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TASHKENT FINANCIAL INSTITUTE



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INTERNATIONAL ACCOUNTING STANDARDS

(TEXT OF LECTURE)



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In the market economy producing process is one of the important elements. Accounting system in companies plays a significant role and nowadays to develop this system with international accounting standards one of the principal methods of it.

According to the 1438th decree of the President of Uzbekistan, accounting systems should be conducted accordingly with international accounting standards. Therefore, teaching students on IAS is important.

In this presentations one can see the comparisons between our national standards with International standards.

This text of lectures can be used by the courses accounting and audit bachelor and masters degree, by the specialists of this system.

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INTRODUCTION

This text of lecture is designed both for students and for accountants and auditors. The content and structure of the training manual aimed at creating adequate perception of the basic principles of IFRS, as well as knowledge in the field of classification, recognition and measurement of the main types of assets and liabilities and disclosures in the financial statements. The training manual has been prepared in accordance with the requirements of the educational standard in "Accounting and Audit" of the Republic of Uzbekistan.

Basic knowledge of international standards are needed not only in the development of new approaches to Russian accounting methodology, but also for the depth of the restructuring of the accountant, involving the formation of professional judgment on the integration of various items and operations.

The concept of "International Financial Reporting Standards" includes all of the following documents:

- The concept of financial statements
- Standards (IAS, IFRS),
- Interpretations of the Standards.

The concept of financial statements (The Conceptual Framework for Financial Reporting) defines the objective of financial reporting, the qualitative characteristics of information, the recognition and measurement of the elements of financial statements, the concept of capital and capital maintenance concepts. The scheme of "The concept of preparation and presentation of financial statements"

International Financial Reporting Standards (International Accounting Standards, International Financial Report Standards) - these are the standards on issues of financial reporting utility, they do not regulate or chart of accounts or accounting entries or the form of source documents and accounting records.

It is necessary to distinguish the rules of accounting and rules for the preparation and reporting. There are certain standards that are really talking about the compilation and reporting, but there are those in which it is written, that their purpose - to establish the accounting treatment of certain assets or liabilities.

Interpretations of the International Financial Reporting Standards (Interpretations of International Accounting Standards) clarify the provisions of standards containing ambiguous or unclear solutions. Interpretations provide uniformity in the application of standards.

Presentation of Financial Statements (International Accounting Standard 1)

Plan:

1. **Objective, definitions in interpretations issued by the International Accounting Standards Board**
2. ***Owners* are holders of instruments classified as equity**
3. **Financial statements, Purpose of financial statements**
4. **General features Fair presentation and compliance with IFRSs**

Objective - This Standard prescribes the basis for presentation of general purpose financial statements to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. It sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

Scope- An entity shall apply this Standard in preparing and presenting general purpose financial statements in accordance with International Financial Reporting Standards (IFRSs).

Other IFRSs set out the recognition, measurement and disclosure requirements for specific transactions and other events. This Standard does not apply to the structure and content of condensed interim financial statements prepared in accordance with IAS 34 *Interim Financial Reporting*.

However, paragraphs 15–35 apply to such financial statements. This Standard applies equally to all entities, including those that present consolidated financial statements in accordance with IFRS 10 *Consolidated Financial Statements* and those that present separate financial statements in accordance with IAS 27 *Separate Financial Statements*.

This Standard uses terminology that is suitable for profit-oriented entities, including public sector business entities. If entities with not-for-profit activities in the private sector or the public sector apply this Standard, they may need to amend the descriptions used for particular line items in the financial statements and for the financial statements themselves.

Similarly, entities that do not have equity as defined in IAS 32 *Financial Instruments*:

Presentation (eg some mutual funds) and entities whose share capital is not equity (eg some co-operative entities) may need to adapt the financial statement presentation of members' or unitholders' interests.

The following terms are used in this Standard with the meanings specified *General purpose financial statements* (referred to as 'financial statements') are those intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs.

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

International Financial Reporting Standards (IFRSs) are Standards and (IASB).

They comprise:

- (a) International Financial Reporting Standards;
- (b) International Accounting Standards;
- (c) IFRIC Interpretations; and
- (d) SIC Interpretations.

Material Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances.

The size or nature of the item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence economic decisions of users, and so be material, requires consideration of the characteristics of those users. The *Framework for the Preparation and Presentation of Financial Statements* states in paragraph 253 that ‘users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence.’ Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making economic decisions.

Notes contain information in addition to that presented in the statement of financial position, statement(s) of profit or loss and other comprehensive income, separate income statement (if presented), statement of changes in equity and statement of cash flows. Notes provide narrative descriptions or disaggregations of items presented in those statements and information about items that do not qualify for recognition in those statements.

Other comprehensive income comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other IFRSs.

The components of other comprehensive income include:

- (a) changes in revaluation surplus (see IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*);
 - (b) remeasurements of defined benefit plans (see IAS 19 *Employee Benefits*);
 - (c) gains and losses arising from translating the financial statements of a foreign operation (see IAS 21 *The Effects of Changes in Foreign Exchange Rates*);
 - (d) gains and losses from investments in equity instruments measured at fair value through other comprehensive income in accordance with paragraph 5.7.5 of IFRS 9 *Financial Instruments*; Definition of IFRSs amended after the name changes introduced by the revised Constitution of the IFRS Foundation in 2010.
- 3 In September 2010 the IASB replaced the *Framework* with the *Conceptual*

Framework for Financial Reporting. Paragraph 25 was superseded by Chapter 3 of the *Conceptual Framework*.

(e) the effective portion of gains and losses on hedging instruments in a cash flow hedge (see IAS 39 *Financial Instruments: Recognition and Measurement*);
(f) for particular liabilities designated as at fair value through profit or loss, the amount of the change in fair value that is attributable to changes in the liability's credit risk (see paragraph 5.7.7 of IFRS 9).

Owners are holders of instruments classified as equity.

Profit or loss is the total of income less expenses, excluding the components of other comprehensive income. *Reclassification adjustments* are amounts reclassified to profit or loss in the current period that were recognised in other comprehensive income in the current or previous periods.

Total comprehensive income is the change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners.

Total comprehensive income comprises all components of 'profit or loss' and of 'other comprehensive income'. Although this Standard uses the terms 'other comprehensive income', 'profit or loss' and 'total comprehensive income', an entity may use other terms to describe the totals as long as the meaning is clear. For example, an entity may use the term 'net income' to describe profit or loss.

The following terms are described in IAS 32 *Financial Instruments: Presentation* and are used in this Standard with the meaning specified in IAS 32:

(a) puttable financial instrument classified as an equity instrument (described in paragraphs 16A and 16B of IAS 32)

(b) an instrument that imposes on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and is classified as an equity instrument (described in paragraphs 16C and 16D of IAS 32).

Financial statements

Purpose of financial statements

Financial statements are a structured representation of the financial position and financial performance of an entity. The objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Financial statements also show the results of the management's stewardship of the resources entrusted to it. To meet this objective, financial statements provide information about an entity's:

(a) assets;

(b) liabilities;

(c) equity;

(d) income and expenses, including gains and losses;

(e) contributions by and distributions to owners in their capacity as owners; and

(f) cash flows.

This information, along with other information in the notes, assists users of financial statements in predicting the entity's future cash flows and, in particular, their timing and certainty.

Complete set of financial statements

Complete set of financial statements comprises:

- (a) a statement of financial position as at the end of the period;
- (b) a statement of profit or loss and other comprehensive income for the period;
- (c) a statement of changes in equity for the period;
- (d) a statement of cash flows for the period;
- (e) notes, comprising a summary of significant accounting policies and other explanatory information; and
- (f) a statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

An entity may use titles for the statements other than those used in this Standard. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'. An entity may present a single statement of profit or loss and other comprehensive income, with profit or loss and other comprehensive income presented in two sections. The sections shall be presented together, with the section presented first followed directly by the other comprehensive income section. An entity may present the profit or loss section in a separate statement of profit or loss. If so, the separate statement of profit or loss shall immediately precede the statement presenting comprehensive income, which shall begin with profit or loss.

An entity shall present with equal prominence all of the financial statements in a complete set of financial statements.

Many entities present, outside the financial statements, a financial review by management that describes and explains the main features of the entity's financial performance and financial position, and the principal uncertainties it faces. Such a report may include a review of:

- (a) the main factors and influences determining financial performance, including changes in the environment in which the entity operates, the entity's response to those changes and their effect, and the entity's policy for investment to maintain and enhance financial performance, including its dividend policy;
- (b) the entity's sources of funding and its targeted ratio of liabilities to equity; and
- (c) the entity's resources not recognised in the statement of financial position in accordance with IFRSs.

Many entities also present, outside the financial statements, reports and statements such as environmental reports and value added statements, particularly in industries in which environmental factors are significant and when employees are regarded as an important user group. Reports and statements presented outside financial statements are outside the scope of IFRSs.

General features Fair presentation and compliance with IFRSs

Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the *Framework*. The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.

An entity whose financial statements comply with IFRSs shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with IFRSs unless they comply with all the requirements of IFRSs.

In virtually all circumstances, an entity achieves a fair presentation by compliance with applicable IFRSs. A fair presentation also requires an entity:

(a) to select and apply accounting policies in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. IAS 8 sets out a hierarchy of

authoritative guidance that management considers in the absence of an IFRS that specifically applies to an item.

(b) to present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.

(c) to provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Accrual basis of accounting

An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.

28 When the accrual basis of accounting is used, an entity recognises items as assets, liabilities, equity, income and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the *Framework*.⁵

Materiality and aggregation

An entity shall present separately each material class of similar items. An entity shall present separately items of a dissimilar nature or function unless they are immaterial. When it is impracticable to reclassify comparative amounts, an entity shall disclose:

(a) the reason for not reclassifying the amounts, and

(b) the nature of the adjustments that would have been made if the amounts had been reclassified.

Statement of financial position

Information to be presented in the statement of financial position

As a minimum, the statement of financial position shall include line items that present the following amounts:

(a) property, plant and equipment;

- (b) investment property;
- (c) intangible assets;
- (d) financial assets (excluding amounts shown under (e), (h) and (i));
- (e) investments accounted for using the equity method;
- (f) biological assets;
- (g) inventories;
- (h) trade and other receivables;
- (i) cash and cash equivalents;
- (j) the total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*;
- (k) trade and other payables;
- (l) provisions;
- (m) financial liabilities (excluding amounts shown under (k) and (l));
- (n) liabilities and assets for current tax, as defined in IAS 12 *Income Taxes*;
- (o) deferred tax liabilities and deferred tax assets, as defined in IAS 12;
- (p) liabilities included in disposal groups classified as held for sale in accordance with IFRS 5;
- (q) non-controlling interests, presented within equity; and
- (r) issued capital and reserves attributable to owners of the parent.

An entity shall present additional line items, headings and subtotals in the statement of financial position when such presentation is relevant to an understanding of the entity's financial position.

When an entity presents current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position, it shall not classify deferred tax assets (liabilities) as current assets (liabilities).

Current liabilities

An entity shall classify a liability as current when:

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

Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Other comprehensive income for the period An entity shall disclose the amount of income tax relating to each item other comprehensive income, including reclassification adjustments, either in the statement of profit or loss and other comprehensive income or in the notes.

An entity may present items of other comprehensive income either:

- (a) net of related tax effects, or
- (b) before related tax effects with one amount shown for the aggregate amount of income tax relating to those items.

If an entity elects alternative (b), it shall allocate the tax between the items that might be reclassified subsequently to the profit or loss section and those that will not be reclassified subsequently to the profit or loss section.

An entity shall disclose reclassification adjustments relating to components of other comprehensive income.

In September 2010 the IASB replaced the *Framework* with the *Conceptual Framework for Financial Reporting*.

Other IFRSs specify whether and when amounts previously recognised in other comprehensive income are reclassified to profit or loss. Such reclassifications are referred to in this Standard as reclassification adjustments. A reclassification adjustment is included with the related component of other comprehensive income in the period that the adjustment is reclassified to profit or loss. These amounts may have been recognised in other comprehensive income as unrealised gains in the current or previous periods. Those unrealised gains must be deducted from other comprehensive income in the period in which the realised gains are reclassified to profit or loss to avoid including them in total comprehensive income twice.

An entity may present reclassification adjustments in the statement(s) of profit or loss and other comprehensive income or in the notes. An entity presenting reclassification adjustments in the notes presents the items of other comprehensive income after any related reclassification adjustments. Reclassification adjustments arise, for example, on disposal of a foreign operation (see IAS 21) and when a hedged forecast cash flow affects profit or loss (see paragraph 100 of IAS 39).

Reclassification adjustments do not arise on changes in revaluation surplus recognised in accordance with IAS 16 or IAS 38 or on remeasurements of defined benefit plans recognised in accordance with IAS 19. These components are recognised in other comprehensive income and are not reclassified to profit or loss in subsequent periods. Changes in revaluation surplus may be transferred to retained earnings in subsequent periods as the asset is used or when it is derecognised (see IAS 16 and IAS 38).

Information to be presented in the statement(s) of profit or loss and other comprehensive income or in the notes

When items of income or expense are material, an entity shall disclose their nature and amount separately.

Circumstances that would give rise to the separate disclosure of items of income and expense include:

- (a) write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;
- (b) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;
- (c) disposals of items of property, plant and equipment;
- (d) disposals of investments;
- (e) discontinued operations;
- (f) litigation settlements; and

(g) other reversals of provisions.

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

Capital

An entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.

To comply with paragraph 134, the entity discloses the following:

(a) qualitative information about its objectives, policies and processes for managing capital, including:

(i) a description of what it manages as capital;

(ii) when an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and

(iii) how it is meeting its objectives for managing capital.

(b) summary quantitative data about what it manages as capital. Some entities regard some financial liabilities (eg some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (eg components arising from cash flow hedges).

(c) any changes in (a) and (b) from the previous period.

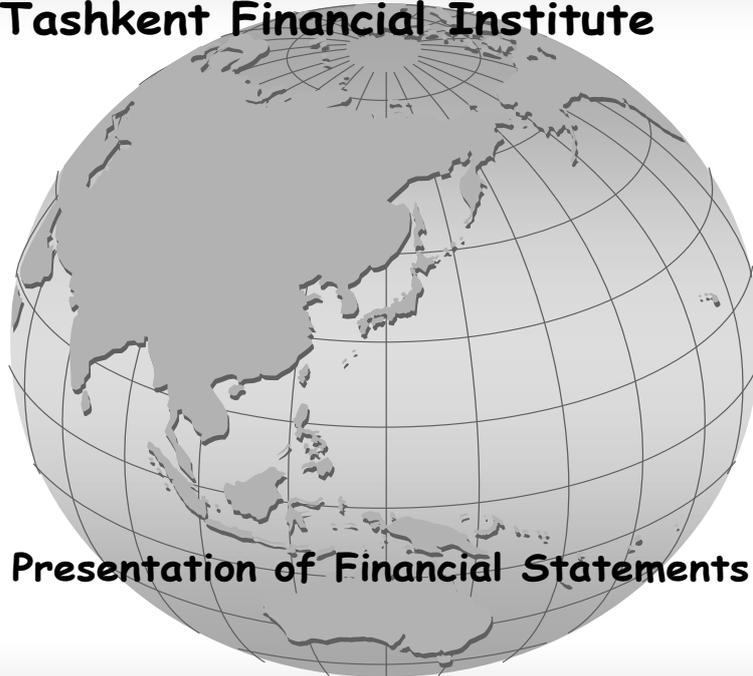
(d) whether during the period it complied with any externally imposed capital requirements to which it is subject.

(e) when the entity has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

The entity bases these disclosures on the information provided internally to key management personnel.

An entity may manage capital in a number of ways and be subject to a number of different capital requirements. For example, a conglomerate may include entities that undertake insurance activities and banking activities and those entities may operate in several jurisdictions.

International Financial Reporting Standards Tashkent Financial Institute



- **IAS1 Presentation of Financial Statements**

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IFRS Presentation of Financial Statements

Objectives:

- IAS 1 prescribes:

- the basis for presentation of general purpose financial statements*
- For comparability within the entity for previous periods, and with the other entities.

- IAS 1 sets out:

- overall requirements for the presentation of financial statements;
- guidelines for their structure;
- and minimum requirements for their contents.



* The financial statements intended to meet the needs of users who are not in a position to require an entity to prepare reports that meet their particular needs.

1

IFRS Presentation of Financial Statements

Fair Presentation:

• In accordance with IFRS, financial statements should present fairly the financial position, financial performance and cash flow of an entity.

• "In extremely rare cases" where fair presentation per IFRS is not possible, the entity may conclude that it must ignore the applicable accounting standard. (overriding clause)

• Example:

- IFRS prohibits LIFO inventory valuation method. If the entity physically distributes the latest purchasing goods first, and management judges LIFO better reflects the entity's financial picture, then the entity can override this prohibition.



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IFRS Presentation of Financial Statements

Fair Presentation:

• An entity whose financial statements comply with IFRS shall **make an explicit and unreserved statement of such compliance in the note.**

• The consolidated financial statements of Nokia Corporation ("Nokia" or "the Group"), a Finnish public limited liability company with domicile in Helsinki, in the Republic of Finland, are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB") **and in conformity with IFRS as adopted by the European Union ("IFRS").** (quoted from the notes of NOKIA F/S in 2011)

• An entity cannot rectify inappropriate accounting policies either by disclosure of such accounting policies used or by notes or explanatory materials.

• Example... the company cannot say as below in the note.

- "Except for the adoption of LIFO inventory valuation method which is prohibited under IFRS, the financial statements are all in conformity with IFRS."

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IAS1 Presentation of Financial Statements

Financial Statements:

A complete set of financial statements comprises:

- a statement of financial position;
- a statement of comprehensive income
- a statement of changes in equity;
- a statement of cash flows;
- notes, comprising a summary of significant accounting policies and other explanatory information;

Memo:

A statement of financial position as at the beginning of the earliest comparative period needs to be presented when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.



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IAS1 Presentation of Financial Statements

Financial Statements:

| <i>Financial Statement Components</i> | |
|---------------------------------------|---|
| Statement of Financial Position | → Assets, Liabilities & Owners Equity. |
| Statement of Comprehensive Income | → Income (Revenue + Gain) + Other Comprehensive Income |
| Statement of Changes in Equity | → Changes in all owner equity + all nonowner equity (i.e. comprehensive income) |
| Statement of Cash Flows | → Cash inflows & outflows from operating, investing & financing activities |
| Notes | → Significant accounting policies & explanatory notes |



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IAS1 Presentation of Financial Statements

Going Concern:

- Financial Statements shall be prepared on a going concern basis.
- When preparing financial statements, management makes an assessment regarding the entity's ability to continue in operation for foreseeable future.
- If there is doubt about the above, using a liquidation approach, assets must be revalued.



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IAS1 Presentation of Financial Statements

Going Concern:

Case:

The entity has the fixed asset of \$100,000 which it purchased at the beginning of this year. The useful life is 10 years, and it used the straight line appreciation method. No residual value is estimated. If the entity sells this assets, it can sell for \$60,000 but needs to pay the handling commission of 5% to a broker.

Based on going concern, what is the value of this asset at the end of the year?
It is highly probable that the entity will not continue in operation next year, how should we measure the value of the asset?



