probable. A disposal group is a group of assets to be disposed of in a single transaction, including any related liabilities that will also be transferred. Assets and liabilities of a subsidiary are classified as held for sale if the parent is committed to a plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest after the sale. IFRS 5 applies to a non-current asset (or disposal group) that is classified as held for distribution to owners.

Discontinued operations

A discontinued operation is a component of an entity that has either been disposed of or is classified as held for sale. It must represent a separate major line of business or major geographical area of operations, be part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations.

Measurement Non-current assets ‘held for sale’ are measured at the lower of the carrying amount and fair value fewer costs to selling (or costs to distribute). The non-current assets are no longer depreciated. Immediately before the initial classification of the asset (or disposal group) as held for sale, the carrying amounts of the assets (or all the assets and liabilities in the group) are measured by applicable IFRS Standards. Statement of comprehensive income

When there are discontinued operations, the statement of comprehensive income is divided into continuing and discontinued operations. The sum of the post-tax profit or loss from discontinued operations for the period and the posttax gain or loss arising on the disposal of discontinued operations (or on their reclassification as held for sale) is presented as a single amount.

Statement of financial position

Non-current assets, and the assets and liabilities in a disposal group, are presented separately in the statement of financial position.

Relationship with other Standards

IFRS 5 has its disclosure requirements. Consequently, disclosures in other Standards do not apply to such assets (or disposal groups) unless those Standards specifically require disclosures or the disclosures relate to the measurement of assets or liabilities within a disposal group that is outside the scope of the measurement requirements of IFRS 5.

Interpretations None

Changes effective this year

None

Pending changes

The IASB has announced that it plans to undertake a PIR of IFRS 5.

History The IASB adopted the 1998 version of IAS 35 Discontinuing Operations as part of its original set of Standards. The IASB replaced IAS 35 with IFRS 5 in 2004, for annual periods beginning on or after 1 January 2005.

IFRS 6 Exploration for and Evaluation of Mineral Resources

Overview Prescribes the financial reporting for the exploration for and evaluation of mineral resources until the IASB completes a comprehensive project in this area. Continued use of existing policies

An entity can continue to use its existing accounting policies provided that they result in information that is reliable and is relevant to the economic decision-making needs of users. It does not require or prohibit any specific accounting policies for the recognition and measurement of exploration and evaluation assets. The Standard gives a temporary exemption from applying IAS 8:11–12— which specifies a hierarchy of sources of authoritative guidance in the absence of a specific IFRS Standard.

Impairment Exploration and evaluation assets must be assessed for impairment when there is an indication that their carrying amount exceeds their recoverable amount. Exploration and evaluation assets must also be tested for impairment before they are reclassified as development assets. IFRS 6 allows impairment to be assessed at a level higher than the ‘cash-generating unit’ under IAS 36 but requires measurement of the impairment by IAS 36 once it is assessed.

Disclosure IFRS 6 requires disclosure of information that identifies and explains amounts arising from the exploration and evaluation of mineral resources.

Interpretations None

Changes effective this year

None

Pending changes

In 2018, the IASB started a project on Extractive Activities to replace IFRS 6. This is a long-term project.

History Issued for annual periods beginning on or after 1 January 2006.

IFRS 7 Financial Instruments: Disclosures

Overview Prescribes disclosures to help the primary users of the financial statements evaluate the significance of financial instruments to the entity, the nature and extent of their risks, and how the entity manages those risks. Significance of financial instruments

Requires disclosure of information about the significance of financial instruments to an entity’s financial position and performance, including its accounting policies and application of hedge accounting.

Financial position

Entities must disclose information about financial assets and financial liabilities by category; special disclosures when the fair value option or fair value through OCI option is used; reclassifications; offsetting of financial assets and liabilities; collateral; allowance accounts; compound financial instruments with embedded derivatives; defaults and breaches and transfers of financial assets.

Financial performance

The information must be disclosed about financial instruments-related recognized income, expenses, gains and losses; interest income and expense; fee income; and impairment losses.