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IAS1 Presentation of Financial Statements

Going Concern:

Case:

XYZ is a manufacturer of televisions. The domestic market for electronic goods is currently not doing well, and therefore many entities in this business are switching to exports.. As per the audited financial statements for the year ended December 31, 2011, the entity had net loss of \$2M.. As December 31, 2011, its current assets aggregate to \$20M and the current liabilities aggregate to \$25M. Due to the expected favorable changes in the government policy for the electronic industry, the entity is projecting profits in the coming years. Furthermore, the shareholders of the entity have arranged alternative source of finance for its expansion plans and to support its working needs in the next 12 months.

Should XYZ prepares its financial statements under the going concern basis??

(IFRS PRIMER Int'l GAAP Basics/I.M. WIECK & N.M YOUNG)



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IAS1 Presentation of Financial Statements

Accrual Basis of Accounting:

•An entity shall prepare Financial Statements, using accrual basis of accounting.

•Under accrual basis of accounting,

- ✓ Revenues are earned when they are earned.
- ✓ Expenses are recognized when they incurred.



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IAS1 Presentation of Financial Statements

Accrual Basis of Accounting:

Case:

You are running liquor stores. A customer ordered 10 bottles of wine to your store on December 1 on the phone. She prepaid \$200 on December 2, and asked you to deliver them on December 5. As told, you delivered them on December 5.

When do you recognize the sales revenue??

- a. December 1
- b. December 2
- c. December 5



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IAS1 Presentation of Financial Statements

Materiality & Aggregation:

- An entity shall present separately each material class of similar items. An entity shall present separately items of a dissimilar nature or function unless they are immaterial.
- If not material, they can be aggregated for reporting.

Offsetting

- An entity shall not offset assets and liabilities or income and expenses, unless required or permitted by an IFRS.
- Exceptions... e.g. allowance for doubtful accounts, accumulated depreciation.



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IAS1 Presentation of Financial Statements

Frequency of Reporting

- An entity shall present a complete set of financial statements **at least annually**.
- An entity can use 52 weeks as a fiscal period in place of 1 year.

Comparative Information

- An entity shall disclose comparative information in respect of the previous period.
- An entity shall present, at a minimum, two statements of financial position, two of each of other statements and related notes.
- Note: Each country has to follow the statutory requirement.

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IAS1 Presentation of Financial Statements

Statement of Financial Position

- As a minimum, the statement of financial position shall include line items that present the following amounts:
 - Assets:
 - (a) property, plant and equipment;
 - (b) investment property;
 - (c) intangible assets;
 - (d) financial assets (excluding amounts shown under (e), (h) and (i));
 - (e) investments accounted for using the equity method;
 - (f) biological assets;
 - (g) inventories;
 - (h) trade and other receivables;
 - (i) cash and cash equivalents;
 - (j) the total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations;

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IAS1 Presentation of Financial Statements

Statement of Financial Position

- As a minimum, the statement of financial position shall include line items that present the following amounts:

Liabilities & Owners Equity

- (k) trade and other payables;
- (l) provisions;
- (m) financial liabilities (excluding amounts shown under (k) and (l));
- (n) liabilities and assets for current tax, as defined in IAS 12 Income Taxes;
- (o) deferred tax liabilities and deferred tax assets, as defined in IAS 12;
- (p) liabilities included in disposal groups classified as held for sale in accordance with IFRS 5;
- (q) non-controlling interests, presented within equity; and
- (r) issued capital and reserves attributable to owners of the parent.

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IAS1 Presentation of Financial Statements

Statement of Financial Position

- Current assets and liabilities must be classified in accordance with the entity's operating cycle (normally one year)
- Deferred tax assets/liabilities cannot be accounted for as current assets or liabilities.

Case

- Jab Inc. has some long-term debt that is currently due this year. It has negotiated with Jonathan Bank (large reputable bank) to refinance the debt with 5 year loan. A written agreement is in place; however, the actual refinancing will not take place until after year-end. Is this loan accounted for as current or non-current??

(IFRS PRIMER Int'l GAAP Basics/I.M. WIECK & N.M YOUNG)

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IAS1 Presentation of Financial Statements

Statement of Comprehensive Income

- The statement of comprehensive income shall present
 - a) profit or loss;
 - b) total other comprehensive income;
 - c) comprehensive income for the period, being the total of profit or loss and other comprehensive income.



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IAS1 Presentation of Financial Statements

Statement of Comprehensive Income

- An entity shall present the following items, in addition to the profit or loss and other comprehensive income sections, as allocation of profit or loss and other comprehensive income for the period:
 - (a) profit or loss for the period attributable to:
 - (i) non-controlling interests, and
 - (ii) owners of the parent.
 - (b) comprehensive income for the period attributable to:
 - (i) non-controlling interests, and
 - (ii) owners of the parent.

Note:

- An entity shall **not present any items of income or expense as extraordinary items**, in the statement(s) presenting profit or loss and other comprehensive income or in the notes.

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IAS1 Presentation of Financial Statements

Discussion Paper: Preliminary Views on Financial Statement Presentation

•In October, 2008, the IASB and the FASB jointly published for comments a Discussion Paper, *Preliminary Views on Financial Statement Presentation*.

•Proposed format for financial statements:

| Statement of Financial Position | Statement of Comprehensive Income | Statement of Cash flows |
|---------------------------------|--|--------------------------------|
| Business | Business | Business |
| Operating Assets & Liabilities | Operating Income & Expenses | Operating Cash Flows |
| Investing Assets & Liabilities | Investing Income & Expenses | Investing Cash Flows |
| Financing | Financing | Financing |
| Financing Assets | Financing Asset Income | Financing Asset Cash Flows |
| Financing Liabilities | Financing Liability Expense | Financing Liability Cash Flows |
| Income Taxes | Income Taxes On continuing operations (business & financing) | Income Taxes |
| Discontinued operations | Discontinued operations Net of tax | Discontinued operations |
| | Other Comprehensive Income Net of tax | |
| Equity | | Equity |

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IAS1 Presentation of Financial Statements

Discussion Paper: Preliminary Views on Financial Statement Presentation

“The outreach indicated that some participants had concerns about aspects of the proposals but supported others. The Boards concluded that significant additional work would be required to develop a viable exposure draft. In the light of other priorities, the Boards decided to consider returning to the project once the other MoU projects had been completed.”

(the SEC Staff Report titled a *Comparison of US GAAP and IFRS* issued on November 16, 2011.)

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Inventories (International Accounting Standard 2)

Plan:

1. Objective, Definitions and Measurement of inventories
2. Cost of inventories of a service provider, Cost formulas
3. Net realisable value, recognition as an expense

Objective - The objective of this Standard is to prescribe the accounting treatment of inventories. A primary issue in accounting for inventories is the amount of cost to be recognised as an asset and carried forward until the related revenues are recognised. This Standard provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realisable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

Scope - This Standard applies to all inventories, except:

- (a) work in progress arising under construction contracts, including directly related service contracts (see IAS 11 *Construction Contracts*);
- (b) financial instruments (see IAS 32 *Financial Instruments: Presentation* and IFRS 9 *Financial Instruments*); and
- (c) biological assets related to agricultural activity and agricultural produce at the point of harvest (see IAS 41 *Agriculture*).

This Standard does not apply to the measurement of inventories held by:

- (a) producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products, to the extent that they are measured at net realisable value in accordance with well-established practices in those industries. When such inventories are measured at net realisable value, changes in that value are recognised in profit or loss in the period of the change.
- (b) commodity broker-traders who measure their inventories at fair value less costs to sell. When such inventories are measured at fair value less costs to sell, changes in fair value less costs to sell are recognised in profit or loss in the period of the change.

The inventories referred to in paragraph 3(a) are measured at net realisable value at certain stages of production. This occurs, for example, when agricultural crops have been harvested or minerals have been extracted and sale is assured under a forward contract or a government guarantee, or when an active market exists and there is a negligible risk of failure to sell. These inventories are excluded from only the measurement requirements of this Standard.

Broker-traders are those who buy or sell commodities for others or on their own account. The inventories referred to in paragraph 3(b) are principally acquired with the purpose of selling in the near future and generating a profit from fluctuations in price or broker-traders' margin. When these inventories are measured at fair value less costs to sell, they are excluded from only the measurement requirements of this Standard.

Definitions

The following terms are used in this Standard with the meanings specified:

Inventories are assets:

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

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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. (See IFRS 13 *Fair Value Measurement*.)

Net realisable value refers to the net amount that an entity expects to realise from the sale of inventory in the ordinary course of business. Fair value reflects the price at which an orderly transaction to sell the same inventory in the principal (or most advantageous) market for that inventory would take place between market participants at the measurement date. The former is an entity-specific value; the latter is not. Net realisable value for inventories may not equal fair value less costs to sell.

Inventories encompass goods purchased and held for resale including, for example, merchandise purchased by a retailer and held for resale, or land and other property held for resale. Inventories also encompass finished goods produced, or work in progress being produced, by the entity and include materials and supplies awaiting use in the production process. In the case of a service provider, inventories include the costs of the service, as described in paragraph 19, for which the entity has not yet recognised the related revenue (see IAS 18 *Revenue*).

Measurement of inventories - Inventories shall be measured at the lower of cost and net realisable value.

Cost of inventories The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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

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

production that vary directly, or nearly directly, with the volume of production, such as indirect materials and indirect labour.

The allocation of fixed production overheads to the costs of conversion is based

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

A production process may result in more than one product being produced simultaneously. This is the case, for example, when joint products are produced or when there is a main product and a by-product. When the costs of conversion of each product are not separately identifiable, they are allocated between the products on a rational and consistent basis. The allocation may be based, for example, on the relative sales value of each product either at the stage in the production process when the products become separately identifiable, or at the completion of production. Most by-products, by their nature, are immaterial. When this is the case, they are often measured at net realisable value and this value is deducted from the cost of the main product. As a result, the carrying amount of the main product is not materially different from its cost.

Other costs - Other costs are included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition. For example, it may be appropriate to include non-production overheads or the costs of designing products for specific customers in the cost of inventories. Examples of costs excluded from the cost of inventories and recognised as expenses in the period in which they are incurred are:

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

IAS 23 *Borrowing Costs* identifies limited circumstances where borrowing costs are included in the cost of inventories.

An entity may purchase inventories on deferred settlement terms. When the arrangement effectively contains a financing element, that element, for example a difference between the purchase price for normal credit terms and the

amount paid, is recognised as interest expense over the period of the financing.

Cost of inventories of a service provider

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

Cost of agricultural produce harvested from biological assets

In accordance with IAS 41 *Agriculture* inventories comprising agricultural produce that an entity has harvested from its biological assets are measured on initial recognition at their fair value less costs to sell at the point of harvest. This is the cost of the inventories at that date for application of this Standard.

Techniques for the measurement of cost

Techniques for the measurement of the cost of inventories, such as the standard

cost method or the retail method, may be used for convenience if the results approximate cost. Standard costs take into account normal levels of materials and supplies, labour, efficiency and capacity utilisation. They are regularly reviewed and, if necessary, revised in the light of current conditions.

The retail method is often used in the retail industry for measuring inventories of large numbers of rapidly changing items with similar margins for which it is impracticable to use other costing methods. The cost of the inventory is determined by reducing the sales value of the inventory by the appropriate percentage gross margin. The percentage used takes into consideration inventory that has been marked down to below its original selling price. An average percentage for each retail department is often used.

Cost formulas

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects shall be assigned by using specific identification of their individual costs.

Specific identification of cost means that specific costs are attributed to identified items of inventory. This is the appropriate treatment for items that are segregated for a specific project, regardless of whether they have been bought or produced. However, specific identification of costs is inappropriate when there are large numbers of items of inventory that are ordinarily interchangeable. In such circumstances, the method of selecting those items that remain in inventories could be used to obtain predetermined effects on profit or loss.

The cost of inventories, other than those dealt with in paragraph 23, shall be assigned by using the first-in, first-out (FIFO) or weighted average cost formula. An entity shall use the same cost formula for all inventories having a

similar nature and use to the entity. For inventories with a different nature or use, different cost formulas may be justified.

For example, inventories used in one operating segment may have a use to the entity different from the same type of inventories used in another operating segment. However, a difference in geographical location of inventories (or in the respective tax rules), by itself, is not sufficient to justify the use of different cost formulas.

The FIFO formula assumes that the items of inventory that were purchased or produced first are sold first, and consequently the items remaining in inventory at the end of the period are those most recently purchased or produced. Under the weighted average cost formula, the cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period and the cost of similar items purchased or produced during the period. The average may be calculated on a periodic basis, or as each additional shipment is received, depending upon the circumstances of the entity.

Net realisable value

The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may also not be recoverable if the estimated costs of completion or the estimated costs to be incurred to make the sale have increased. The practice of writing inventories down below cost to net realisable value is consistent with the view that assets should not be carried in excess of amounts expected to be realised from their sale or use.

Inventories are usually written down to net realisable value item by item. In some circumstances, however, it may be appropriate to group similar or related items. This may be the case with items of inventory relating to the same product line that have similar purposes or end uses, are produced and marketed in the same geographical area, and cannot be practicably evaluated separately from other items in that product line. It is not appropriate to write inventories down on the basis of a classification of inventory, for example, finished goods, or all the inventories in a particular operating segment. Service providers generally accumulate costs in respect of each service for which a separate selling price is charged. Therefore, each such service is treated as a separate item.

Estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realise. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. Estimates of net realisable value also take into consideration the purpose for which the inventory is held. For example, the net realisable value of the quantity of inventory held to satisfy firm sales or service contracts is based on the contract price. If the sales contracts are for less than the inventory quantities

held, the net realisable value of the excess is based on general selling prices. Provisions may arise from firm sales contracts in excess of inventory quantities held or from firm purchase contracts. Such provisions are dealt with under IAS 37 *Provisions*,

Contingent Liabilities and Contingent Assets.

Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. However, when a decline in the price of materials indicates that the cost of the finished products exceeds net realisable value, the materials are written down to net realisable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realisable value.

A new assessment is made of net realisable value in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances, the amount of the write-down is reversed (ie the reversal is limited to the amount of the original write-down) so that the new carrying amount is the lower of the cost and the revised net realisable value. This occurs, for example, when an item of inventory that is carried at net realisable value, because its selling price has declined, is still on hand in a subsequent period and its selling price has increased.

Recognition as an expense

When inventories are sold, the carrying amount of those inventories shall be recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories shall be recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, shall be recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Some inventories may be allocated to other asset accounts, for example, inventory used as a component of self-constructed property, plant or equipment. Inventories allocated to another asset in this way are recognised as an expense during the useful life of that asset.

Disclosure

The financial statements shall disclose:

- (a) the accounting policies adopted in measuring inventories, including the cost formula used;
- (b) the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;
- (c) the carrying amount of inventories carried at fair value less costs to sell;
- (d) the amount of inventories recognised as an expense during the period;

- (e) the amount of any write-down of inventories recognised as an expense in the period in accordance with paragraph
- (f) the amount of any reversal of any write-down that is recognised as a reduction in the amount of inventories recognised as expense in the period in accordance with paragraph;
- (g) the circumstances or events that led to the reversal of a write-down of inventories in accordance with paragraph; and
- (h) the carrying amount of inventories pledged as security for liabilities.

Information about the carrying amounts held in different classifications of inventories and the extent of the changes in these assets is useful to financial statement users. Common classifications of inventories are merchandise, production supplies, materials, work in progress and finished goods. The inventories of a service provider may be described as work in progress. The amount of inventories recognised as an expense during the period, which is often referred to as cost of sales, consists of those costs previously included in the measurement of inventory that has now been sold and unallocated production overheads and abnormal amounts of production costs of inventories. The circumstances of the entity may also warrant the inclusion of other amounts, such as distribution costs.

Some entities adopt a format for profit or loss that results in amounts being disclosed other than the cost of inventories recognised as an expense during the period. Under this format, an entity presents an analysis of expenses using a classification based on the nature of expenses. In this case, the entity discloses the costs recognised as an expense for raw materials and consumables, labour costs and other costs together with the amount of the net change in inventories for the period.

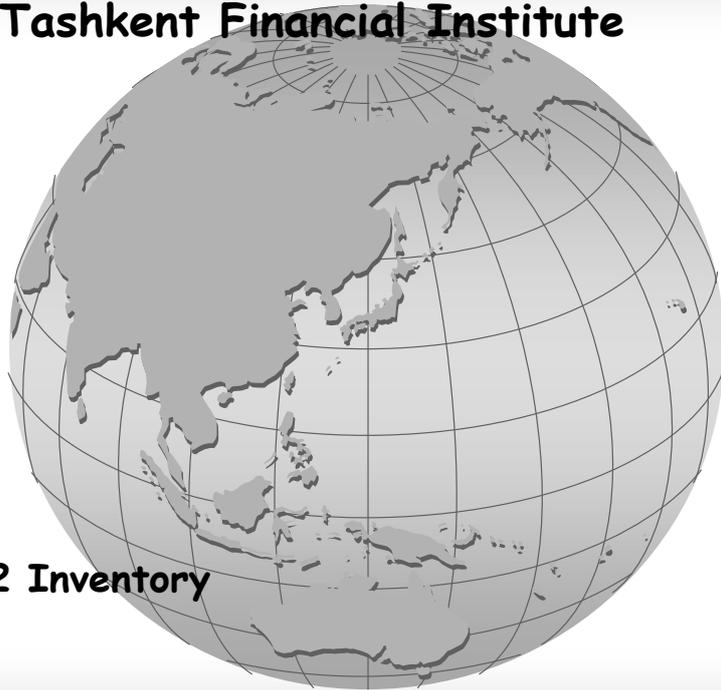
Effective date

An entity shall apply this Standard for annual periods beginning on or after 1 January 2005. Earlier application is encouraged. If an entity applies this Standard for a period beginning before 1 January 2005, it shall disclose that fact.

40B IFRS 9 issued in October 2010, amended paragraph 2(b) and deleted paragraph 40A. An entity shall apply those amendments when it applies IFRS 9 as issued in October 2010.

40C IFRS 13, issued in May 2011, amended the definition of fair value in paragraph 6 and amended paragraph 7. An entity shall apply those amendments when it applies IFRS 13.

International Financial Reporting Standards Tashkent Financial Institute



- **IAS 2 Inventory**

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IAS 2 Inventory

Objectives:

- The objective of this Standard is to prescribe the accounting treatment for inventories.

Scope:

- This Standard applies to all inventories, EXCEPT:
 - a. *work in progress arising under construction contracts*, including directly related service contracts (see IAS 11 *Construction Contracts*);
 - b. *financial instruments* (see IAS 32 *Financial Instruments: Presentation* and IFRS 9 *Financial Instruments*); and
 - c. *biological assets* related to agricultural activity and agricultural produce at the point of harvest (see IAS 41 *Agriculture*).



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IAS 2 Inventory

Definition of Key Terms:

•Net Realizable Value

- The estimated selling price in the normal course of business less estimated cost to complete and estimated cost to make a sale.

•Fair Value

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

•Memo:

- Net realizable value is an entity-specific value; Fair value is not. Net realizable value for inventories may not equal fair value less costs to sell.