Other disclosures

The significant accounting policies on financial instruments must be disclosed. When hedge accounting is applied, extensive information about the risk management strategy, the amount, timing, and uncertainty of future cash flows, and the effects of hedge accounting on financial position and performance must be disclosed. This information is required regardless of whether an entity has applied hedge accounting by IAS 39 or IFRS 9. Fair values must be disclosed for each class of financial instrument and IFRS 13 also requires information to be disclosed about fair values.

Risk Entities must disclose the nature and extent of risks arising from financial instruments. This includes qualitative information about exposures to each class of risk and how those risks are managed and quantitative information about exposures to each class of risk. Extensive disclosures are required for credit risk to assess expected credit losses. This includes reconciliations of the loss allowance and gross carrying amounts and information about credit quality. Additional disclosure requirements related to liquidity risk and market risk (including sensitivity analyses for market risk).

Interpretations None

Changes effective this year

None

Pending changes

None

History The IASB adopted the 1990 version of IAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions as part of the original set of Standards effective for periods beginning on or after 1 January 2005. IFRS 7 replaced IAS 30 and brought together all financial instrument disclosures (from IAS 32) creating a general financial instrument disclosure Standard for annual periods beginning on or after 1 January 2007.

IFRS 8 Operating Segments

Overview Requires entities to disclose segmental information that is consistent with how it is reported internally to the chief operating decision-maker.

Scope This Standard applies only to entities with debt or equity instruments traded in a public market or is in the process of issuing instruments in a public market.

Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity’s chief operating decision maker and for which discrete financial information is available. Generally, separate information is required if the revenue, profit or loss, or assets of a segment are 10 percent or more of the equivalent total for all of the operating segments. At least 75 percent of the entity’s revenue must be included in reportable segments. Disclosure A measure of profit or loss and a measure of total assets and liabilities must be presented for each reportable segment. Additional measures such as revenue from external customers, interest revenue and expense, depreciation, and amortization expense and tax are required to be presented if they are included in the measure of profit or loss reviewed by the chief operating decision-maker or provided to them separately. The segment information need not be prepared in conformity with the accounting policies adopted for the entity’s financial statements.

Entity-wide disclosures

Some entity-wide disclosures are required even when an entity has only one reportable segment. These include information about each product and service or groups of products and services, geographical areas, major customers (10 percent or more of the entity’s revenue), and judgments made by management in applying the aggregation criteria for operating segments. Analyses of revenues and some non-current assets by geographical area are required from all entities— with an expanded requirement to disclose revenues/ non-current assets by an individual foreign country (if material), irrespective of how the entity is organized.

Reconciliation A reconciliation of the total assets to the entity’s assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

Interpretations None

Changes effective this year

None

Pending changes

None. The IASB completed its PIR of IFRS 8 in 2018 and decided that the Standard is operating as intended.

History The IASB adopted the 1997 version of IAS 14 Segment Reporting as part of the original set of Standards effective for periods beginning on or after 1 January 2005. IAS 14 was replaced by IFRS 8 in 2006, for annual periods beginning on or after 1 January 2009.

IFRS 9 Financial Instruments

Overview Sets out requirements for recognition and measurement of financial instruments, including impairment, derecognition, and general hedge accounting.

Initial measurement

All financial instruments are initially measured at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs.

Equity investments

Equity investments held are measured at fair value. Changes in the fair value are recognized in profit or loss (FVTPL). However, if an equity investment is not held for trading, an entity can make an irrevocable election at initial recognition to recognize the fair value changes in OCI (FVTOCI) with only dividend income recognized in profit or loss. There is no reclassification to profit or loss on disposal. The impairment requirements do not apply to equity instruments.

Classification of financial assets

Financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flows test) are classified according to the objective of the business model of the entity. If the objective is to hold the financial assets to collect the contractual cash flows, they are measured at amortized cost, unless the entity applies the fair value option. Interest revenue is calculated by applying the effective interest rate to the amortized cost (which is the gross carrying amount minus any loss allowance) for credit-impaired financial assets while for all other instruments, it is calculated based on the gross carrying amount.

If the objective is to both collect contractual cash flows and sell financial assets, they are measured at FVTOCI (with reclassification to profit or loss on disposal), unless the entity applies the fair value option. All other financial assets must be measured at fair value through profit or loss (FVTPL).

Fair value option

An entity may, at initial recognition, irrevocably designate a financial asset as measured at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency (accounting mismatch) that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

Financial liabilities

Financial liabilities held for trading are measured at FVTPL. All other financial liabilities are measured at amortized cost unless the fair value option is applied. The fair value option can be elected at initial recognition if doing so eliminates or significantly reduces an accounting mismatch. Also, financial liabilities can be designated as at FVTPL if a group of financial instruments is managed on a fair value basis or if the designation is made with embedded derivatives that would otherwise be bifurcated from the liability host. Changes in fair value attributable to changes in the credit risk of the liability designated as at FVTPL are presented in OCI (and there is no reclassification to profit or loss).

Derivatives All derivatives in the scope of IFRS 9, including those linked to unquoted equity investments, are measured at fair value. Value changes are recognized in profit or loss unless the entity has elected to apply hedge accounting by designating the derivative as a hedging instrument in an eligible hedging relationship.

Embedded derivatives

The contractual cash flows of a financial asset are assessed in their entirety, including those of an embedded derivative that is not closely related to its host. The financial asset as a whole is measured at FVTPL if the contractual cash flow characteristics test is not passed. For financial liabilities, an embedded derivative not closely related to its host is accounted for separately at fair value in the case of financial liabilities not designated at FVTPL. For other non-financial asset host contracts, an embedded derivative not closely related to its host is accounted for separately at fair value.

Hedge accounting

The hedge accounting requirements in IFRS 9 are optional. If the eligibility and qualification criteria are met, hedge accounting allows an entity to reflect risk management activities in the financial statements by matching gains or losses on hedging instruments with losses or gains on the risk exposures they hedge. There are three types of hedging relationships: (i) fair value hedge; (ii) cash flow hedge and (iii) hedge of a net investment in a foreign operation. A hedging relationship qualifies for hedge accounting only if the hedging relationship consists only of eligible hedging instruments and eligible hedged items, the hedging relationship is formally designated and documented (including the entity’s risk management objective and strategy for undertaking the hedge) at inception and the hedging relationship is effective. To be effective there must be an economic relationship between the hedged item and the hedging instrument, the effect of credit risk must not dominate the value changes that result from that economic relationship and the hedge ratio of the hedging relationship must be the same as that used in the economic hedge.

Impairment The impairment model in IFRS 9 is based on expected credit losses. It applies to financial assets measured at amortized cost or FVTOCI, lease receivables, contract assets within the scope of IFRS 15, and specified written loan commitments (unless measured at FVTPL) and financial guarantee contracts (unless they are accounted for following IFRS 4 or IFRS 17). Expected credit losses (except purchased or original credit-impaired financial assets) are required to be measured through a loss allowance at an amount equal to the 12-month expected credit losses. If the credit risk has increased significantly since initial recognition of the financial instrument, full lifetime expected credit losses are recognized. This is equally true for credit-impaired financial assets for which interest income is based on amortized cost rather than the gross carrying amount. IFRS 9 requires expected credit losses to reflect an unbiased and probability-weighted amount, the time value of money and reasonable and supportable information about past events, current conditions, and forecasts of future economic conditions interpretation IFRIC 16 Hedges of a Net Investment in a Foreign Operation clarify that the presentation currency does not create an exposure to which an entity may apply hedge accounting. A parent entity may designate as a hedged risk only the foreign exchange differences arising from a difference between its functional currency and that of its foreign operation. The hedging instrument(s) can be held by any entity within the group as long as the designation, effectiveness, and documentation requirements are satisfied. On derecognition of a foreign operation, IFRS 9 must be applied to determine the amount that needs to be reclassified to profit or loss from the foreign currency translation reserve in respect of the hedging instrument, while IAS 21 must be applied in respect of the hedged item.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments clarifies that when a borrower agrees with a lender to issue equity instruments to the lender to extinguish all or part of a financial liability, the issue of equity instruments is the consideration paid. Those equity instruments issued must be measured at their fair value on the date of extinguishment of the liability. If that fair value is not reliably measurable they are measured using the fair value of the liability extinguished. Any difference between the carrying amount of the liability (or the part) extinguished and the fair value of equity instruments issued is recognized in profit or loss. When consideration is partly allocated to the portion of a liability that remains outstanding, that part is included in the assessment as to whether there has been an extinguishment or a modification of that portion of the liability. If the remaining liability has been substantially modified, the entity should account for the modification as the extinguishment of the original liability and the recognition of a new liability as required by IFRS 9.