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IAS 2 Inventory

Initial Measurement of Cost of Inventory

•What is included (or capitalized) in cost of inventory?

- Costs of Purchase
- Cost of Conversion
- Other costs

•What is NOT included in the cost of inventory?

- Storage cost
- Administrative overhead cost
- Abnormal amount of wasted materials
- Selling Cost
- Borrowing cost



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IAS 2 Inventory

Exercise

• Brilliant Manufacturing Inc. purchases materials from various countries and manufactures bicycles, exporting them to Europe. Brilliant Trading has incurred these expenses during 2012.

- Costs of Purchase for materials (based on vendors' invoice)
- Trade discount on purchases
- Import duties
- Freight and insurance on purchases
- Utilities expense for assembly line.
- Salary of factory workers directly engaged in production.
- Salaries of accounting department
- Brokerage commission payable to agents for arranging imports
- Sales commission payable to sales agents
- After-sales warranty costs

• Brilliant Manufacturing Inc. is seeking your advice on which costs are permitted under IAS 2 to be included in cost of inventory.

(Wiley IFRS Practical Implementation Guide and Workbook 2nd Edition/Abbas, Magnus & Graham slightly modified)

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IAS 2 Inventory

Cost Formula for Inventory Valuation

- Specific Identification of Cost
- First-in First-out (FIFO)
- Weighted Average Cost Formula

Note

- Last-in Last-out (LIFO) is **NOT** allowed.
- Same formula shall be applied to all inventories.



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IAS 2 Inventory

Practice - Specific identification method

You are running a jewelry shop at OLOY bazar. You have the beginning inventories as follows:

| | |
|---|---------|
| •Diamond necklace w/ gold chain (1 karat) | \$1,000 |
| •Diamond necklace w/ platinum chain (1 karat) | \$1,300 |
| Total | \$2,300 |

During the month, you purchased a diamond necklace with silver chain for \$800.

During the month, you sold the diamond necklace w/ gold chain for \$1,300.

Under specific identification of cost method, what is the cost for the diamond necklace with gold chain ??



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IAS 2 Inventory

Practice - FIFO/Moving Average

You are running a stationery shop. You have the beginning inventory of pencils as at Dec. 1 as follows:

| | |
|---------------------------------|-------|
| •Nov. 5 / 150 pencils at \$0.80 | \$120 |
| •Nov. 20/ 100 pencils at \$1.00 | \$100 |
| Total 250 | \$220 |

During the month, you purchased 120 pencils at \$1.50.

During the month, you sold 150 pencils to customers.

What is the cost under FIFO, Weighted Average and LIFO respectively? Why is LIFO not allowed under IFRS??



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IAS 2 Inventory

Practice - FIFO

| FIFO | Income Statement | Balance Sheet |
|----------------------------------|---------------------------------|----------------------------------|
| 5-Nov 150 × @\$0.80 \$120 | 5-Nov 150 × @\$0.80 \$120 | |
| 20-Nov 100 × @\$1.00 \$100 | | 20-Nov 100 × @\$1.00 \$100 |
| 5-Dec 120 × @\$1.50 \$180 | | 5-Dec 120 × @\$1.50 \$180 |
| Total inventory value \$400 | COGS \$120 | Ending inventory \$280 |

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IAS 2 Inventory

Practice - Moving Average

| Weighted Average | Income Statement | Balance Sheet |
|--|------------------------|---------------------------|
| 5-Nov 150 × @\$0.80 \$120 | 150 × @\$1.08 \$162 | |
| 20-Nov 100 × @\$1.00 \$100 | | |
| 5-Dec 120 × @\$1.50 \$180 | | 220 × @1.08 \$238 |
| Total inventory value \$400 | COGS \$162 | Ending inventory \$238 |
| Average inventory unit \$1.08/pencil (\$400/370=\$1.08/unit) | | |

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IAS 2 Inventory

Practice - LIFO (prohibited under IFRS)

| LIFO | Income Statement | Balance Sheet |
|---|---|--|
| <p>5-Nov 150 × @\$0.80 \$120</p> <p>20-Nov 100 × @\$1.00 \$100</p> <p>5-Dec 120 × @\$1.50 \$180</p> | <p>30 × @\$1.00 = 30</p> <p>5-Dec 120 × @\$1.50 \$180</p> | <p>5-Nov 150 × @\$0.80 \$120</p> <p>20-Nov 70 × @\$1.00 = \$70</p> |
| Total inventory value \$400 | COGS \$210 | Ending inventory \$190 |



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IAS 2 Inventory

Subsequent Measurement of Inventory

• Lower of Cost and Net Realizable Value (LCNRV)

Cost of Inventory < Net Realizable Value

No Action

Cost of Inventory > Net Realizable Value (NRV)

Write down to NRV



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IAS 2 Inventory

Subsequent Measurement of Inventory

• Lower of Cost and Net Realizable Value (LCNRV)

- LCNRV shall be conducted item by item.
- Assets should not be carried in excess of amounts expected to be realized from their sale or use.
- The amount of the write-down is reversed (i.e., the reversal is limited to the amount of the original write-down) *

* cf. Under US GAAP, the reversal of the write-down is not allowed.

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IAS 2 Inventory

Subsequent Measurement of Inventory

• From the previous example, using the stationary shop that you are running, at the end of December, Jasur, your friend, introduced a customer who likes to buy all the pencils left in the inventory @\$1.50. Jasur requested you to pay \$0.30/pencil for commission.

• Your shop is using FIFO inventory valuation method. What is the value of inventory at the end of December.

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IAS 2 Inventory

Subsequent Measurement of Inventory

| FIFO | Income Statement | Balance Sheet | Balance Sheet | Income Statement |
|----------------------------------|---------------------------------|----------------------------------|---|------------------------|
| 5-Nov 150 × @\$0.80 \$120 | 5-Nov 150 × @\$0.80 \$120 | | NRV = \$1.50 - \$0.30 = \$1.20 | |
| 20-Nov 100 × @\$1.00 \$100 | | 20-Nov 100 × @\$1.00 \$100 | No write-down \$1.00 < \$1.20 \$100 | |
| 5-Dec 120 × @\$1.50 \$180 | | 5-Dec 120 × @\$1.50 \$180 | Write-down \$1.50 > \$1.20 120 × @\$1.20 \$144 | |
| | | | | Inventory loss |
| Total inventory value \$400 | COGS \$120 | Ending inventory \$280 | Ending inventory after remeasurement \$244 | Inventory loss \$36 |

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IAS 2 Inventory

Subsequent Measurement of Inventory

- During January, your shop sold 70 pencils while you did not purchase any pencils during the month.
- Again, Jasur called you that there is a customer who likes to buy up all the inventory at \$2.00. In this case also, Jasur needs \$0.30/pencil commission.
- What is the cost of goods sold during January, and the inventory balance after re-measurement of the inventory?



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IAS 2 Inventory - appendix

Subsequent Measurement of Inventory

•Exercise 1

| Product | Original Cost | Quantity | Inventory as 12/31/12 | MEMO: | | | Net Realizable Value | |
|---------|---------------|----------|-----------------------|------------------------|------------------------|-----|------------------------------------|--|
| | | | | Expected Selling Price | Estimated Cost to Sell | | | |
| A105 | \$6 | 5 | \$30 | \$8 | \$1 | \$7 | no action needed. | |
| BB32 | \$10 | 7 | \$70 | \$12 | \$4 | \$8 | write-down needed | |
| Total | | 12 | \$100 | | | | Compare and choose the lower cost. | |

| Product | Original Cost | Quantity | Inventory as 12/31/12 | | | |
|---------|---------------|----------|-----------------------|---------------------------------------|------|------|
| A105 | \$6 | 5 | \$30 | | | |
| BB32 | \$8 | 7 | \$56 | Dr. Loss on Inventory Writedown | \$14 | |
| | | | | Cr. Inventory (or valuation account) | | \$14 |
| Total | | 12 | \$86 | | | |

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IAS 2 Inventory - appendix

Subsequent Measurement of Inventory

•Exercise 2

- Assume three units of inventory units of inventory item BB32 remain in inventory at March 31, 2013. The cost to sell each unit is still \$4, but market has recovered for these items and their expected selling price is now \$16. What adjusting entry, if any, is needed at March 31, 2013?

(IFRS PRIMER international GAAP Basics/Irene & Nicola)



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IAS 2 Inventory - appendix

Subsequent Measurement of Inventory

•Exercise 2

| Product | Original Cost | Quantity | Inventory as 3/31/13 | MEMO: | | |
|-----------------------|---------------|----------|----------------------|---------------------------------------|------------------------|----------------------|
| | | | | Expected Selling Price | Estimated Cost to Sell | Net Realizable Value |
| BB32 | \$10 | 3 | \$30 | \$16 | \$4 | \$12 |
| Carrying am't | \$8 | 3 | \$24 | Compare & choose the lower cost. | | |
| Reversal of writedown | | | \$6 | Dr. Inventory (or valuation account) | | \$6 |
| | | | | Cr. Reversal of writedown | | \$6 |

(IFRS PRIMER international GAAP Basics/Irene & Nicola)



Statement of Cash Flows (International Accounting Standard 7)

Plan:

1. Objective, Benefits of cash flow information
2. Definitions
3. Investing activities, Financing activities
4. Interest and dividends

Objective Information about the cash flows of an entity is useful in providing users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows. The economic decisions that are taken by users require an evaluation of the ability of an entity to generate cash and cash equivalents and the timing and certainty of their generation.

The objective of this Standard is to require the provision of information about the historical changes in cash and cash equivalents of an entity by means of a statement of cash flows which classifies cash flows during the period from operating, investing and financing activities.

Scope- An entity shall prepare a statement of cash flows in accordance with the requirements of this Standard and shall present it as an integral part of its financial statements for each period for which financial statements are presented.

This Standard supersedes IAS 7 *Statement of Changes in Financial Position*, approved in July 1977.

Users of an entity's financial statements are interested in how the entity generates and uses cash and cash equivalents. This is the case regardless of the nature of the entity's activities and irrespective of whether cash can be viewed as the product of the entity, as may be the case with a financial institution. Entities need cash for essentially the same reasons however different their principal revenue-producing activities might be. They need cash to conduct their operations, to pay their obligations, and to provide returns to their investors. Accordingly, this Standard requires all entities to present a statement of cash flows.

Benefits of cash flow information

A statement of cash flows, when used in conjunction with the rest of the financial statements, provides information that enables users to evaluate the changes in net assets of an entity, its financial structure (including its liquidity and solvency) and its ability to affect the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities. Cash flow information is useful in assessing the ability of the entity to generate cash and cash equivalents and enables users to develop models to assess and compare the present value of the 1 In September 2007 the IASB amended the title of IAS 7 from *Cash Flow Statements* to *Statement of Cash*

Flows as a consequence of the revision of IAS 1 *Presentation of Financial Statements* in 2007. future cash flows of different entities. It also enhances the comparability of the

reporting of operating performance by different entities because it eliminates the effects of using different accounting treatments for the same transactions and events.

Historical cash flow information is often used as an indicator of the amount, timing and certainty of future cash flows. It is also useful in checking the accuracy of past assessments of future cash flows and in examining the relationship between profitability and net cash flow and the impact of changing prices.

Definitions

The following terms are used in this Standard with the meanings specified:

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flows are inflows and outflows of cash and cash equivalents.

Operating activities are the principal revenue-producing activities of the entity and other activities that are not investing or financing activities.

Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

Cash and cash equivalents

Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents, for example in the case of preferred shares acquired within a short period of their maturity and with a specified redemption date. Bank borrowings are generally considered to be financing activities. However, in some countries, bank overdrafts which are repayable on demand form an integral part of an entity's cash management. In these circumstances, bank overdrafts are included as a component of cash and cash equivalents. A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn.

Cash flows exclude movements between items that constitute cash or cash equivalents because these components are part of the cash management of an entity rather than part of its operating, investing and financing activities. Cash management includes the investment of excess cash in cash equivalents.

Presentation of a statement of cash flows

The statement of cash flows shall report cash flows during the period classified by operating, investing and financing activities.

An entity presents its cash flows from operating, investing and financing activities in a manner which is most appropriate to its business. Classification by activity provides information that allows users to assess the impact of those activities on the financial position of the entity and the amount of its cash and cash equivalents. This information may also be used to evaluate the relationships among those activities.

A single transaction may include cash flows that are classified differently. For example, when the cash repayment of a loan includes both interest and capital, the interest element may be classified as an operating activity and the capital element is classified as a financing activity.

Operating activities

The amount of cash flows arising from operating activities is a key indicator of the extent to which the operations of the entity have generated sufficient cash flows to repay loans, maintain the operating capability of the entity, pay dividends and make new investments without recourse to external sources of financing. Information about the specific components of historical operating cash flows is useful, in conjunction with other information, in forecasting future operating cash flows.

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

- (a) cash receipts from the sale of goods and the rendering of services;
- (b) cash receipts from royalties, fees, commissions and other revenue;
- (c) cash payments to suppliers for goods and services;
- (d) cash payments to and on behalf of employees;
- (e) cash receipts and cash payments of an insurance entity for premiums and claims, annuities and other policy benefits;
- (f) cash payments or refunds of income taxes unless they can be specifically identified with financing and investing activities; and
- (g) cash receipts and payments from contracts held for dealing or trading purposes.

Some transactions, such as the sale of an item of plant, may give rise to a gain or loss that is included in recognised profit or loss. The cash flows relating to such transactions are cash flows from investing activities. However, cash payments to manufacture or acquire assets held for rental to others and subsequently held for sale as described in paragraph 68A of IAS 16 *Property, Plant and Equipment* are cash flows from operating activities. The cash receipts from rents and subsequent sales of such assets are also cash flows from operating activities.

An entity may hold securities and loans for dealing or trading purposes, in which case they are similar to inventory acquired specifically for resale. Therefore, cash flows arising from the purchase and sale of dealing or trading securities are classified as operating activities. Similarly, cash advances and loans made by

financial institutions are usually classified as operating activities since they relate to the main revenue-producing activity of that entity.

Investing activities- The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which expenditures have been

made for resources intended to generate future income and cash flows. Only expenditures that result in a recognised asset in the statement of financial position are eligible for classification as investing activities. Examples of cash flows arising from investing activities are:

(a) cash payments to acquire property, plant and equipment, intangibles and other long-term assets. These payments include those relating to capitalised development costs and self-constructed property, plant and equipment;

(b) cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;

(c) cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes);

(d) cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments considered to be cash equivalents and those held for dealing or trading purposes);

(e) cash advances and loans made to other parties (other than advances and loans made by a financial institution);

(f) cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a financial institution);

(g) cash payments for futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities; and

(h) cash receipts from futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the receipts are classified as financing activities.

When a contract is accounted for as a hedge of an identifiable position the cash flows of the contract are classified in the same manner as the cash flows of the position being hedged.

Financing activities - The separate disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of capital to the entity. Examples of cash flows arising from financing activities are:

(a) cash proceeds from issuing shares or other equity instruments;

(b) cash payments to owners to acquire or redeem the entity's shares;

(c) cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short-term or long-term borrowings;

(d) cash repayments of amounts borrowed; and

(e) cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.

Reporting cash flows from operating activities

An entity shall report cash flows from operating activities using either:

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

Entities are encouraged to report cash flows from operating activities using the direct method. The direct method provides information which may be useful in estimating future cash flows and which is not available under the indirect method. Under the direct method, information about major classes of gross cash receipts and gross cash payments may be obtained either:

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

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

- (a) changes during the period in inventories and operating receivables and payables;
- (b) non-cash items such as depreciation, provisions, deferred taxes, unrealised foreign currency gains and losses, and undistributed profits of associates; and
- (c) all other items for which the cash effects are investing or financing cash flows.

Alternatively, the net cash flow from operating activities may be presented under the indirect method by showing the revenues and expenses disclosed in the statement of comprehensive income and the changes during the period in inventories and operating receivables and payables.

Reporting cash flows from investing and financing activities

An entity shall report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows described in paragraphs 22 and 24 are reported on a net basis. Reporting cash flows on a net basis

Cash flows arising from the following operating, investing or financing activities may be reported on a net basis:

- (a) cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the entity; and
- (b) cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short.

Examples of cash receipts and payments referred to in paragraph 22(a) are:

- (a) the acceptance and repayment of demand deposits of a bank;

- (b) funds held for customers by an investment entity; and
 - (c) rents collected on behalf of, and paid over to, the owners of properties.
- 23A Examples of cash receipts and payments referred to in paragraph 22(b) are advances made for, and the repayment of:
- (a) principal amounts relating to credit card customers;
 - (b) the purchase and sale of investments; and
 - (c) other short-term borrowings, for example, those which have a maturity period of three months or less.

Cash flows arising from each of the following activities of a financial institution may be reported on a net basis:

- (a) cash receipts and payments for the acceptance and repayment of deposits with a fixed maturity date;
- (b) the placement of deposits with and withdrawal of deposits from other financial institutions; and
- (c) cash advances and loans made to customers and the repayment of those advances and loans.

Foreign currency cash flows

Cash flows arising from transactions in a foreign currency shall be recorded in an entity's functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow. The cash flows of a foreign subsidiary shall be translated at the exchange rates between the functional currency and the foreign currency at the dates of the cash flows.

Cash flows denominated in a foreign currency are reported in a manner consistent with IAS 21 *The Effects of Changes in Foreign Exchange Rates*. This permits the use of an exchange rate that approximates the actual rate. For example, a weighted average exchange rate for a period may be used for recording foreign currency transactions or the translation of the cash flows of a foreign subsidiary.

However, IAS 21 does not permit use of the exchange rate at the end of the reporting period when translating the cash flows of a foreign subsidiary. Unrealised gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency is reported in the statement of cash flows in order to reconcile cash and cash equivalents at the beginning and the end of the period. This amount is presented separately from cash flows from operating, investing and financing activities and includes the differences, if any, had those cash flows been reported at end of period exchange rates.

Interest and dividends

Cash flows from interest and dividends received and paid shall each be disclosed separately. Each shall be classified in a consistent manner from period to period as either operating, investing or financing activities.

The total amount of interest paid during a period is disclosed in the statement of

cash flows whether it has been recognised as an expense in profit or loss or capitalised in accordance with IAS 23 *Borrowing Costs*.

Interest paid and interest and dividends received are usually classified as operating cash flows for a financial institution. However, there is no consensus on the classification of these cash flows for other entities. Interest paid and interest and dividends received may be classified as operating cash flows because they enter into the determination of profit or loss. Alternatively, interest paid and interest and dividends received may be classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.

Dividends paid may be classified as a financing cash flow because they are a cost of obtaining financial resources. Alternatively, dividends paid may be classified as a component of cash flows from operating activities in order to assist users to determine the ability of an entity to pay dividends out of operating cash flows.

Taxes on income

Cash flows arising from taxes on income shall be separately disclosed and shall be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities.

Taxes on income arise on transactions that give rise to cash flows that are classified as operating, investing or financing activities in a statement of cash flows. While tax expense may be readily identifiable with investing or financing activities, the related tax cash flows are often impracticable to identify and may arise in a different period from the cash flows of the underlying transaction. Therefore, taxes paid are usually classified as cash flows from operating activities.