Changes effective this year

An amendment to IFRS 9 that extends the measurement at amortized cost to some prepayable financial assets with so-called negative compensation is effective for annual periods beginning on or after 1 January 2019.

Pending changes

A proposal to clarify which fees and costs to include when assessing derecognition (the “10 percent test”) will be included in the next Annual Improvements ED. IFRS 9 did not replace the requirements for portfolio fair value hedge accounting for interest rate risk (often referred to as the ‘macro hedge accounting’ requirements). The IASB is continuing to work on that project.

History Issued in July 2014, IFRS 9 is the replacement of IAS 39 Financial Instruments: Recognition and Measurement. The IASB developed IFRS 9 in phases, adding to the Standard as it completed each phase. The version of IFRS 9 issued in 2014 superseded all previous versions and became effective for annual periods beginning on or after 1 January 2018

IFRS 10 Consolidated Financial Statements

Overview Sets out the requirements for determining whether an entity (a parent) controls another entity (a subsidiary).

Control An investor controls an investee when it has power over the investee, exposure, or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the returns. An investor has power when it has existing rights that give it the current ability to direct the relevant activities of the investee—the activities that significantly affect the investee’s returns. Sometimes assessing power is straightforward, such as when power over an investee is obtained directly and solely from the voting rights granted by equity instruments such as shares and can be assessed by considering the voting rights from those shareholdings. It is possible to have control over less than half the voting rights (sometimes referred to as de-facto control). In other cases, the assessment will be more complex and require more than one factor to be considered, for example when power results from one or more contractual arrangements. The Standard includes guidance on distinguishing between rights that give the holder power and rights that are intended to protect the investor’s interest in the entity. Protective rights might include a right to vote on major transactions such as significant asset purchases or to approve borrowings above a specified level. Distinguishing between rights that give power and rights that are protective requires an understanding of the relevant activities of the entity. Sometimes an entity will delegate its power to an agent. The Standard emphasizes the importance of identifying when a party that appears to have control over an entity is only exercising power as an agent of a principal.

Consolidated financial statements

When a parent-subsidiary relationship exists, consolidated financial statements are required. These are financial statements of a group (parent and subsidiaries) presented as those of a single economic entity. There are two exceptions to this requirement. If on the acquisition, a subsidiary meets the criteria to be classified as held for sale following IFRS 5, it is accounted for under that Standard. The other exception is for investment entities.

Investment entities

An entity that obtains funds from one or more investors to provide those investor(s) with investment management services; commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and measures and evaluates the performance of substantially all of its investments on a fair value basis is an investment entity. An investment entity does not consolidate its subsidiaries. Instead, it measures the investment at fair value through profit or loss following IFRS 9.

Consolidation procedures

Intragroup balances, transactions, income, and expenses are eliminated. All entities in the group use the same accounting policies and, if practicable, the same reporting date. Non-controlling interests (NCI) are reported in equity separately from the equity of the owners of the parent. Total comprehensive income is allocated between NCI and the owners of the parent even if this results in the NCI having a deficit balance.

Changes in the ownership interest

A change in the ownership interest of a subsidiary, when control is retained, is accounted for as an equity transaction and no gain or loss is recognized. Partial disposal of an investment in a subsidiary that results in loss of control triggers remeasurement of the residual holding to fair value at the date control is lost. Any difference between fair value and the carrying amount is a gain or loss on the disposal, recognized in profit or loss.

Interpretations None

Changes effective this year

None

Pending changes

Amendments issued in September 2014 were intended to clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed are a business. The IASB decided in December 2015 to defer indefinitely the effective date of the amendments, although entities may elect to apply them. The IASB will undertake a PIR of IFRS 10.