However, when it is practicable to identify the tax cash flow with an individual transaction that gives rise to cash flows that are classified as investing or financing activities the tax cash flow is classified as an investing or financing activity as appropriate. When tax cash flows are allocated over more than one class of activity, the total amount of taxes paid is disclosed.

Investments in subsidiaries, associates and joint ventures

When accounting for an investment in an associate, a joint venture or a subsidiary accounted for by use of the equity or cost method, an investor restricts its reporting in the statement of cash flows to the cash flows between itself and the investee, for example, to dividends and advances.

An entity that reports its interest in an associate or a joint venture using the equity method includes in its statement of cash flows the cash flows in respect of its investments in the associate or joint venture, and distributions and other payments or receipts between it and the associate or joint venture.

Changes in ownership interests in subsidiaries and other businesses The aggregate cash flows arising from obtaining or losing control of subsidiaries or other businesses shall be presented separately and classified as investing activities.

An entity shall disclose, in aggregate, in respect of both obtaining and losing control of subsidiaries or other businesses during the period each of the following:

- (a) the total consideration paid or received;
- (b) the portion of the consideration consisting of cash and cash equivalents;
- (c) the amount of cash and cash equivalents in the subsidiaries or other businesses over which control is obtained or lost; and
- (d) the amount of the assets and liabilities other than cash or cash equivalents in the subsidiaries or other businesses over which control is obtained or lost, summarised by each major category.

The separate presentation of the cash flow effects of obtaining or losing control of subsidiaries or other businesses as single line items, together with the separate disclosure of the amounts of assets and liabilities acquired or disposed of, helps to distinguish those cash flows from the cash flows arising from the other operating, investing and financing activities. The cash flow effects of losing control are not deducted from those of obtaining control.

The aggregate amount of the cash paid or received as consideration for obtaining or losing control of subsidiaries or other businesses is reported in the statement of cash flows net of cash and cash equivalents acquired or disposed of as part of such transactions, events or changes in circumstances.

A Cash flows arising from changes in ownership interests in a subsidiary that do not result in a loss of control shall be classified as cash flows from financing activities.

Changes in ownership interests in a subsidiary that do not result in a loss of control, such as the subsequent purchase or sale by a parent of a subsidiary's equity instruments, are accounted for as equity transactions (see IFRS 10 *Consolidated Financial Statements*). Accordingly, the resulting cash flows are classified in the same way as other transactions with owners described

Non-cash transactions

Investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from a statement of cash flows. Such transactions shall be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.

Many investing and financing activities do not have a direct impact on current cash flows although they do affect the capital and asset structure of an entity. The exclusion of non-cash transactions from the statement of cash flows is consistent with the objective of a statement of cash flows as these items do not involve cash flows in the current period. Examples of non-cash transactions are:

- (a) the acquisition of assets either by assuming directly related liabilities or by means of a finance lease;
- (b) the acquisition of an entity by means of an equity issue; and
- (c) the conversion of debt to equity.

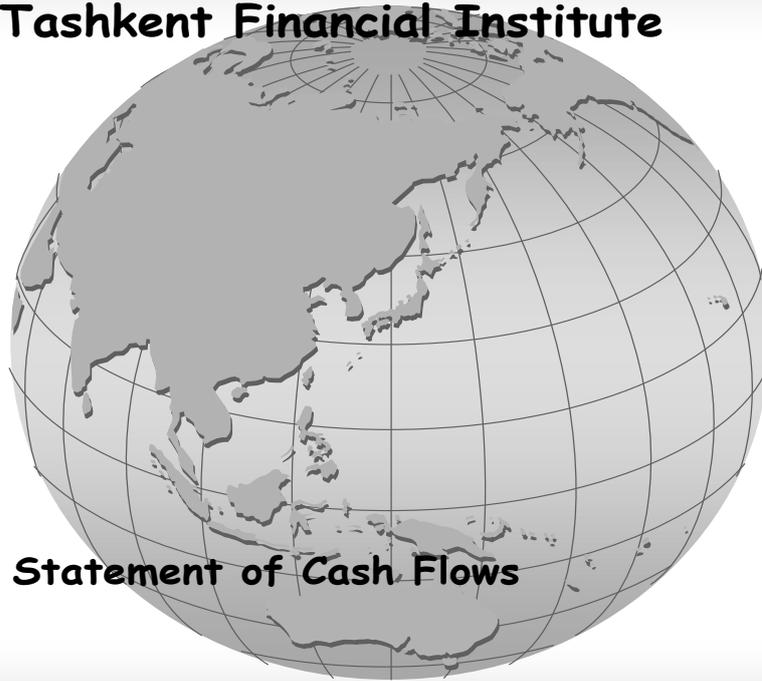
Components of cash and cash equivalents

An entity shall disclose the components of cash and cash equivalents and shall present a reconciliation of the amounts in its statement of cash flows with the equivalent items reported in the statement of financial position.

In view of the variety of cash management practices and banking arrangements around the world and in order to comply with IAS 1 *Presentation of Financial Statements*, an entity discloses the policy which it adopts in determining the composition of cash and cash equivalents.

The effect of any change in the policy for determining components of cash and cash equivalents, for example, a change in the classification of financial instruments previously considered to be part of an entity's investment portfolio, is reported in accordance with IAS 8 *Accounting Policies, Changes in Accounting*

International Financial Reporting Standards Tashkent Financial Institute



- **IAS7 Statement of Cash Flows**

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IAS 7 Statement of Cash Flows

Objectives:

• To report the changes **in cash and cash equivalents** by a statement of cash flows in terms of:

- Operating Activities;
- Investing Activities; and
- Financing Activities.



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IAS 7 Statement of Cash Flows

Cash & Cash Equivalent:

•Cash equivalent includes:

- Bank overdraft
- Near-term investment held for less than 3 months (cash management purpose)

•Cash equivalent does not include:

- Instruments held for investment purposes
- Debt instruments with a maturity date more than 3 months



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IAS 7 Statement of Cash Flows

Cash & Cash Equivalent:

•Case

-XYZ Inc. as part of its cash management activities, invested \$10M in short-term bonds which will be redeemed within three months. To do so, XYZ instructed its bank to use its time deposit with the bank.

-Determine how XYZ would treat in its cash flow statement the cash outflow resulting from the investment of the funds in the 3 month bonds and cash inflow resulting from the withdrawal of funds from the bank.

(Wiley IFRS Practical Implementation Guide & Workbook 2nd Edition/ Abbas, Magnus & Graham)



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IAS 7 Statement of Cash Flows

Direct vs. Indirect Method:

•For the presentation of the cash flows from operating activities, "entities are encouraged to report cash flows from operating activities using **the direct method.**"

| <u>Direct Method</u> | | <u>Indirect Method</u> | |
|--|------|------------------------------------|------|
| Cash Received from customers | \$95 | Profit reported | \$9 |
| Cash paid to suppliers of goods and services | -50 | Adjustments: | |
| Cash paid to employees | -28 | Depreciation | 10 |
| Income taxes paid | -5 | Increase in account receivable | -12 |
| | | Increase in account payable | 5 |
| Net cash from operating activities | \$12 | Net cash from operating activities | \$12 |

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IAS 7 Statement of Cash Flows

Direct vs. Indirect Method:

Example:

From the paper test at the time of selection:

Cash Flow Statements for the month of November 2012

| (\$) Indirect Format | |
|--------------------------------------|-----|
| Cash Flow from Operating Activities: | |
| Profit | 200 |
| Inc. in A/C Pay | 300 |
| Net Cash from Operating Activities | 500 |

| | |
|--------------------------------------|-------|
| Cash Flow from Investing activities: | |
| Purchase of equipment | (500) |
| Net Cash from Investing Activities | (500) |

| | |
|--------------------------------------|-------|
| Cash Flow from Financing activities: | |
| Cash from a owner | 1,000 |
| Cash from a bank borrowings | 500 |
| Net Cash from Financing Activities | 1,500 |

| | |
|---------------------------------|-------|
| Net Change in Cash | 1,500 |
| Cash Balance as of Nov.1,2012 | 0 |
| Cash Balance as of Nov.30, 2012 | 1,500 |

Cash Flow Statements for the month of November 2012

| (\$) Direct Format | |
|--------------------------------------|-----|
| Cash Flow from Operating activities: | |
| Cash from sales proceeds | 500 |
| Net Cash from Operating Activities | 500 |

| | |
|--------------------------------------|-------|
| Cash Flow from Investing activities: | |
| Purchase of equipment | (500) |
| Net Cash from Investing Activities | (500) |

| | |
|--------------------------------------|-------|
| Cash Flow from Financing activities: | |
| Cash from a owner | 1,000 |
| Cash from a bank borrowings | 500 |
| Net Cash from Financing Activities | 1,500 |

| | |
|---------------------------------|-------|
| Net Change in Cash | 1,500 |
| Cash Balance as of Nov.1,2012 | 0 |
| Cash Balance as of Nov.30, 2012 | 1,500 |



IAS 7 Statement of Cash Flows

Direct vs. Indirect Method:

Rule of thumb: Increase in assets → Negative effect to cash

Increase in liabilities → Positive effect to cash

| Balance Sheet as of Nov. 30, 2012 | | | | | Income Statement for the month of November 2012 | | | |
|-----------------------------------|---------|--------|--------|--------------------|---|---------|--------|------|
| (\$) | Oct. 31 | Nov.30 | Change | | (\$) | Accrual | Adjust | Cash |
| Assets: | | | | | | | | |
| Cash | 0 | 1,500 | 1,500 | | Sales | 500 | 0 | 500 |
| Equipment | 0 | 500 | (500) | Investing Activity | Cost of Goods Sold | (300) | 300 | 0 |
| Total Assets | 0 | 2,000 | 1,000 | | Profit | 200 | 300 | 500 |
| Liabilities/OE | | | | | | | | |
| A/C Payable | 0 | 300 | 300 | Operating Activity | | | | |
| Debt | 0 | 500 | 500 | Financing Activity | | | | |
| Paid in capital | 0 | 1,000 | 1,000 | Financing Activity | | | | |
| Retained earnings | 0 | 200 | 200 | Operating Activity | | | | |
| Total liabilities + OE | 0 | 2,000 | 2,000 | | | | | |

| Cash Flow Statements for the month of November 2012 | | | | Cash Flow Statements for the month of November 2012 | | | |
|---|--------------------------------------|-----|--|---|--------------------------------------|-----|--|
| (\$) | Indirect Format | | | (\$) | Direct Format | | |
| | | | | | | | |
| | Cash Flow from Operating Activities: | | | | Cash Flow from Operating activities: | | |
| | Profit | 200 | | | Cash from sales | 500 | |
| | Inc. in A/C Pay | 300 | | | | | |
| | Net Cash from Ope | 500 | | | Net Cash from Ope | 500 | |

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IAS 7 Statement of Cash Flows

Business Activities:

•Operating Activities

- Principal revenue producing activities

•Investing Activities

- Acquisition and disposal of long-term assets and other investments not included in cash equivalents

•Financing Activities

- Those that result in changes in size and composition of the contributed equity and borrowing of the entity



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IAS 7 Statement of Cash Flows

Quiz for Business Activities:

- For each of the following activities, please identify which activity it is, Operating, Financing or Investing Activity.
 1. Goods were shipped to a customer in a neighboring state.
 2. New manufacturing equipment was purchased for installation in the factory.
 3. Three new sales persons were hired.
 4. A loan was obtained from a local bank.
 5. A \$500 down payment on goods sold was received from a customer.
 6. The Human Resource department hired three new employees.
 7. The company worn-out delivery truck was sold out to the junk yard for \$400.
 8. The owner contributed more cash to business.
 9. Refunds totaling \$450 were given to several customers.
 10. The remaining balance of a loan was repaid in full.

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IAS 7 Statement of Cash Flows

Specific Items:

•Netting

- Generally, cash flows are reported on a gross basis.
 - Example, if an entity borrows \$100,000 from a bank, and purchased a land for \$120,000
 - Cash Flow from Investment Activities = \$(120,000)
 - Cash Flow from Financing Activities = \$100,000

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IAS 7 Statement of Cash Flows

Specific Items:

•Netting

- However, the following two cases can be netted out.
 - Payment/receipt of cash on behalf of customers. (e.g., Credit Card Company)
 - Payment/receipt of cash happens close together. (e.g., short-term loan, sub-leasing)
- Credit companies received cash of \$10M from the card holders, and paid \$7M to the member companies..
 - Cash Flow from Operating activities: \$3M collection from card holders, net of the payment to member companies.

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IAS 7 Statement of Cash Flows

Specific Items:

•Interest & Dividend

- Each shall be classified in a consistent manner from period to period as either **operating, investing or financing activities**.
- There are no consensus on the classification.
- Many companies account for
 - Dividend received = Operating Activities
 - Activities
 - Interest Received = Operating Activities
 - But the above can be accounted for as Financing Activities.

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IAS 7 Statement of Cash Flows

Specific Items:

•Non-cash Transactions

- Investing and financing transactions that have no cash flow effect are not included on the statement of cash flows.
- Examples:
 - Acquiring property with issuance of share capital
 - Conversion of debt to equity (i.e. convertible bond)

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IAS 7 Statement of Cash Flows

Specific Items:

•Quiz for Non-cash Transactions

Company A acquired Company B for \$10M on December 1, 2012. In order to acquire this company, Company A issued stocks of \$10M to the existing shareholders of Company B. How are these transactions accounted for in the statement of cash flows??

- a)Cash Flows from Investing Activities: \$(10)M/Financing: \$10M
- b)No reporting in the statement of Cash flows
- c)No reporting but disclosed in the note

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Income Taxes (International Accounting Standard 12)

Plan:

1. Objective, Definitions
2. Tax base, Assets carried at fair value
3. Reassessment of unrecognised deferred tax assets
4. Disclosure

Objective-The objective of this Standard is to prescribe the accounting treatment for income taxes. The principal issue in accounting for income taxes is how to account for the current and future tax consequences of:

- (a) the future recovery (settlement) of the carrying amount of assets (liabilities) that are recognised in an entity's statement of financial position; and
- (b) transactions and other events of the current period that are recognised in an entity's financial statements.

It is inherent in the recognition of an asset or liability that the reporting entity expects to recover or settle the carrying amount of that asset or liability. If it is probable that recovery or settlement of that carrying amount will make future tax payments larger (smaller) than they would be if such recovery or settlement were to have no tax consequences, this Standard requires an entity to recognise a deferred tax liability (deferred tax asset), with certain limited exceptions. This Standard requires an entity to account for the tax consequences of transactions and other events in the same way that it accounts for the transactions and other events themselves. Thus, for transactions and other events recognised in profit or loss, any related tax effects are also recognised in profit or loss. For transactions and other events recognised outside profit or loss (either in other comprehensive income or directly in equity), any related tax effects are also recognised outside profit or loss (either in other comprehensive income or directly in equity, respectively). Similarly, the recognition of deferred tax assets and liabilities in a business combination affects the amount of goodwill arising in that business combination or the amount of the bargain purchase gain recognised.

This Standard also deals with the recognition of deferred tax assets arising from unused tax losses or unused tax credits, the presentation of income taxes in the financial statements and the disclosure of information relating to income taxes.

Scope- This Standard shall be applied in accounting for income taxes. For the purposes of this Standard, income taxes include all domestic and foreign taxes which are based on taxable profits. Income taxes also include taxes, such as withholding taxes, which are payable by a subsidiary, associate or joint arrangement on distributions to the reporting entity.

This Standard does not deal with the methods of accounting for government grants (see IAS 20 *Accounting for Government Grants and*

Disclosure of Government Assistance) or investment tax credits. However, this Standard does deal with the accounting for temporary differences that may arise from such grants or investment tax credits.

Definitions

The following terms are used in this Standard with the meanings specified:

Accounting profit is profit or loss for a period before deducting tax expense.

Taxable profit (tax loss) is the profit (loss) for a period, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable (recoverable).

Tax expense (tax income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period.

Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences.

Deferred tax assets are the amounts of income taxes recoverable in future periods in respect of:

- (a) deductible temporary differences;
- (b) the carryforward of unused tax losses; and
- (c) the carryforward of unused tax credits.

Temporary differences are differences between the carrying amount of an asset or liability in the statement of financial position and its tax base. Temporary differences may be either:

(a) *taxable temporary differences*, which are temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled; or

(b) *deductible temporary differences*, which are temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.

The *tax base* of an asset or liability is the amount attributed to that asset or liability for tax purposes.

Tax expense (tax income) comprises current tax expense (current tax income) and deferred tax expense (deferred tax income).

Tax base

The tax base of an asset is the amount that will be deductible for tax purposes against any taxable economic benefits that will flow to an entity when it recovers the carrying amount of the asset. If those economic benefits will not be taxable, the tax base of the asset is equal to its carrying amount.

The tax base of a liability is its carrying amount, less any amount that will be deductible for tax purposes in respect of that liability in future periods. In the case of revenue which is received in advance, the tax base of the resulting

liability is its carrying amount, less any amount of the revenue that will not be taxable in future periods.

Where the tax base of an asset or liability is not immediately apparent, it is helpful to consider the fundamental principle upon which this Standard is based: that an entity shall, with certain limited exceptions, recognise a deferred tax liability (asset) whenever recovery or settlement of the carrying amount of an asset or liability would make future tax payments larger (smaller) than they would be if such recovery or settlement were to have no tax consequences. Example C following paragraph 51A illustrates circumstances when it may be helpful to consider this fundamental principle, for example, when the tax base of an asset or liability depends on the expected manner of recovery or settlement. In consolidated financial statements, temporary differences are determined by comparing the carrying amounts of assets and liabilities in the consolidated financial statements with the appropriate tax base. The tax base is determined by reference to a consolidated tax return in those jurisdictions in which such a return is filed. In other jurisdictions, the tax base is determined by reference to the tax returns of each entity in the group.

Assets carried at fair value

20 IFRSs permit or require certain assets to be carried at fair value or to be revalued (see, for example, IAS 16 *Property, Plant and Equipment*, IAS 38 *Intangible Assets*, IAS 40 *Investment Property* and IFRS 9 *Financial Instruments*). In some jurisdictions, the revaluation or other restatement of an asset to fair value affects taxable profit (tax loss) for the current period. As a result, the tax base of the asset is adjusted and no temporary difference arises. In other jurisdictions, the revaluation or restatement of an asset does not affect taxable profit in the period of the revaluation or restatement and, consequently, the tax base of the asset is not adjusted. Nevertheless, the future recovery of the carrying amount will result in a taxable flow of economic benefits to the entity and the amount that will be deductible for tax purposes will differ from the amount of those economic benefits. The difference between the carrying amount of a revalued asset and its tax base is a temporary difference and gives rise to a deferred tax liability or asset. This is true even if: (a) the entity does not intend to dispose of the asset. In such cases, the revalued carrying amount of the asset will be recovered through use and this will generate taxable income which exceeds the depreciation that will be allowable for tax purposes in future periods; or (b) tax on capital gains is deferred if the proceeds of the disposal of the asset

are invested in similar assets. In such cases, the tax will ultimately become payable on sale or use of the similar assets.

Goodwill-- Goodwill arising in a business combination is measured as the excess of (a) over (b) below:

(a) the aggregate of:

(i) the consideration transferred measured in accordance with IFRS 3, which generally requires acquisition-date fair value;

- (ii) the amount of any non-controlling interest in the acquiree recognised in accordance with IFRS 3; and
 - (iii) in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.
- (b) the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed measured in accordance with IFRS 3.

Many taxation authorities do not allow reductions in the carrying amount of goodwill as a deductible expense in determining taxable profit. Moreover, in such jurisdictions, the cost of goodwill is often not deductible when a subsidiary disposes of its underlying business. In such jurisdictions, goodwill has a tax base of nil. Any difference between the carrying amount of goodwill and its tax base of nil is a taxable temporary difference. However, this Standard does not permit the recognition of the resulting deferred tax liability because goodwill is measured as a residual and the recognition of the deferred tax liability would increase the carrying amount of goodwill.

Initial recognition of an asset or liability

A temporary difference may arise on initial recognition of an asset or liability, for example if part or all of the cost of an asset will not be deductible for tax purposes. The method of accounting for such a temporary difference depends on the nature of the transaction that led to the initial recognition of the asset or liability: (a) in a business combination, an entity recognises any deferred tax liability or asset and this affects the amount of goodwill or bargain purchase gain it recognises; (b) if the transaction affects either accounting profit or taxable profit, an entity recognises any deferred tax liability or asset and recognises the resulting deferred tax expense or income in profit or loss; (c) if the transaction is not a business combination, and affects neither accounting profit nor taxable profit, an entity would, in the absence of the exemption provided

In accordance with IAS 32 *Financial Instruments: Presentation* the issuer of a compound financial instrument (for example, a convertible bond) classifies the instrument's liability component as a liability and the equity component as equity. In some jurisdictions, the tax base of the liability component on initial recognition is equal to the initial carrying amount of the sum of the liability and equity components. The resulting taxable temporary difference arises from the initial recognition of the equity component separately from the liability component.

Unused tax losses and unused tax credits

A deferred tax asset shall be recognised for the carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.

The criteria for recognising deferred tax assets arising from the carryforward of

unused tax losses and tax credits are the same as the criteria for recognising deferred tax assets arising from deductible temporary differences. However, the existence of unused tax losses is strong evidence that future taxable profit may not be available. Therefore, when an entity has a history of recent losses, the entity recognises a deferred tax asset arising from unused tax losses or tax credits only to the extent that the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilised by the entity.

An entity considers the following criteria in assessing the probability that taxable profit will be available against which the unused tax losses or unused tax credits can be utilised:

- (a) whether the entity has sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, which will result in taxable amounts against which the unused tax losses or unused tax credits can be utilised before they expire;
- (b) whether it is probable that the entity will have taxable profits before the unused tax losses or unused tax credits expire;
- (c) whether the unused tax losses result from identifiable causes which are unlikely to recur; and
- (d) whether tax planning opportunities (see paragraph 30) are available to the entity that will create taxable profit in the period in which the unused tax losses or unused tax credits can be utilised.

To the extent that it is not probable that taxable profit will be available against which the unused tax losses or unused tax credits can be utilised, the deferred tax asset is not recognised.

Reassessment of unrecognised deferred tax assets

At the end of each reporting period, an entity reassesses unrecognised deferred tax assets. The entity recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. For example, an improvement in trading conditions may make it more probable that the entity will be able to generate sufficient taxable profit in the future for the deferred tax asset to meet the recognition criteria. Another example is when an entity reassesses deferred tax assets at the date of a business combination or subsequently.

Investments in subsidiaries, branches and associates and interests in joint arrangements Temporary differences arise when the carrying amount of investments in

subsidiaries, branches and associates or interests in joint arrangements (namely the parent or investor's share of the net assets of the subsidiary, branch, associate or investee, including the carrying amount of goodwill) becomes different from the tax base (which is often cost) of the investment or interest. Such differences may arise in a number of different circumstances, for example:

- (a) the existence of undistributed profits of subsidiaries, branches, associates and joint arrangements;

- (b) changes in foreign exchange rates when a parent and its subsidiary are based in different countries; and
- (c) a reduction in the carrying amount of an investment in an associate to its recoverable amount.

In consolidated financial statements, the temporary difference may be different from the temporary difference associated with that investment in the parent's separate financial statements if the parent carries the investment in its separate financial statements at cost or revalued amount.

An entity shall recognise a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements, except to the extent that both of the following conditions are satisfied:

- (a) the parent, investor, joint venturer or joint operator is able to control the timing of the reversal of the temporary difference; and
- (b) it is probable that the temporary difference will not reverse in the foreseeable future.

As a parent controls the dividend policy of its subsidiary, it is able to control the timing of the reversal of temporary differences associated with that investment (including the temporary differences arising not only from undistributed profits but also from any foreign exchange translation differences). Furthermore, it would often be impracticable to determine the amount of income taxes that would be payable when the temporary difference reverses. Therefore, when the parent has determined that those profits will not be distributed in the foreseeable future the parent does not recognise a deferred tax liability. The same considerations apply to investments in branches.

The non-monetary assets and liabilities of an entity are measured in its functional currency (see IAS 21 *The Effects of Changes in Foreign Exchange Rates*). If the entity's taxable profit or tax loss (and, hence, the tax base of its non-monetary assets and liabilities) is determined in a different currency, changes in the exchange rate give rise to temporary differences that result in a recognised deferred tax liability

An investor in an associate does not control that entity and is usually not in a position to determine its dividend policy. Therefore, in the absence of an agreement requiring that the profits of the associate will not be distributed in the foreseeable future, an investor recognises a deferred tax liability arising from taxable temporary differences associated with its investment in the associate. In some cases, an investor may not be able to determine the amount of tax that would be payable if it recovers the cost of its investment in an associate, but can determine that it will equal or exceed a minimum amount. In such cases, the deferred tax liability is measured at this amount.

The arrangement between the parties to a joint arrangement usually deals with the distribution of the profits and identifies whether decisions on such matters require the consent of all the parties or a group of the parties. When the

joint venturer or joint operator can control the timing of the distribution of its share of the profits of the joint arrangement and it is probable that its share of the profits will not be distributed in the foreseeable future, a deferred tax liability is not recognised.

An entity shall recognise a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries, branches and associates, and interests in joint arrangements, to the extent that, and only to the extent that, it is probable that:

- (a) the temporary difference will reverse in the foreseeable future; and
- (b) taxable profit will be available against which the temporary difference can be utilised.

Deferred tax assets and liabilities shall not be discounted.

The reliable determination of deferred tax assets and liabilities on a discounted basis requires detailed scheduling of the timing of the reversal of each temporary difference. In many cases such scheduling is impracticable or highly complex. Therefore, it is inappropriate to require discounting of deferred tax assets and liabilities. To permit, but not to require, discounting would result in deferred tax assets and liabilities which would not be comparable between entities. Therefore, this Standard does not require or permit the discounting of deferred tax assets and liabilities.

Temporary differences are determined by reference to the carrying amount of an asset or liability. This applies even where that carrying amount is itself determined on a discounted basis, for example in the case of retirement benefit obligations (see IAS 19 *Employee Benefits*).

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

Current and deferred tax arising from share-based payment transactions

A In some tax jurisdictions, an entity receives a tax deduction (ie an amount that is deductible in determining taxable profit) that relates to remuneration paid in shares, share options or other equity instruments of the entity. The amount of that tax deduction may differ from the related cumulative remuneration expense, and may arise in a later accounting period. For example, in some jurisdictions, an entity may recognise an expense for the consumption of employee services received as consideration for share options granted, in accordance with IFRS 2 *Share-based Payment*, and not receive a tax deduction until the share options are exercised, with the measurement of the tax deduction based on the entity's share price at the date of exercise.

Offset

An entity shall offset current tax assets and current tax liabilities if, and only if, the entity:

- (a) has a legally enforceable right to set off the recognised amounts; and
- (b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Although current tax assets and liabilities are separately recognised and measured they are offset in the statement of financial position subject to criteria similar to those established for financial instruments in IAS 32. An entity will normally have a legally enforceable right to set off a current tax asset against a current tax liability when they relate to income taxes levied by the same taxation authority and the taxation authority permits the entity to make or receive a single net payment.

In consolidated financial statements, a current tax asset of one entity in a group is offset against a current tax liability of another entity in the group if, and only if, the entities concerned have a legally enforceable right to make or receive a single net payment and the entities intend to make or receive such a net payment or to recover the asset and settle the liability simultaneously.

An entity shall offset deferred tax assets and deferred tax liabilities if, and only if:

- (a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
 - (i) the same taxable entity; or
 - (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

To avoid the need for detailed scheduling of the timing of the reversal of each temporary difference, this Standard requires an entity to set off a deferred tax asset against a deferred tax liability of the same taxable entity if, and only if, they relate to income taxes levied by the same taxation authority and the entity has a legally enforceable right to set off current tax assets against current tax liabilities.

In rare circumstances, an entity may have a legally enforceable right of set-off, and an intention to settle net, for some periods but not for others. In such rare circumstances, detailed scheduling may be required to establish reliably whether the deferred tax liability of one taxable entity will result in increased tax payments in the same period in which a deferred tax asset of another taxable entity will result in decreased payments by that second taxable entity.

Disclosure

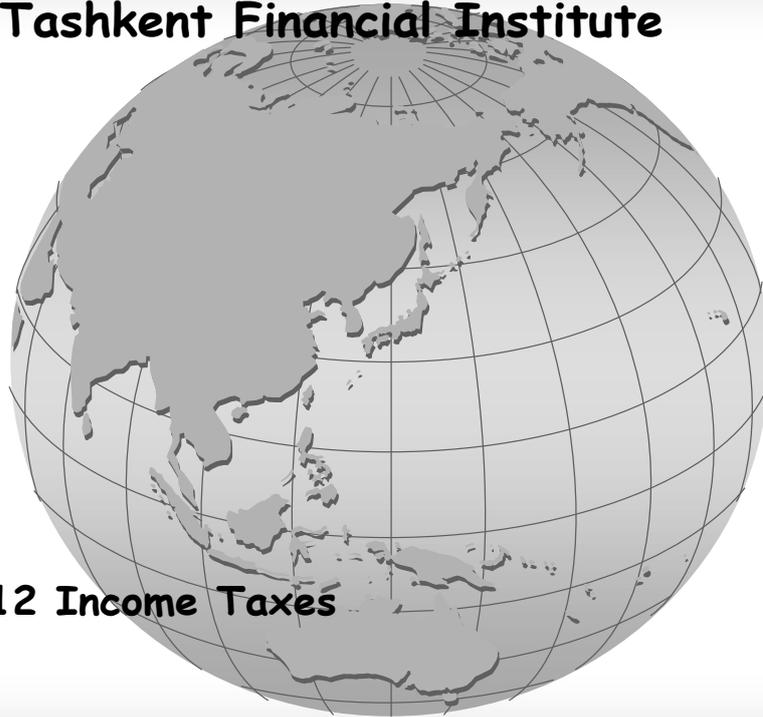
The major components of tax expense (income) shall be disclosed separately.

Components of tax expense (income) may include:

- (a) current tax expense (income);
- (b) any adjustments recognised in the period for current tax of prior periods;

- (c) the amount of deferred tax expense (income) relating to the origination and reversal of temporary differences;
- (d) the amount of deferred tax expense (income) relating to changes in tax rates or the imposition of new taxes;
- (e) the amount of the benefit arising from a previously unrecognised tax loss, tax credit or temporary difference of a prior period that is used to reduce current tax expense;
- (f) the amount of the benefit from a previously unrecognised tax loss, tax credit or temporary difference of a prior period that is used to reduce deferred tax expense;
- (g) deferred tax expense arising from the write-down, or reversal of a previous write-down, of a deferred tax asset in accordance
- (h) the amount of tax expense (income) relating to those changes in accounting policies and errors that are included in profit or loss in accordance with IAS 8, because they cannot be accounted for retrospectively.

International Financial Reporting Standards Tashkent Financial Institute



- **IAS 12 Income Taxes**

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IAS 12 Income Taxes

What is Income Tax Accounting?

- Entities prepare tax returns each year to determine the amount of tax payable (Tax base payable).
- On the other hand, entities prepares financial statements based on accounting rules, and determine the amount of tax payable (Accounting base payable).



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IAS 12 Income Taxes

Example

For financial reporting purpose, Company A earned the service revenue of \$1M in 2012. The expenses were \$600K. With the effective tax rate of 30%, the Accounting base payable is \$120K.

For tax return purpose, \$100K of the service revenue will be shifted from 2012 taxable income to 2013 taxable income since they will be recognized based on cash receipt basis. The Tax base payable is \$90K.

For financial reporting purpose, the delta of \$30K will be recognized as deferred tax expense and liability.

| | | | |
|-----------------------------|----------|----------|--|
| Dr. Current Tax Expense(E) | \$90,000 | | |
| Deferred Tax Expense (E) | \$30,000 | | |
| Cr. Current Tax Payable (L) | | \$90,000 | |
| Deferred Tax Liability(L) | | \$30,000 | |



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IAS 12 Income Taxes

Example

For financial reporting purpose, Company A earned the service revenue of \$1M in 2012. The expenses were \$600K. With the effective tax rate of 30%, the Accounting base payable is \$120K.

For tax return purpose, \$100K of the expenses must be excluded from taxable income in 2012 as they will be recognized based on cash receipt basis. The Tax base payable is \$150K.

For financial reporting purpose, the delta of \$30K will be recognized as deferred tax asset and the deferred tax expense will be credited.

| | | | |
|-----------------------------|-----------|-----------|--|
| Dr. Current Tax Expense(E) | \$150,000 | | |
| Deferred Tax Asset (A) | \$30,000 | | |
| Cr. Current Tax Payable (L) | | \$150,000 | |
| Deferred Tax Expense(E) | | \$30,000 | |



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Again...B/S

- IAS 12 uses a balance sheet approach, instead of using revenue and expense in an income statement.
- The recovery of an asset in future results in the entity having to pay additional tax, this effect must be recognized as a deferred tax liability. (Increase in assets ... Increase in taxable income...More tax expense)
- The settlement of a liability in future results in the entity paying less tax, this effect must be recognized as a deferred tax asset. (Increase in liability ...Decrease in taxable income....less tax expense)



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Tax Base vs. Accounting Base as Rule of Thumb

- **Accounting base**
 - The carrying amount of assets and liabilities in an entity's balance sheet for financial accounting purposes.
- **Tax base**
 - The value of assets or liabilities which are currently taxable or deductible for tax purposes.



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IAS 12 Income Taxes

Tax base

• A machine cost 100. For tax purposes, depreciation of 30 has already been deducted in the current and prior periods and the remaining cost will be deductible in future periods.

• *Suppose the entity needs to be liquidated now, what is the taxable value for this machine for tax purposes?*

• *The tax base of the machine is 70.*

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IAS 12 Income Taxes

Tax base

• Interest receivable has a carrying amount of 100. The related interest revenue will be taxed on a cash basis.

• *Suppose the entity needs to be liquidated now, what is the taxable value for this interest receivable for tax purposes?*

• *The tax base of the interest receivable is nil.*

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IAS 12 Income Taxes

Tax base

• Trade receivables have a carrying amount of 100. The related revenue has already been included in taxable profit (or tax loss).

• *Suppose the entity needs to be liquidated now, what is the deductible value for this trade receivables for tax purposes?*

• *As it was already taken into account for tax purposes, it will be deducted from the taxable income. As such, the tax base of the trade receivables is 100.*

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IAS 12 Income Taxes

Tax base

• Dividends receivable from a subsidiary have a carrying amount of 100. The dividends are not taxable.

• *Suppose the entity needs to be liquidated now, what is the deductible value for this dividend receivables for tax purposes?*

• *The dividend receivable will be deducted from the taxable income. Consequently, the tax base of the dividends receivable is 100.*

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IAS 12 Income Taxes

Tax base

• Current liabilities include accrued expenses with a carrying amount of 100. The related expense will be deducted for tax purposes on a cash basis.

• *Suppose the entity needs to be liquidated now, what is the deductible value for this accrued expenses for tax purposes?*

• It cannot be deducted from the taxable income. Therefore, *the tax base of the accrued expenses is nil.*

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IAS 12 Income Taxes

Tax base

• Current liabilities include interest revenue received in advance, with a carrying amount of 100. The related interest revenue was taxed on a cash basis.

• *Suppose the entity needs to be liquidated now, what is the taxable value for this interest revenue received in advance for tax purposes?*

• *As it was already taxed for tax purposes, the tax base of the interest received in advance is nil.*

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IAS 12 Income Taxes

Tax base

• Current liabilities include accrued fines and penalties with a carrying amount of 100. Fines and penalties are not deductible for tax purposes.

• *Suppose the entity needs to be liquidated now, what is the taxable value for this accrued fines and penalties for tax purposes?*

• *As it is not deductible from the taxable income, and is added to the taxable income. The tax base of the accrued fines and penalties is 100.*

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IAS 12 Income Taxes

Tax Base vs. Accounting Base as Rule of Thumb

• Why might there be future tax consequence?

- **Accounting base** - the carrying amount of assets and liabilities.



DIFFERENT



- **Tax base** - the carrying amount of assets and liabilities.



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IAS 12 Income Taxes

Tax Base vs. Accounting Base as Rule of Thumb

- Accounting base of assets > Tax base of assets
 - **Deferred Tax Liability to be recognized**
- Accounting base of liabilities > Tax base of liabilities
 - **Deferred Tax Assets to be recognized**



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IAS 12 Income Taxes

Tax Base vs. Accounting Base as Rule of Thumb

- Accounting base of assets < Tax base of assets
 - **Deferred Tax Assets to be recognized**
- Accounting base of liabilities < Tax base of liabilities
 - **Deferred Tax Liabilities to be recognized**



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Tax Base vs. Accounting Base as Rule of Thumb

| Accounting Base | | Tax Base | | DTL or DTA* |
|-----------------|---|---|----|-------------|
| Assets | > | Assets | => | DTL |
| Assets | < | Assets | => | DTA |
| Assets | = | Assets | => | No entries |
| Liabilities | > | Liabilities | => | DTA |
| Liabilities | < | Liabilities | => | DTL |
| Liabilities | = | Liabilities | => | No entries |
| | * | DTL = Deferred Tax Liabilities DTA = Deferred Tax Assets | | |

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IAS 12 Income Taxes

Examples

• Accounting base asset > Tax base asset

- Trade A/C Receivable to customer A
 - Accounting \$1,000K (per accrual basis)
 - Tax 0 (per cash basis)

• Deferred Tax Liability

- $(\$1,000K - \$0) \times 30\% = \$300K$
 - Dr. Deferred Tax Expense \$300K
 - Cr. Deferred Tax Liability \$300K



At the time that the customer A paid cash, tax consequence takes place.