History The IASB included IAS 27 Consolidated Financial Statements and Accounting for Investments in Subsidiaries in the set of improved Standards effective for annual periods beginning on or after 1 January 2005. IFRS 10 replaced most of IAS 27 and was effective for annual periods beginning on or after 1 January 2013. For periods beginning on or after 1 January 2014 an exemption from consolidating investment entities was introduced.

IFRS 11 Joint Arrangements

Overview Sets out principles for identifying whether an entity has a joint arrangement and if it does whether it is a joint venture or joint operation.

Definitions A joint arrangement is one in which two or more parties have joint control over activities. A joint venture is a joint arrangement in which the venturers have rights to the net assets of the venture. A joint operation is a joint arrangement whereby each joint operator has rights to assets and obligations for the liabilities of the operation. The distinction between a joint operation and a joint venture requires an assessment of the structure of the joint arrangement, the legal form of any separate vehicle, the terms of the contractual arrangement, and any other relevant facts and circumstances.

Accounting A joint venturer applies the equity method, as described in IAS 28, except joint ventures where the investor is a venture capital firm, mutual fund or unit trust, and it elects or is required to measure such investments at fair value through profit or loss following IFRS 9. A joint operator accounts for the assets, liabilities, revenues, and expenses relating to its interest in a joint operation following the IFRS applicable to the particular asset, liability, revenue, and expense. The acquisition of an interest in a joint operation in which the activity constitutes a business should be accounted for using the principles of IFRS 3.

Interpretations None

Changes effective this year

Amendments to clarify that when an entity obtains joint control of a joint operation that is a business, any previously held interest in that operation is not remeasured are effective for annual periods beginning on or after 1 January 2019.

Pending changes The IASB will undertake a PIR of IFRS 11.

History The IASB included IAS 31 Interests in Joint Ventures in the set of improved Standards effective for annual periods beginning on or after 1 January 2005. IFRS 11 replaced IAS 31 and was effective for annual periods beginning on or after 1 January 2013

IFRS 12 Disclosure of Interests in Other Entities

Overview Requires an entity to disclose information to help users of its financial statements evaluate the nature of, and risks associated with, its interests in other entities as well as the effects of those interests on its financial position, financial performance, and cash flows.

Judgment Significant judgments and assumptions such as how control, joint control and significant influence has been determined.

Subsidiaries Details of the structure of the group, the risks associated with consolidated entities such as restrictions on the use of assets and settlement of liabilities. Some summarised financial information is required to be presented for each subsidiary that has noncontrolling interests that are material to the group.

Joint arrangements and associates

Details of the nature, extent, and financial effects of interests in joint arrangements and associates. The name and summarised financial information are required for each joint arrangement associate that is material to the group.

Structured entities

The nature and extent of interests in structured entities, particularly the extent of potential support the parent might be required to provide.

Investment entities

Information about significant judgements and assumptions it has made in determining that it is an investment entity, and information when an entity becomes, or ceases to be, an investment entity.

Interpretations None

Changes effective this year

None

Pending changes The IASB will undertake a PIR of IFRS 12.

History Issued for annual periods beginning on or after 1 January 2013, as part of the package of Standards revising control (consolidation) and joint control (joint arrangements).

IFRS 13 Fair Value Measurement

Overview Defines fair value and provides guidance, how to estimate it, and the required disclosures about fair value measurements. IFRS 13 applies when another Standard requires or permits fair value measurements or disclosures about fair value measurements (and measurements such as fair value fewer costs to selling) but does not stipulate which items should be measured or disclosed at fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants, under current market conditions.

Fair value hierarchy

When an entity estimates fair value, the estimate is classified based on the nature of the inputs the entity has used. Level 1 inputs are quoted prices in active markets for identical assets and liabilities that the entity can access at the measurement date. Level 2 inputs are those other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and interest rates and yield curves observable at commonly quoted intervals. Level 3 inputs are unobservable for the asset or liability. Examples include an entity using its data to forecast the cash flows of a cash-generating unit (CGU) or estimating future volatility based on historical volatility. Entities are required to use valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. However, the objective of estimating the exit price at the measurement date remains the same regardless of the extent to which unobservable inputs are used.