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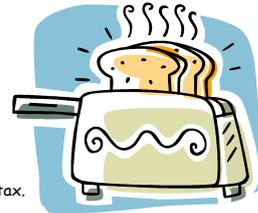
Examples

• Accounting base asset < Tax base asset

- Delivery truck carrying value
 - Accounting \$700K (per straight-line depreciation)
 - Tax \$1,000K (per double-declining balance)

• Deferred Tax Asset

- $(\$700K - \$1,000K) \times 30\% = -\$90K$
 - Dr. Deferred Tax Asset \$90K
 - Cr. Deferred Tax Expense \$90K



If the delivery van is sold next fiscal year, then, the difference of \$300K is subject to reduction in tax.

Examples

• Accounting base liability > Tax base liability

- Wage Payable to President of Company A
 - Accounting \$1,000K (per accrual basis)
 - Tax 0K (per cash basis)

• Deferred Tax Asset

- $(\$1,000K - \$0) \times 30\% = \$300K$
 - Dr. Deferred Tax Asset \$300K
 - Cr. Deferred Tax Expense \$300K



When the wage is paid to the president in future, the tax expense be credited.

Examples

• Accounting base liability < Tax base liability

- The research & development liability
 - Accounting \$800K (per accrual basis)
 - Tax \$1,000K (per special tax rule)

• Deferred Tax Liability

- $(\$800K - \$1,000K) \times 30\% = -\$60K$
 - Dr. Deferred Tax Expense \$60K
 - Cr. Deferred Tax Liability \$60K

If the delivery van is sold next fiscal year, then, the difference of \$300K is subject to reduction in tax.



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Examples

• Accounting base asset = Tax base asset

- The dividend receivable
 - Accounting \$1,000K (no tax imposed)
 - Tax \$1,000K (no tax imposed)

• No Deferred Tax Liability or Deferred Tax Asset

- $(\$1,000K - \$1,000K) \times 30\% = -\$0$



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Examples

- Accounting base liability = Tax base liability
 - The penalty fee imposed for delinquent tax payment
 - Accounting \$800K (no tax deductible)
 - Tax \$800K (no tax deductible)
- No Deferred Tax Liability or Deferred Tax Asset
 - $(\$800K - \$800) \times 30\% = -\$0$



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Summary of Accounting Process for Deferred Tax

- Determine the tax base of the assets and liabilities in B/S.
- Compare the carrying amount in the balance sheet with the tax base.
- Identify the temporary differences.
- Apply the tax rate to the temporary differences.
- Determine the change between opening & closing deferred tax balance.
- Recognize the net change in deferred taxation.



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Property, Plant and Equipment (International Accounting Standard 16)

Plan:

1. Objective, Definitions
2. Initial costs
3. Measurement at recognition
4. Depreciation

Objective The objective of this Standard is to prescribe the accounting treatment for property, plant and equipment so that users of the financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such investment. The principal issues in accounting for property, plant and equipment are the recognition of the assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognised in relation to them.

Scope This Standard shall be applied in accounting for property, plant and equipment except when another Standard requires or permits a different accounting treatment.

This Standard does not apply to:

- (a) property, plant and equipment classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*;
- (b) biological assets related to agricultural activity (see IAS 41 *Agriculture*);
- (c) the recognition and measurement of exploration and evaluation assets (see IFRS 6 *Exploration for and Evaluation of Mineral Resources*); or
- (d) mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources.

However, this Standard applies to property, plant and equipment used to develop or maintain the assets described in (b)–(d).

Other Standards may require recognition of an item of property, plant and equipment based on an approach different from that in this Standard. For example, IAS 17 *Leases* requires an entity to evaluate its recognition of an item of leased property, plant and equipment on the basis of the transfer of risks and rewards. However, in such cases other aspects of the accounting treatment for these assets, including depreciation, are prescribed by this Standard.

An entity using the cost model for investment property in accordance with IAS 40 *Investment Property* shall use the cost model in this Standard.

Definitions

The following terms are used in this Standard with the meanings specified:

Carrying amount is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other IFRSs, eg IFRS 2 *Share-based Payment*.

Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

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

Entity-specific value is the present value of the cash flows an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.

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. (See IFRS 13 *Fair Value Measurement*.)

An *impairment loss* is the amount by which the carrying amount of an asset exceeds its recoverable amount.

Property, plant and equipment are tangible items that:

- (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- (b) are expected to be used during more than one period.

Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

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

Useful life is:

- (a) the period over which an asset is expected to be available for use by an entity; or
- (b) the number of production or similar units expected to be obtained from the asset by an entity.

Recognition - The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

- (a) it is probable that future economic benefits associated with the item will flow to the entity; and
- (b) the cost of the item can be measured reliably.

Spare parts and servicing equipment are usually carried as inventory and recognised in profit or loss as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when an entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

This Standard does not prescribe the unit of measure for recognition, ie what constitutes an item of property, plant and equipment. Thus, judgement is required in applying the recognition criteria to an entity's specific circumstances. It may be appropriate to aggregate individually insignificant items, such as moulds, tools and dies, and to apply the criteria to the aggregate value. An

entity evaluates under this recognition principle all its property, plant and equipment costs at the time they are incurred. These costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it.

Initial costs

Items of property, plant and equipment may be acquired for safety or environmental reasons. The acquisition of such property, plant and equipment, although not directly increasing the future economic benefits of any particular existing item of property, plant and equipment, may be necessary for an entity to obtain the future economic benefits from its other assets. Such items of property, plant and equipment qualify for recognition as assets because they enable an entity to derive future economic benefits from related assets in excess of what could be derived had those items not been acquired. For example, a chemical manufacturer may install new chemical handling processes to comply with environmental requirements for the production and storage of dangerous chemicals; related plant enhancements are recognised as an asset because without them the entity is unable to manufacture and sell chemicals. However, the resulting carrying amount of such an asset and related assets is reviewed for impairment in accordance with IAS 36 *Impairment of Assets*.

Subsequent costs

Under the recognition principle in paragraph 7, an entity does not recognise in the carrying amount of an item of property, plant and equipment the costs of the day-to-day servicing of the item. Rather, these costs are recognised in profit or loss as incurred. Costs of day-to-day servicing are primarily the costs of labour and consumables, and may include the cost of small parts. The purpose of these expenditures is often described as for the ‘repairs and maintenance’ of the item of property, plant and equipment.

Parts of some items of property, plant and equipment may require replacement at regular intervals. For example, a furnace may require relining after a specified number of hours of use, or aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe. Items of property, plant and equipment may also be acquired to make a less frequently recurring replacement, such as replacing the interior walls of a building, or to make a nonrecurring replacement. Under the recognition principle in paragraph 7, an entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognised in accordance with the deracination provisions.

A condition of continuing to operate an item of property, plant and equipment (for example, an aircraft) may be performing regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognised in the carrying amount of the item of property, plant and equipment as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous

inspection (as distinct from physical parts) is derecognised. This occurs regardless of whether the cost of the previous inspection was identified in the transaction in which the item was acquired or constructed. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired or constructed.

Measurement at recognition

An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost.

Elements of cost - The cost of an item of property, plant and equipment comprises:

- (a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- (b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- (c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Examples of directly attributable costs are:

- (a) costs of employee benefits (as defined in IAS 19 *Employee Benefits*) arising directly from the construction or acquisition of the item of property, plant and equipment;
- (b) costs of site preparation;
- (c) initial delivery and handling costs;
- (d) installation and assembly costs;
- (e) costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment); and
- (f) professional fees.

An entity applies IAS 2 *Inventories* to the costs of obligations for dismantling, removing and restoring the site on which an item is located that are incurred during a particular period as a consequence of having used the item to produce inventories during that period. The obligations for costs accounted for in accordance with IAS 2 or IAS 16 are recognised and measured in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Examples of costs that are not costs of an item of property, plant and equipment are:

- (a) costs of opening a new facility;
- (b) costs of introducing a new product or service (including costs of advertising and promotional activities);
- (c) costs of conducting business in a new location or with a new class of customer (including costs of staff training); and

(d) administration and other general overhead costs.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an item are not included in the carrying amount of that item. For example, the following costs are not included in the carrying amount of an item of property, plant and equipment:

(a) costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity;

(b) initial operating losses, such as those incurred while demand for the item's output builds up; and

(c) costs of relocating or reorganising part or all of an entity's operations.

Some operations occur in connection with the construction or development of an item of property, plant and equipment, but are not necessary to bring the item to the location and condition necessary for it to be capable of operating in the manner intended by management. These incidental operations may occur before or during the construction or development activities. For example, income may be earned through using a building site as a car park until construction starts. Because incidental operations are not necessary to bring an item to the location and condition necessary for it to be capable of operating in the manner intended by management, the income and related expenses of incidental operations are recognised in profit or loss and included in their respective classifications of income and expense.

The cost of a self-constructed asset is determined using the same principles as for an acquired asset. If an entity makes similar assets for sale in the normal course of business, the cost of the asset is usually the same as the cost of constructing an asset for sale (see IAS 2). Therefore, any internal profits are eliminated in arriving at such costs. Similarly, the cost of abnormal amounts of wasted material, labour, or other resources incurred in self-constructing an asset is not included in the cost of the asset. IAS 23 *Borrowing Costs* establishes criteria for the recognition of interest as a component of the carrying amount of a self-constructed item of property, plant and equipment.

Measurement of cost

The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit unless such interest is capitalised in accordance with IAS 23.

One or more items of property, plant and equipment may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers simply to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such an item of property, plant

and equipment is measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. The acquired item is measured in this way even if an entity cannot immediately derecognise the asset given up. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows are expected to change as a result of the transaction. An exchange transaction has commercial substance if:

- (a) the configuration (risk, timing and amount) of the cash flows of the asset received differs from the configuration of the cash flows of the asset transferred; or
- (b) the entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange; and
- (c) the difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

For the purpose of determining whether an exchange transaction has commercial substance, the entity-specific value of the portion of the entity's operations affected by the transaction shall reflect post-tax cash flows. The result of these analyses may be clear without an entity having to perform detailed calculations.

The fair value of an asset is reliably measurable if (a) the variability in the range of reasonable fair value measurements is not significant for that asset or (b) the probabilities of the various estimates within the range can be reasonably assessed and used when measuring fair value. If an entity is able to measure reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident.

The cost of an item of property, plant and equipment held by a lessee under a finance lease is determined in accordance with IAS 17.

The carrying amount of an item of property, plant and equipment may be reduced by government grants in accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*.

Measurement after recognition

An entity shall choose either the cost model in paragraph 30 or the revaluation model in paragraph 31 as its accounting policy and shall apply that policy to an entire class of property, plant and equipment.

Cost model-After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Revaluation model - After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any

subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

The frequency of revaluations depends upon the changes in fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required. Some items of property, plant and equipment experience significant and volatile changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only every three or five years.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is treated in one of the following ways: (a) restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. This method is often used when an asset is revalued by means of applying an index to determine its depreciated replacement cost (see IFRS 13).

(b) eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. This method is often used for buildings. The amount of the adjustment arising on the restatement or elimination of accumulated depreciation forms.

If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.

A class of property, plant and equipment is a grouping of assets of a similar nature and use in an entity's operations. The following are examples of separate classes:

- (a) land;
- (b) land and buildings;
- (c) machinery;
- (d) ships;
- (e) aircraft;
- (f) motor vehicles;
- (g) furniture and fixtures; and
- (h) office equipment.

The items within a class of property, plant and equipment are revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates. However, a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date.

If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in

equity under the heading of revaluation surplus. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall be recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.

The revaluation surplus included in equity in respect of an item of property, plant and equipment may be transferred directly to retained earnings when the asset is derecognised. This may involve transferring the whole of the surplus when the asset is retired or disposed of. However, some of the surplus may be transferred as the asset is used by an entity. In such a case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Transfers from revaluation surplus to retained earnings are not made through profit or loss.

The effects of taxes on income, if any, resulting from the revaluation of property, plant and equipment are recognised and disclosed in accordance with IAS 12 *Income Taxes*.

Depreciation

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

An entity allocates the amount initially recognised in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. For example, it may be appropriate to depreciate separately the airframe and engines of an aircraft, whether owned or subject to a finance lease. Similarly, if an entity acquires property, plant and equipment subject to an operating lease in which it is the lessor, it may be appropriate to depreciate separately amounts reflected in the cost of that item that are attributable to favourable or unfavourable lease terms relative to market terms.

A significant part of an item of property, plant and equipment may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge. To the extent that an entity depreciates separately some parts of an item of property, plant and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts of the item that are individually not significant. If an entity has varying expectations for these parts, approximation techniques may be necessary to depreciate the remainder in a manner that faithfully represents the consumption pattern and/or useful life of its parts. An entity may choose to depreciate separately the parts of an item that do not have a cost that is significant in relation to the total cost of the item.

The depreciation charge for each period shall be recognised in profit or loss unless it is included in the carrying amount of another asset.

The depreciation charge for a period is usually recognised in profit or loss. However, sometimes, the future economic benefits embodied in an asset are absorbed in producing other assets. In this case, the depreciation charge constitutes part of the cost of the other asset and is included in its carrying amount. For example, the depreciation of manufacturing plant and equipment is included in the costs of conversion of inventories (see IAS 2). Similarly, depreciation of property, plant and equipment used for development activities may be included in the cost of an intangible asset recognised in accordance with IAS 38 *Intangible Assets*.

Depreciable amount and depreciation period

The depreciable amount of an asset shall be allocated on a systematic basis over its useful life. The residual value and the useful life of an asset shall be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and*

Errors.

Depreciation is recognised even if the fair value of the asset exceeds its carrying amount, as long as the asset's residual value does not exceed its carrying amount. Repair and maintenance of an asset do not negate the need to depreciate it. The depreciable amount of an asset is determined after deducting its residual value. In practice, the residual value of an asset is often insignificant and therefore immaterial in the calculation of the depreciable amount.

The residual value of an asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's depreciation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

Depreciation of an asset begins when it is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IFRS 5 and the date that the asset is derecognised. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. However, under usage methods of depreciation the depreciation charge can be zero while there is no production.

The future economic benefits embodied in an asset are consumed by an entity principally through its use. However, other factors, such as technical or commercial obsolescence and wear and tear while an asset remains idle, often result in the diminution of the economic benefits that might have been obtained from the asset. Consequently, all the following factors are considered in determining the useful life of an asset:

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

The useful life of an asset is defined in terms of the asset's expected utility to the entity. The asset management policy of the entity may involve the disposal of assets after a specified time or after consumption of a specified proportion of the future economic benefits embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of the asset is a matter of judgement based on the experience of the entity with similar assets.

Land and buildings are separable assets and are accounted for separately, even when they are acquired together. With some exceptions, such as quarries and sites used for landfill, land has an unlimited useful life and therefore is not depreciated. Buildings have a limited useful life and therefore are depreciable assets. An increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of the building.

If the cost of land includes the costs of site dismantlement, removal and restoration, that portion of the land asset is depreciated over the period of benefits obtained by incurring those costs. In some cases, the land itself may have a limited useful life, in which case it is depreciated in a manner that reflects the benefits to be derived from it.

Depreciation method

The depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. The depreciation method applied to an asset shall be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with IAS 8.

A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the units of production method. Straight-line depreciation results in a constant charge over the useful life if the asset's residual value does not change. The diminishing balance method results in a decreasing charge over the useful life. The units of production method results in a charge based on the expected use or output.

The entity selects the method that most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. That method is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits.

Impairment

To determine whether an item of property, plant and equipment is impaired, an entity applies IAS 36 *Impairment of Assets*. That Standard explains how an entity reviews the carrying amount of its assets, how it determines the recoverable amount of an asset, and when it recognises, or reverses the recognition of, an impairment loss.

Compensation for impairment

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up shall be included in profit or loss when the compensation becomes receivable. Impairments or losses of items of property, plant and equipment, related claims for or payments of compensation from third parties and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for separately as follows:

- (a) impairments of items of property, plant and equipment are recognised in accordance with IAS 36;
- (b) derecognition of items of property, plant and equipment retired or disposed of is determined in accordance with this Standard;
- (c) compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in determining profit or loss when it becomes receivable; and
- (d) the cost of items of property, plant and equipment restored, purchased or constructed as replacements is determined in accordance with this Standard.

Derecognition

The carrying amount of an item of property, plant and equipment shall be derecognised:

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

The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in profit or loss when the item is derecognised (unless IAS 17 requires otherwise on a sale and leaseback). Gains shall not be classified as revenue.

However, an entity that, in the course of its ordinary activities, routinely sells items of property, plant and equipment that it has held for rental to others shall transfer such assets to inventories at their carrying amount when they cease to be rented and become held for sale. The proceeds from the sale of such assets shall be recognised as revenue in accordance with IAS 18 *Revenue*. IFRS 5 does not apply when assets that are held for sale in the ordinary course of business are transferred to inventories.

The disposal of an item of property, plant and equipment may occur in a variety of ways (eg by sale, by entering into a finance lease or by donation). In determining the date of disposal of an item, an entity applies the criteria in IAS

18 for recognising revenue from the sale of goods. IAS 17 applies to disposal by a sale and leaseback.

If, under the recognition principle in paragraph 7, an entity recognises in the carrying amount of an item of property, plant and equipment the cost of a replacement for part of the item, then it derecognises the carrying amount of the replaced part regardless of whether the replaced part had been depreciated separately. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed.

The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

The consideration receivable on disposal of an item of property, plant and equipment is recognised initially at its fair value. If payment for the item is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue in accordance with IAS 18 reflecting the effective yield on the receivable.

Disclosure

The financial statements shall disclose, for each class of property, plant and equipment:

- (a) the measurement bases used for determining the gross carrying amount;
- (b) the depreciation methods used;
- (c) the useful lives or the depreciation rates used;
- (d) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and
- (e) a reconciliation of the carrying amount at the beginning and end of the period showing:
 - (i) additions;
 - (ii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with IFRS 5 and other disposals;
 - (iii) acquisitions through business combinations;
 - (iv) increases or decreases resulting from revaluations
 - (v) impairment losses recognised in profit or loss in accordance with IAS 36;
 - (vi) impairment losses reversed in profit or loss in accordance with IAS 36;
 - (vii) depreciation;
 - (viii) the net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity; and
 - (ix) other changes.

The financial statements shall also disclose:

- (a) the existence and amounts of restrictions on title, and property, plant and equipment pledged as security for liabilities;
- (b) the amount of expenditures recognised in the carrying amount of an item of property, plant and equipment in the course of its construction;
- (c) the amount of contractual commitments for the acquisition of property, plant and equipment; and
- (d) if it is not disclosed separately in the statement of comprehensive income, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in profit or loss.

Selection of the depreciation method and estimation of the useful life of assets are matters of judgement. Therefore, disclosure of the methods adopted and the estimated useful lives or depreciation rates provides users of financial statements with information that allows them to review the policies selected by management and enables comparisons to be made with other entities. For similar reasons, it is necessary to disclose:

- (a) depreciation, whether recognised in profit or loss or as a part of the cost of other assets, during a period; and
- (b) accumulated depreciation at the end of the period.

In accordance with IAS 8 an entity discloses the nature and effect of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in subsequent periods. For property, plant and equipment, such disclosure may arise from changes in estimates with respect to:

- (a) residual values;
- (b) the estimated costs of dismantling, removing or restoring items of property, plant and equipment;
- (c) useful lives; and
- (d) depreciation methods.