Disclosure The disclosures depend on the nature of the fair value measurement (e.g. whether it is recognized in the financial statements or merely disclosed) and the level in which it is classified. The disclosure requirements are most extensive when level 3 inputs are used, including sensitivity analysis

Interpretations None

Changes effective this year

None

Pending changes

None. The IASB completed its post-implementation review of IFRS 13 in 2018 and decided that the Standard is operating as intended.

History Issued for annual periods beginning on or after 1 January 2013. It was developed to be aligned with the FASB’s equivalent guidance.

IFRS 14 Regulatory Deferral Accounts

Overview The Standard permits an entity that adopts IFRS Standards after IFRS 14 was issued to continue to account, with some limited changes, for ‘regulatory deferral account balances’ following its previous GAAP. IFRS 14 was issued as a temporary solution pending a more comprehensive review of rate regulation by the IASB (see the IASB project summary).

Regulatory deferral account balances

Regulatory deferral account balances relate to the provision of goods or services to customers at a price or rate that is subject to rate regulation. Regulatory deferral account balances are presented separately in the statement of financial position and movements in these account balances must also be presented separately in the statement of profit or loss and other comprehensive income. Specific disclosures are also required. The requirements of other IFRS Standards are required to be applied to regulatory deferral account balances, subject to specific exceptions, exemptions and additional requirements as noted in the Standard

Changes effective this year

None

Pending changes

The IASB is developing a new accounting model to give users of financial statements better information about a company’s incremental rights and obligations arising from its rate-regulated activities, with the objective of either publishing a second Discussion Paper or an Exposure Draft.

History Issued to be available for the first annual IFRS financial statements beginning on or after 1 January 2016 with earlier application permitted

IFRS 15 Revenue from Contracts with Customers

Overview Prescribes the accounting for revenue from sales of goods and rendering of services to a customer. The Standard applies only to revenue that arises from a contract with a customer. Other revenue such as from dividends received would be recognized following other Standards.

Contract with a customer

A contract with a customer is within the scope of this Standard when it has commercial substance, the parties have approved it, the rights of the parties regarding the goods or services to be transferred and the payment terms can be identified, the parties are committed to perform their obligations and enforce their rights and the entity will probably collect the consideration to which it is entitled.

Core principle The Standard uses a control model. An entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Five steps The Standard sets out five steps an entity applies to meet the core principle. Step 1: Identify the contract with a customer. It is the contract that creates enforceable rights and obligations between the entity and its customer. Step 2: Identify the performance obligations in the contract. Each promise to transfer to a customer a good or service that is distinct is a performance obligation and is accounted for separately. Step 3: Determine the transaction price. The transaction price is the amount of consideration to which the entity expects to be entitled in exchange for transferring promised goods or services to the customer. It could be a fixed or variable amount or in a form other than cash. If the consideration is variable, the entity must estimate the amount to which it expects to be entitled but recognizes it only to the extent that it is highly probable that a significant reversal will not occur when the uncertainty is resolved. The transaction price is adjusted for the effects of the time value of money if the contract includes a significant financing component. Step 4: Allocate the transaction price to the performance obligations in the contract. The transaction price is allocated to each performance obligation based on the relative stand-alone selling prices of each distinct good or service promised in the contract. If a stand-alone selling price is not observable, an entity estimates it. Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation. Revenue is recognized when (or as) the performance obligation is satisfied and the customer obtains control of that good or service. This can be at a point in time (typically for goods) or over time (typically for services). The revenue recognized is the amount allocated to the satisfied performance obligation

Application guidance

The Standard includes application guidance for specific transactions such as performance obligations satisfied over time, methods for measuring the progress of performance obligations, sales with a right of return, warranties, principal versus agent considerations, customer options for additional goods or services, non-refundable upfront fees, bill and hold arrangements and customers unexercised rights, licensing repurchase agreements, consignment arrangements, and customer acceptance. The Standard also includes guidance on variable consideration and time value of money and specific disclosure requirements.

Interpretations None

Changes effective this year

None

Pending changes

None

History Issued in 2014 for annual periods beginning on or after 1 January 2018, IFRS 15 replaced IAS 11 Construction Contracts and IAS 18 Revenue and related Interpretations, including IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, and SIC 31 Revenue – Barter Transactions Involving Advertising Services. Some clarifications were issued in April 2016, with the same effective date

IFRS 16 Leases

Overview Sets out the recognition, measurement, presentation, and disclosure requirements for leases. A lessee recognizes a leased asset and lease obligation for all leases. Lessors continue to distinguish between operating and finance leases

Summary A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for some time in exchange for consideration. Control is conveyed when the customer has the right to direct the identified asset’s use and to obtain substantially its economic benefits from that use.

Accounting by a lessee

The Standard has a single lessee accounting model, requiring lessees to recognize a right-of-use asset and a lease liability. The right-of-use asset is measured initially at the amount of the lease liability plus any initial direct costs incurred by the lessee. After lease commencement, the right-of-use asset is accounted for following IAS 16 (unless specific conditions apply). The lease liability is measured initially at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee uses its incremental borrowing rate. Lease payments are allocated between interest expense and repayment of the lease liability. When the lease payments are variable the lessee does not include those when measuring the right-of-use asset and the lease liability but instead recognizes the amounts payable as they fall due. The exception is variable payments that depend on an index or a rate, which are included in the initial measurement of a lease liability and the right-of-use asset. There are optional recognition exemptions when the lease term is 12 months or less or when the underlying asset has a low value when new. If applied, the lease payments are recognized on a basis that represents the pattern of the lessee’s benefit (e.g. straight-line over the lease term).

Accounting by a lessor

The IFRS 16 approach to lessor accounting is substantially unchanged from its predecessor, IAS 17. Lessors classify each lease as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise, a lease is classified as an operating lease. A lessor recognizes assets held under a finance lease as a receivable at an amount equal to the net investment in the lease upon lease commencement. For sale and leaseback transactions, the seller is required to determine whether the transfer of an asset is a sale by applying the requirements of IFRS 15. If it is a sale the seller measures the right-of-use asset at the proportion of the previous carrying amount that relates to the right of use retained. As a result, the seller only recognizes the amount of gain or loss that relates to the rights transferred to the buyer.

Interpretations None

Changes effective this year

This is a new Standard. It replaces IAS 17 Leases and related Interpretations, including IFRIC 4 Determining whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

Pending changes

The IASB is planning to include an amendment to an Illustrative Example in IFRS 16 in the next Annual Improvements Cycle. The example relates to lease incentives.

History Issued in 2016 and effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted. It was developed with the FASB, but the IASB and FASB diverged on some aspects of their new standards.

Additional Interpretations IFRIC 12 and IFRIC 17 are summarised separately because they draw from several Standards and are more complex than most Interpretations

IFRIC 12 Service Concession Arrangements

Overview To address the accounting by private sector operators involved in the provision of public sector infrastructure assets and services. The Interpretation does not address the accounting for the government (grantor) side of such arrangements.

Infrastructure assets

Infrastructure assets that are not controlled by an operator are not recognized as property, plant, and equipment of the operator. Instead, the operator recognizes a financial asset when the operator has an unconditional right to receive a specified amount of cash or other financial assets over the life of the arrangement; an intangible asset – when the operator’s future cash flows are not specified (e.g. when they will vary according to the usage of the infrastructure asset); or both a financial asset and an intangible asset when the operator’s return is provided partially by a financial asset and partially by an intangible asset.

Interpretations SIC-29 Service Concession Arrangements: Disclosures sets out disclosure requirements for service concession arrangements.

Changes effective this year

None

Pending changes

None

History Issued in November 2006, and effective for periods beginning on or after 1 January 2008.

IFRIC 17 Distributions of Non-cash Assets to Owners

Overview To address the accounting when non-cash assets are distributed to owners.