If items of property, plant and equipment are stated at revalued amounts, the following shall be disclosed in addition to the disclosures required by IFRS 13:

- (a) the effective date of the revaluation;
- (b) whether an independent valuer was involved;
- (e) for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model; and
- (f) the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders.

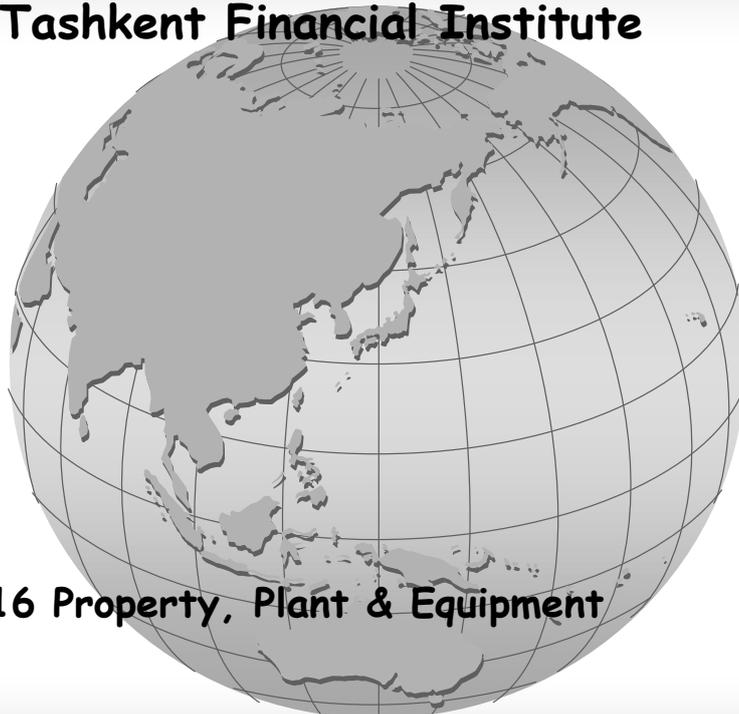
In accordance with IAS 36 an entity discloses information on impaired property, plant and equipment in addition to the information required by paragraph 73(e)(iv)–(vi).

Users of financial statements may also find the following information relevant to their needs:

- (a) the carrying amount of temporarily idle property, plant and equipment;
- (b) the gross carrying amount of any fully depreciated property, plant and equipment that is still in use;

(c) the carrying amount of property, plant and equipment retired from active use and not classified as held for sale in accordance with IFRS 5; and
(d) when the cost model is used, the fair value of property, plant and equipment when this is materially different from the carrying amount. Therefore, entities are encouraged to disclose these amounts.

International Financial Reporting Standards Tashkent Financial Institute



- **IAS 16 Property, Plant & Equipment**

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IAS 16 Property, Plant & Equipment

Criteria for Recognition

- The cost of an item of property, plant and equipment shall be recognized as an asset if, and only if:
 - (a) it is probable that future economic benefits associated with the item will flow to the entity; and
 - (b) the cost of the item can be measured reliably.



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IAS 16 Property, Plant & Equipment

Examples - Subsequent costs

- Day-to-day servicing costs are NOT included into the carrying amount of PP&E.
- Replacement costs, if they meet the criteria for recognition, are capitalized. E.g., the replacement of air craft interiors such as seats & galleys.
- Inspection costs for aircrafts, ships, and petroleum refining facilities.



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IAS 16 Property, Plant & Equipment

Case Study

Facts

- TFI Tourist Inc. acquired a large sightseeing bus at a cost of \$100,000. The estimated useful life is 10 years, and it has no residual value at the end of Year 10. At the end of Year 6, the engine of the bus requires replacement. The cost of the engine is \$45,000, and the discount rate used is 5%.

Required

- Can the cost of the engine be recognized as an asset, if so, what is the total cost for the bus?



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IAS 16 Property, Plant & Equipment

Case Study

Solution

•The new engine will produce economic benefits to TFI Touring Inc., and the cost is measurable. Hence the item should be recognized as an asset.

•The original invoice for the bus did not specify the cost of the new engine. However, the cost of the replacement - \$45,000 - can be used as an indication of the likely cost.

•\$45,000 can be discounted back to \$33,500, i.e., $\$45,000 / (1.05)^6$

•The new cost for the bus is \$111,500. $\$100,000 - \$33,500 + \$45,000$.

•(Wiley IFRS Practical Implementation Guide & Workbook - modified)

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IAS 16 Property, Plant & Equipment

Measurement at Recognition

-An item of an property, plant & equipment should be recognized at its costs.

- Purchase price, including import duties, nonrefundable purchase taxes, less trade discounts and rebates.
- Costs directly attributable to bringing the asset to the location and condition necessary for it to be used in a manner intended by the entity.
- Initial estimates of dismantling removing, and site restoration.



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IAS 16 Property, Plant & Equipment

Measurement at Recognition

- Examples of directly attributable costs include
 - Employee benefits of those involved in the construction or acquisition of an asset
 - Cost of site preparation
 - Initial delivery and handling costs
 - Installation and assembly costs
 - Cost of testing
 - Borrowing costs
 - Professional fees

- Examples of costs that are not directly attributable costs, and must be expensed.
 - Costs of opening a new facility
 - Costs of introducing a new product or service
 - Advertising and promotional costs
 - Costs of conducting business in a new location or with a new class of customer
 - Training costs



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IAS 16 Property, Plant & Equipment

Case Study

- JIKA Inc., is installing a new plant at its production facility. It has incurred these costs:

| | | |
|---|--|---------------|
| 1 | Cost of the plant | US\$2,500,000 |
| 2 | Initial delivery & handling costs | US\$200,000 |
| 3 | Cost of site preparation | US\$600,000 |
| 4 | Consultants used for advice on the acquisition of the plant | US\$700,000 |
| 5 | Interest charges paid to supplier of plant for deferred credit | US\$200,000 |
| 6 | Estimated dismantling costs to be incurred after 7 years | US\$300,000 |
| 7 | Operating losses before commercial operation | US\$400,000 |
| | | |

- Please advise JIKA on the cost that can be capitalized in accordance with IAS16??



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IAS 16 Property, Plant & Equipment

Measurement after Recognition

-Cost Model

- The cost model requires an asset, after initial recognition, to be carried at cost less accumulated depreciation and impairment losses.

-Revaluation Model

- The revaluation model requires an asset, after initial recognition, to be measured at a revalued amount, which is its fair value less subsequent depreciation and impairment losses.

Once selected, the policy shall apply to an entire class of property, plant and equipment. An entity cannot "cherry-pick" those assets to measure at cost or at revaluation.



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IAS 16 Property, Plant & Equipment

Measurement after Recognition

-Reason for Revaluation Model

- Due to the effect of inflation, the cost method makes the statement of financial position meaningless.
- If the depreciation is determined under the cost method where historical assets are applied, profits will be overstated.



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Measurement after Recognition

-Accounting under the Revaluation Model

•If an asset's carrying amount is increased as a result of a revaluation,

- the increase shall be recognized in other comprehensive income and accumulated in equity under the heading of revaluation surplus.
- However, the increase shall be recognized in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss.

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IAS 16 Property, Plant & Equipment

Measurement after Recognition

-Accounting under the Revaluation Model

•If an asset's carrying amount is decreased as a result of a revaluation,

- the decrease shall be recognized in profit or loss.
- However, the decrease shall be recognized in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

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IAS 16 Property, Plant & Equipment

Example

•JIKA Tourist Service Inc. bought a sightseeing bus for \$100,000 on January 1, 2009. The useful life is 10 Years and no residual value is estimated.

January 1, 2009

| | |
|---------------------|-----------|
| Dr. Sightseeing bus | \$100,000 |
| Cr. Cash | \$100,000 |

December 31, 2009

| | |
|------------------------------|----------|
| Dr. Accumulated depreciation | \$10,000 |
| Cr. Depreciation expense | \$10,000 |

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IAS 16 Property, Plant & Equipment

Example

•On January 1, 2010, the fair value of the bus is assessed to be \$99,000.

January 1, 2010

| | |
|------------------------------|----------|
| Dr. Accumulated depreciation | \$10,000 |
| Cr. Sightseeing bus | \$10,000 |

| | |
|---|---------|
| Dr. Sightseeing bus | \$9,000 |
| Cr. Other comprehensive income - revaluation reserve | \$9,000 |

December 31, 2010

| | |
|------------------------------|----------|
| Dr. Depreciation expense | \$11,000 |
| Cr. Accumulated depreciation | \$11,000 |

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IAS 16 Property, Plant & Equipment

Example

• On January 1, 2011, the fair value of the bus is assessed to be \$72,000.

January 1, 2011

| | |
|------------------------------|----------|
| Dr. Accumulated depreciation | \$11,000 |
| Cr. Sightseeing bus | \$11,000 |

| | |
|--------------------------------|----------|
| Dr. Other comprehensive income | \$9,000 |
| Loss on revaluation | \$7,000 |
| Cr. Sightseeing bus | \$16,000 |

December 31, 2011

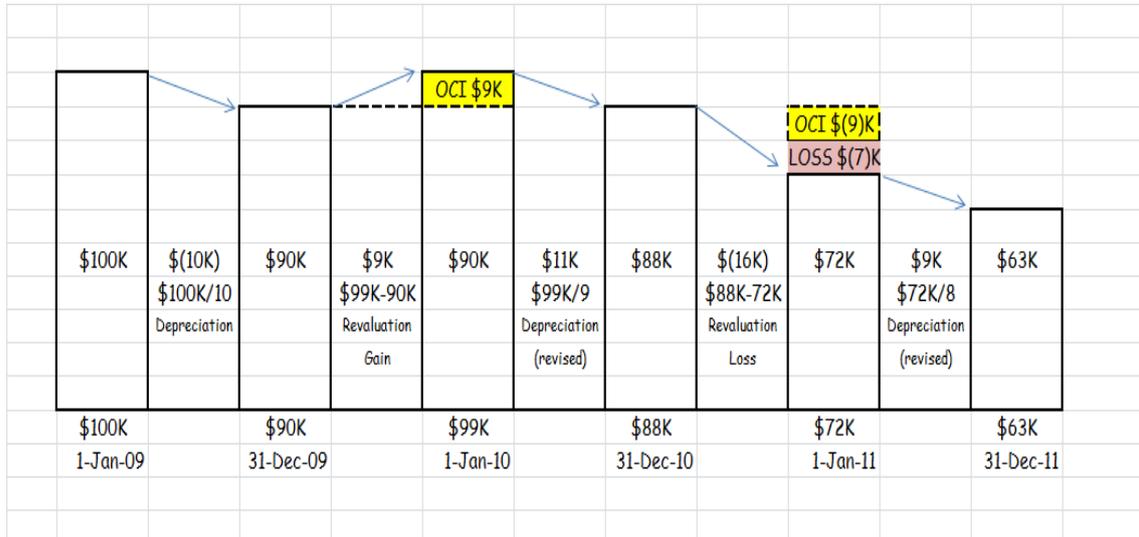
| | |
|------------------------------|----------|
| Dr. Depreciation expense | \$ 9,000 |
| Cr. Accumulated depreciation | \$9,000 |

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IAS 16 Property, Plant & Equipment

Example



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IAS 16 Property, Plant & Equipment

Depreciation

- The depreciation charge for each period shall be recognised in profit or loss.
- The depreciable amount of an asset shall be allocated on a systematic basis over its useful life.
- The depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.

- Straight-line
- Unit of Production
- Diminishing balance



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IAS 16 Property, Plant & Equipment

De-recognition

- The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in profit or loss when the item is derecognized.
- If an entity uses the revaluation model, it transfers the other comprehensive income to retained earnings once the asset is disposed.



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IAS 16 Property, Plant & Equipment

Example

•JIKA Tourist Service Inc. uses the cost model, and has the sightseeing bus with the value as follows:

- Initial Cost: \$100,000
- Accumulated depreciation \$ 10,000

JICA sold the bus for \$95,000 in cash.

- Dr. Accumulated depreciation \$ 10,000
Cr. Sightseeing bus \$100,000
- Dr. Cash \$ 95,000
Cr. Gain on the sale of the bus \$5,000



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IAS 16 Property, Plant & Equipment

Example

•JIKA Tourist Service Inc. uses the revaluation model, and has the sightseeing bus with the value as follows:

- Cost a/t revaluation: \$99,000
- Accumulated depreciation -
- OCI - revaluation surplus \$ 9,000

JICA sold the bus for \$95,000 in cash.

- Dr. OCI - revaluation surplus \$ 9,000
Cr. Retained earnings \$9,000
- Dr. Cash \$ 95,000
Loss of the sale of the bus \$ 4,000
Cr. The sightseeing bus \$ 99,000



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Leases (International Accounting Standard 17)

1. Objective, definitions
2. Classification of leases
3. Finance leases

Objective The objective of this Standard is to prescribe, for lessees and lessors, the appropriate accounting policies and disclosure to apply in relation to leases.

Scope This Standard shall be applied in accounting for all leases other than:

(a) leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources; and

(b) licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights. However, this Standard shall not be applied as the basis of measurement for:

(a) property held by lessees that is accounted for as investment property (see IAS 40 *Investment Property*);

(b) investment property provided by lessors under operating leases (see IAS 40);

(c) biological assets held by lessees under finance leases (see IAS 41 *Agriculture*);

or

(d) biological assets provided by lessors under operating leases (see IAS 41).

This Standard applies to agreements that transfer the right to use assets even though substantial services by the lessor may be called for in connection with the operation or maintenance of such assets. This Standard does not apply to agreements that are contracts for services that do not transfer the right to use assets from one contracting party to the other.

Definitions

The following terms are used in this Standard with the meanings specified:

A *lease* is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. A *finance lease* is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

An *operating lease* is a lease other than a finance lease.

A *non-cancellable lease* is a lease that is cancellable only:

(a) upon the occurrence of some remote contingency;

(b) with the permission of the lessor;

(c) if the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or

(d) upon payment by the lessee of such an additional amount that, at inception of the lease, continuation of the lease is reasonably certain.

The *inception of the lease* is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. As at this date:

- (a) a lease is classified as either an operating or a finance lease; and
- (b) in the case of a finance lease, the amounts to be recognised at the commencement of the lease term are determined.

The *commencement of the lease term* is the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease (ie the recognition of the assets, liabilities, income or expenses resulting from the lease, as appropriate).

The *lease term* is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Minimum lease payments are the payments over the lease term that the lessee is or can be required to make, excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor, together with:

- (a) for a lessee, any amounts guaranteed by the lessee or by a party related to the lessee; or
- (b) for a lessor, any residual value guaranteed to the lessor by:
 - (i) the lessee;
 - (ii) a party related to the lessee; or
 - (iii) a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee. However, if the lessee has an option to purchase the asset at a price that is expected to be sufficiently lower than fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised, the minimum lease payments comprise the minimum payments payable over the lease term to the expected date of exercise of this purchase option and the payment required to exercise it.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Economic life is either:

- (a) the period over which an asset is expected to be economically usable by one or more users; or
- (b) the number of production or similar units expected to be obtained from the asset by one or more users.

Useful life is the estimated remaining period, from the commencement of the lease term, without limitation by the lease term, over which the economic benefits embodied in the asset are expected to be consumed by the entity.

Guaranteed residual value is:

- (a) for a lessee, that part of the residual value that is guaranteed by the lessee or by a party related to the lessee (the amount of the guarantee being the maximum amount that could, in any event, become payable); and

(b) for a lessor, that part of the residual value that is guaranteed by the lessee or by a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.

Unguaranteed residual value is that portion of the residual value of the leased asset, the realisation of which by the lessor is not assured or is guaranteed solely by a party related to the lessor.

Initial direct costs are incremental costs that are directly attributable to negotiating and arranging a lease, except for such costs incurred by manufacturer or dealer lessors.

Gross investment in the lease is the aggregate of:

(a) the minimum lease payments receivable by the lessor under a finance lease, and

(b) any unguaranteed residual value accruing to the lessor.

Net investment in the lease is the gross investment in the lease discounted at the interest rate implicit in the lease.

Unearned finance income is the difference between:

(a) the gross investment in the lease, and

(b) the net investment in the lease.

The *interest rate implicit in the lease* is the discount rate that, at the inception of the lease, causes the aggregate present value of (a) the minimum lease payments and (b) the unguaranteed residual value to be equal to the sum of (i) the fair value of the leased asset and (ii) any initial direct costs of the lessor. The *lessee's incremental borrowing rate of interest* is the rate of interest the lessee would have to pay on a similar lease or, if that is not determinable, the rate that, at the inception of the lease, the lessee would incur to borrow over a similar term, and with a similar security, the funds necessary to purchase the asset.

Contingent rent is that portion of the lease payments that is not fixed in amount but is based on the future amount of a factor that changes other than with the passage of time (eg percentage of future sales, amount of future use, future price indices, future market rates of interest).

A lease agreement or commitment may include a provision to adjust the lease payments for changes in the construction or acquisition cost of the leased property or for changes in some other measure of cost or value, such as general price levels, or in the lessor's costs of financing the lease, during the period between the inception of the lease and the commencement of the lease term. If so, the effect of any such changes shall be deemed to have taken place at the inception of the lease for the purposes of this Standard.

The definition of a lease includes contracts for the hire of an asset that contain a provision giving the hirer an option to acquire title to the asset upon the fulfilment of agreed conditions. These contracts are sometimes known as hire purchase contracts.

A IAS 17 uses the term 'fair value' in a way that differs in some respects from the definition of fair value in IFRS 13 *Fair Value Measurement*. Therefore, when applying IAS 17 an entity measures fair value in accordance with IAS 17, not IFRS 13.

Classification of leases

The classification of leases adopted in this Standard is based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. Risks include the possibilities of losses from idle capacity or technological obsolescence and of variations in return because of changing economic conditions. Rewards may be represented by the expectation of profitable operation over the asset's economic life and of gain from appreciation in value or realisation of a residual value.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Because the transaction between a lessor and a lessee is based on a lease agreement between them, it is appropriate to use consistent definitions. The application of these definitions to the differing circumstances of the lessor and lessee may result in the same lease being classified differently by them. For example, this may be the case if the lessor benefits from a residual value guarantee provided by a party unrelated to the lessee.

Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract.¹ Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

- (a) the lease transfers ownership of the asset to the lessee by the end of the lease term;
- (b) the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- 1 See also SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.
- (c) the lease term is for the major part of the economic life of the asset even if title is not transferred;
- (d) at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- (e) the leased assets are of such a specialised nature that only the lessee can use them without major modifications.

Indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease are: (a) if the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee; (b) gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equalling most of the sales proceeds at the end of the lease); and (c) the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

Whenever necessary in order to classify and account for a lease of land and buildings, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the buildings elements in proportion to the relative fair values of the leasehold interests in the land element and buildings element of the lease at the inception of the lease. If the lease payments cannot be allocated reliably between these two elements, the entire lease is classified as a finance lease, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

Leases in the financial statements of lessees

Finance leases

Initial recognition-At the commencement of the lease term, lessees shall recognise finance leases as assets and liabilities in their statements of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the lessee's incremental borrowing rate shall be used. Any initial direct costs of the lessee are added to the amount recognised as an asset.