Dividends A dividend payable must be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity. An entity measures the non-cash dividend payable at the fair value of the assets to be distributed. The liability is measured at each reporting date with changes recognized directly in equity. The difference between the dividend paid and the carrying amount of the assets distributed is recognized in profit or loss

Changes effective this year

None

Pending changes

None

History Issued in November 2006 and effective for annual periods beginning on or after 1 July 2009.

IFRS 17 Insurance Contracts

Overview Establishes the principles for the recognition, measurement, presentation, and disclosure of insurance contracts.

Insurance and reinsurance contracts

IFRS 17 specifies how an entity recognizes, measures, presents, and discloses insurance contracts, reinsurance contracts, and investment contracts with discretionary participation features. An insurance contract is one in which the issuer accepts significant insurance risk by agreeing to compensate the policyholder for the insured event. A reinsurance contract is an insurance contract issued by the reinsurer to compensate another entity for claims arising from one or more insurance contracts it holds as an issuer.

Aggregation of insurance contracts

Entities must identify portfolios of insurance contracts, being those contracts that have similar risks and are managed together, such as within a product line. Each portfolio is divided into groups of insurance contracts based on, at a minimum, those that at initial recognition are onerous, have no significant possibility of becoming onerous subsequently, or do not fall into either category.

Recognition A group of insurance contracts is recognized from the earlier of the beginning of its coverage period or the date when the first payment from a policyholder in the group becomes due, or for a group of onerous contracts, when the group becomes onerous.

Initial measurement

On initial recognition, an entity measures a group of insurance contracts at the total of the group’s fulfillment cash flows (FCF) and the contractual service margin (CSM). The FCF comprises an estimate of future cash flows, an adjustment to reflect the time value of money, and the financial risks associated with the future cash flows and an adjustment for non-financial risk. The CSM is the unearned profit of the group of insurance contracts that the entity will recognize as it provides services in the future. It is measured on initial recognition at an amount that, unless the group of contracts is onerous, results in no income or expenses arising from the initial recognition of the FCF, the derecognition at that date of any asset or liability recognized for insurance acquisition cash flows and any cash flows arising from the contracts in the group at that date

Subsequent measurement

The carrying amount of a group of insurance contracts at the end of each reporting period is the sum of the liability for remaining coverage (comprising the FCF related to future services and the CSM at that date) and the liability for incurred claims. The CSM is adjusted at the end of each reporting period to reflect the profit on a group of insurance contracts that relates to the future service to be provided. For groups of contracts with a coverage period of less than one year, or where it is reasonably expected to produce a liability measurement that would not differ materially from the general approach under IFRS 17, a simplified Premium Allocation Approach can be applied. Specific measurement requirements apply to onerous insurance contracts, reinsurance contracts, and investment contracts with discretionary participation features.

Presentation in the statement of financial performance

Amounts recognized in the statement of financial performance are disaggregated into an insurance service result and insurance finance income or expenses. The insurance service result is presented in profit or loss and comprises revenue from the provision of coverage and other services and the incurred claims and other incurred expenses. Insurance finance income or expenses reflects changes from the effect of the time value of money and financial risk (excluding any such changes for groups of insurance contracts with direct participating insurance contracts that would instead adjust the CSM). Entities can choose to present all insurance finance income or expenses in profit or loss or to present in profit or loss only an amount determined by a systematic allocation of the expected total insurance finance income or expenses throughout a group of contracts. If the latter option is taken, the remaining insurance finance income or expense is presented in other comprehensive income

Presentation in the statement of financial position

Separate presentation is required of insurance and reinsurance contracts issued, further separated into those that are assets and those that are liabilities.

Disclosure Quantitative and qualitative information is required about the amounts recognized in the financial statements that arise from insurance contracts, the significant judgments, and changes in those judgments, made when applying IFRS 17 and the nature and extent of risks arising from insurance contracts.

Pending changes

The IASB is discussing stakeholder concerns and implementation challenges raised since IFRS 17 was issued and is considering whether there is a need to amend the Standard. This includes the effective date of the Standard.

History Issued in 2017, it is effective for annual periods beginning on or after 1 January 20213 and replaces IFRS 4 Insurance Contracts. Earlier application is permitted.