Transactions and other events are accounted for and presented in accordance with their substance and financial reality and not merely with legal form. Although the legal form of a lease agreement is that the lessee may acquire no legal title to the leased asset, in the case of finance leases the substance and financial reality are that the lessee acquires the economic benefits of the use of the leased asset for the major part of its economic life in return for entering into an obligation to pay for that right an amount approximating, at the inception of the lease, the fair value of the asset and the related finance charge. If such lease transactions are not reflected in the lessee's statement of financial position, the economic resources and the level of obligations of an entity are understated, thereby distorting financial ratios. Therefore, it is appropriate for a finance lease to be recognised in the lessee's statement of financial position both as an asset and as an obligation to pay future lease payments. At the commencement of the lease term, the asset and the liability for the future lease payments are recognised in the statement of financial position at the same amounts except for any initial direct costs of the lessee that are added to the amount recognised as an asset.

It is not appropriate for the liabilities for leased assets to be presented in the financial statements as a deduction from the leased assets. If for the presentation of liabilities in the statement of financial position a distinction is made between current and non-current liabilities, the same distinction is made for lease liabilities.

Initial direct costs are often incurred in connection with specific leasing activities, such as negotiating and securing leasing arrangements. The costs

identified as directly attributable to activities performed by the lessee for a finance lease are added to the amount recognised as an asset.

Subsequent measurement

Minimum lease payments shall be apportioned between the finance charge and the reduction of the outstanding liability. The finance charge shall be allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents shall be charged as expenses in the periods in which they are incurred.

In practice, in allocating the finance charge to periods during the lease term, a lessee may use some form of approximation to simplify the calculation. A finance lease gives rise to depreciation expense for depreciable assets as well as finance expense for each accounting period. The depreciation policy for depreciable leased assets shall be consistent with that for depreciable assets that are owned, and the depreciation recognised shall be calculated in accordance with IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise the asset is depreciated over the shorter of the lease term and its useful life.

The sum of the depreciation expense for the asset and the finance expense for the period is rarely the same as the lease payments payable for the period, and it is, therefore, inappropriate simply to recognise the lease payments payable as an expense. Accordingly, the asset and the related liability are unlikely to be equal in amount after the commencement of the lease term.

Disclosures

Lessees shall, in addition to meeting the requirements of IFRS 7 *Financial Instruments: Disclosures*, make the following disclosures for finance leases:

- (a) for each class of asset, the net carrying amount at the end of the reporting period.
- (b) a reconciliation between the total of future minimum lease payments at the end of the reporting period, and their present value. In addition, an entity shall disclose the total of future minimum lease payments at the end of the reporting period, and their present value, for each of the following periods:
 - (i) not later than one year;
 - (ii) later than one year and not later than five years;
 - (iii) later than five years.
- (c) contingent rents recognised as an expense in the period.
- (d) the total of future minimum sublease payments expected to be received under non-cancellable subleases at the end of the reporting period.

(e) a general description of the lessee's material leasing arrangements including, but not limited to, the following:

- (i) the basis on which contingent rent payable is determined;
- (ii) the existence and terms of renewal or purchase options and escalation clauses; and
- (iii) restrictions imposed by lease arrangements, such as those concerning dividends, additional debt, and further leasing.

Operating leases

Lease payments under an operating lease shall be recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.² For operating leases, lease payments (excluding costs for services such as insurance and maintenance) are recognised as an expense on a straight-line basis unless another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on that basis.

Disclosures

35 Lessees shall, in addition to meeting the requirements of IFRS 7, make the following disclosures for operating leases:

(a) the total of future minimum lease payments under non-cancellable operating leases for each of the following periods:

- (i) not later than one year;
- (ii) later than one year and not later than five years;
- (iii) later than five years.

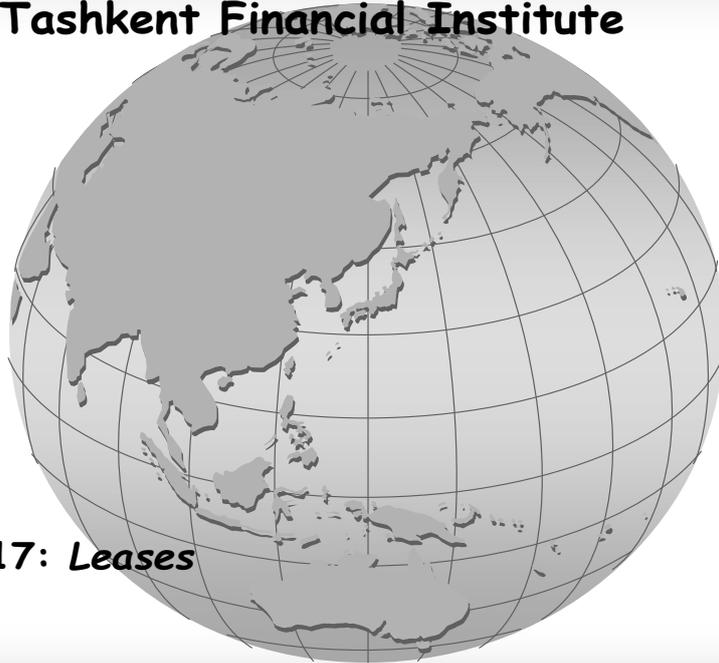
(b) the total of future minimum sublease payments expected to be received under non-cancellable subleases at the end of the reporting period.

(c) lease and sublease payments recognised as an expense in the period, with separate amounts for minimum lease payments, contingent rents, and sublease payments.

(d) a general description of the lessee's significant leasing arrangements including, but not limited to, the following:

- (i) the basis on which contingent rent payable is determined;
- (ii) the existence and terms of renewal or purchase options and escalation clauses; and
- (iii) restrictions imposed by lease arrangements, such as those concerning dividends, additional debt and further leasing.

International Financial Reporting Standards Tashkent Financial Institute



- **IAS 17: Leases**

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IAS 17: Leases

Background:

• This standard prescribes the accounting treatment for leases in the financial statements of lessees and lessors.

Classification of Leases:

• A lease is classified as either a finance lease or an operating lease.

- Finance (or Capital) Lease
- Operating Lease



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IAS 17: Leases

Finance Lease vs. Operating Lease :

•A lease is classified as a finance lease if it transfers substantially all the risks and rewards of ownership to the lessee.

•If one or more of the following conditions are met, the lease will be accounted for as a finance lease.

- (a) the lease transfers ownership of the asset to the lessee by the end of the lease term;
- (b) the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value...;
- (c) the lease term is for the major part of the economic life of the asset even if title is not transferred;
- (d) at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- (e) the leased assets are of such a specialised nature that only the lessee can use them without major modifications

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IAS 17: Leases

Finance Lease vs. Operating Lease :

•A lease is classified as a operating lease if it does NOT transfers substantially all the risks and rewards of ownership to the lessee.

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IAS 17: Leases

Accounting for Finance Lease

Example for Lessee's Accounting under Finance Lease

Example

- JIKA Pizza Delivery Service Inc. enters into a 5 year lease of a delivery van with TMI leasing Co., Ltd. At the end of Y5, JIKA can purchase the delivery van for \$1.
(Bargain Purchase Option -> YES)
- The lease fee is \$8,000 per year, and the economic useful life of the delivery van is estimated to be 6 years.
(Economic Useful Life -> YES)
- The fair value of the delivery van at the inception of the lease is \$31,000, and the JIKA's implied rate of interest is 10%.
(Fair Value = PV of Lease Pm'ts ->YES) Fair Value = \$31,000 and PV = \$30,326
- JIKA depreciates the delivery van for 5 years, using the straight line depreciation method, and estimates no residual value. JIKA adopts the cost model for PP&E accounting.

This lease should be accounted for as "Finance Lease".

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IAS 17: Leases

Example for Lessee's Accounting under Finance Lease

| Initial Measurement | | | | |
|------------------------|------------------------------|---|---|-------|
| | PV of Delivery Van | = | \$30,326 | * |
| | Lease Liability | = | \$30,326 | * |
| | | | * $\$8,000/1.1 + 8000/(1.1)^2 + 8000/(1.1)^3 + 8000/(1.1)^4 + 8000/(1.1)^5$ | |
| Initial measurement | | | | |
| At the beginning of Y1 | | | | |
| | Dr. Depreciation Expense | | 6,065 | |
| | Cr. Accumulated Depreciation | | | 6,065 |
| | Dr. Lease Liability | | 4,967 | |
| | Interest Expense | | 3,033 | |
| | Cr. Cash | | | 8,000 |

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IAS 17: Leases

Example for Lessee's Accounting under Finance Lease

| Subsequent measurement | | | | |
|------------------------------|-------|-------|--|--|
| At the end of Y1 | | | | |
| | | | | |
| Dr. Depreciation Expense | 6,065 | | | |
| Cr. Accumulated Depreciation | | 6,065 | | |
| Dr. Lease Liability | 3,033 | | | |
| Interest Expense | 4,967 | | | |
| Cr. Cash | | 8,000 | | |
| At the end of Y2 | | | | |
| Dr. Depreciation Expense | 6,065 | | | |
| Cr. Accumulated Depreciation | | 6,065 | | |
| Dr. Lease Liability | 5,464 | | | |
| Interest Expense | 2,536 | | | |
| Cr. Cash | | 8,000 | | |
| At the end of Y3 | | | | |
| Dr. Depreciation Expense | 6,065 | | | |
| Cr. Accumulated Depreciation | | 6,065 | | |
| Dr. Lease Liability | 6,010 | | | |
| Interest Expense | 1,990 | | | |
| Cr. Cash | | 8,000 | | |
| At the end of Y4 | | | | |
| Dr. Depreciation Expense | 6,065 | | | |
| Cr. Accumulated Depreciation | | 6,065 | | |
| Dr. Lease Liability | 6,611 | | | |
| Interest Expense | 1,389 | | | |
| Cr. Cash | | 8,000 | | |
| At the end of Y5 | | | | |
| Dr. Depreciation Expense | 6,065 | | | |
| Cr. Accumulated Depreciation | | 6,065 | | |
| Dr. Lease Liability | 7,274 | | | |
| Interest Expense | 726 | | | |
| Cr. Cash | | 8,000 | | |

IAS 17: Leases

Accounting for Finance Lease

Example for Lessor's Accounting under Finance Lease

Example

- JIKA Pizza Delivery Service Inc. enters into a 5 year lease of a delivery van with TMI leasing Co., Ltd. At the end of Y5, JIKA can purchase the delivery van for \$1.
(Bargain Purchase Option -> YES)
- The lease fee is \$8,000 per year, and the economic useful life of the delivery van is estimated to be 6 years.
(Economic Useful Life -> YES)
- The fair value of the delivery van at the inception of the lease is \$31,000, and the JIKA's implied rate of interest is 10%.
(Fair Value = PV of Lease Pm'ts ->YES) Fair Value = \$31,000 and PV = \$30,326
- The cost for the delivery van is \$25,000.

This lease should be accounted for as "Finance Lease".

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IAS 17: Leases

Example for Lessor's Accounting under Finance Lease

| Initial Measurement | | | | |
|------------------------|------------------------------|---|---|--------|
| | Lease Receivable | = | \$30,326 | * |
| | Lease Liability | = | \$30,326 | * |
| | Cost of the Delivery Van | | \$25,000 | |
| | | | * $\$8,000/1.1 + 8000/(1.1)^2 + 8000/(1.1)^3 + 8000/(1.1)^4 + 8000/(1.1)^5$ | |
| Initial measurement | | | | |
| At the beginning of Y1 | | | | |
| | Dr. Lease Receivable | | 30,326 | |
| | Cr. Lease Revenue | | | 30,326 |
| | Dr. Cost of the Delivery Van | | 25,000 | |
| | Cr. Delivery Van | | | 25,000 |

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IAS 17: Leases

Example for Lessor's Accounting under Finance Lease

| Subsequent measurement | | | | |
|------------------------|-------|-------|--|--|
| At the end of Y1 | | | | |
| Dr. Cash | 8,000 | | | |
| Cr. Interest Income | | 3,033 | | |
| Lease Receivable | | 4,967 | | |
| At the end of Y2 | | | | |
| Dr. Cash | 8,000 | | | |
| Cr. Interest Income | | 2,536 | | |
| Lease Receivable | | 5,464 | | |
| At the end of Y3 | | | | |
| Dr. Cash | 8,000 | | | |
| Cr. Interest Income | | 1,990 | | |
| Lease Receivable | | 6,010 | | |
| At the end of Y4 | | | | |
| Dr. Cash | 8,000 | | | |
| Cr. Interest Income | | 1,389 | | |
| Lease Receivable | | 6,611 | | |
| At the end of Y5 | | | | |
| Dr. Cash | 8,000 | | | |
| Cr. Interest Income | | 726 | | |
| Lease Receivable | | 7,274 | | |

| | Beginning Balance | Int. 10% | Cash | Ending Balance |
|----|-------------------|----------|---------|----------------|
| Y1 | 30,326 | 3,033 | (8,000) | 25,359 |
| Y2 | 25,359 | 2,536 | (8,000) | 19,895 |
| Y3 | 19,895 | 1,990 | (8,000) | 13,885 |
| Y4 | 13,885 | 1,389 | (8,000) | 7,274 |
| Y5 | 7,274 | 726 | (8,000) | 0 |

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IAS 17: Leases

Accounting for Operating Lease

Example for Lessee's Accounting under Operating Lease

Example

-JIKA Pizza Delivery Service Inc. enters into a 5 year lease of a delivery van with TMI leasing Co., Ltd. At the end of Y5, JIKA returns the van to TMI.

(Ownership transfer -> NO)

-The lease fee is \$11,000 per year, and the economic useful life of the delivery van is estimated to be 10 years.

(Economic Useful Life -> NO)

-The fair value of the delivery van at the inception of the lease is \$31,000, and the JIKA's implied rate of interest is 10%.

-(Fair Value = PV of Lease Pm'ts ->NO) Fair Value = \$31,000 and PV = \$ 41,699

This lease should be accounted for as "Operating Lease".



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IAS 17: Leases

Example for Lessee's Accounting under Operating Lease

| | | | |
|------------------|-------------------|--------|--------|
| At the end of Y1 | | | |
| | Dr. Lease Expense | 11,000 | |
| | Cr. Lease Payable | | 11,000 |
| At the end of Y2 | | | |
| | Dr. Lease Expense | 11,000 | |
| | Cr. Lease Payable | | 11,000 |
| At the end of Y3 | | | |
| | Dr. Lease Expense | 11,000 | |
| | Cr. Lease Payable | | 11,000 |
| At the end of Y4 | | | |
| | Dr. Lease Expense | 8,000 | |
| | Cr. Lease Payable | | 1,389 |
| At the end of Y5 | | | |
| | Dr. Lease Expense | 8,000 | |
| | Cr. Lease Payable | | 726 |

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IAS 17: Leases

Accounting for Operating Lease

Example for Lessee's Accounting under Operating Lease

Example

-JIKA Pizza Delivery Service Inc. enters into a 5 year lease of a delivery van with TMI leasing Co., Ltd. At the end of Y5, JIKA returns the van to TMI.

(Ownership transfer → NO)

-The lease fee is \$11,000 per year, and the economic useful life of the delivery van is estimated to be 10 years.

(Economic Useful Life → NO)

-The fair value of the delivery van at the inception of the lease is \$31,000, and the JIKA's implied rate of interest is 10%.

-(Fair Value = PV of Lease Pm'ts → NO) Fair Value = \$31,000 and PV = \$ 41,699

-TMI depreciates the delivery van for 10 years, using the straight line depreciation method, and estimates no residual value. TMI adopts the cost model for PP&E accounting. The cost for the delivery van is \$25,000.

This lease should be accounted for as "Operating Lease".

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IAS 17: Leases

Example for Lessor's Accounting

| | | | | | |
|------------------|--------------------------|------------------------------|-------|--------|--------|
| At the end of Y1 | | | | | |
| | Dr. Cash | | | 11,000 | |
| | | Cr. Lease Income | | | 11,000 |
| | Dr. Depreciation Expense | | 2,500 | | |
| | | Cr. Accumulated Depreciation | | | 2,500 |
| At the end of Y2 | | | | | |
| | Dr. Cash | | | 11,000 | |
| | | Cr. Lease Income | | | 11,000 |
| | Dr. Depreciation Expense | | 2,500 | | |
| | | Cr. Accumulated Depreciation | | | 2,500 |
| At the end of Y3 | | | | | |
| | Dr. Cash | | | 11,000 | |
| | | Cr. Lease Income | | | 11,000 |
| | Dr. Depreciation Expense | | 2,500 | | |
| | | Cr. Accumulated Depreciation | | | 2,500 |
| At the end of Y4 | | | | | |
| | Dr. Cash | | | 11,000 | |
| | | Cr. Lease Income | | | 11,000 |
| | Dr. Depreciation Expense | | 2,500 | | |
| | | Cr. Accumulated Depreciation | | | 2,500 |
| At the end of Y5 | | | | | |
| | Dr. Cash | | | 11,000 | |
| | | Cr. Lease Income | | | 11,000 |
| | Dr. Depreciation Expense | | 2,500 | | |
| | | Cr. Accumulated Depreciation | | | 2,500 |

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IAS 17: Leases

Case

JIKA prefers an operating lease than a finance lease since it has to keep the return on assets at 10% or more, which is the rate that the company commits to the shareholders.

Suppose the total assets (except for the delivery van leased from TMI) as of Y1-end is \$100,000, and the net income for Y1 before the lease/interest expense is \$10,000.

Which method, operating or finance brings the higher return?

Revenue (International Accounting Standard 18)

Plan:

1. Objective, Definitions
2. Identification of the transaction
3. Measurement of revenue

Objective- Income is defined in the *Framework for the Preparation and Presentation of Financial Statements*¹ as increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants. Income encompasses both revenue and gains. Revenue is income that arises in the course of ordinary activities of an entity and is referred to by a variety of different names including sales, fees, interest, dividends and royalties. The objective of this Standard is to prescribe the accounting treatment of revenue arising from certain types of transactions and events.

The primary issue in accounting for revenue is determining when to recognise revenue. Revenue is recognised when it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably. This Standard identifies the circumstances in which these criteria will be met and, therefore, revenue will be recognised. It also provides practical guidance on the application of these criteria.

Scope- This Standard shall be applied in accounting for revenue arising from the following transactions and events:

- (a) the sale of goods;
- (b) the rendering of services; and
- (c) the use by others of entity assets yielding interest, royalties and dividends.

This Standard supersedes IAS 18 *Revenue Recognition* approved in 1982. Goods includes goods produced by the entity for the purpose of sale and goods purchased for resale, such as merchandise purchased by a retailer or land and other property held for resale.

The rendering of services typically involves the performance by the entity of a contractually agreed task over an agreed period of time. The services may be rendered within a single period or over more than one period. Some contracts for the rendering of services are directly related to construction contracts, for example, those for the services of project managers and architects. Revenue arising from these contracts is not dealt with in this Standard but is dealt with in accordance with the requirements for construction contracts as specified in IAS 11 *Construction Contracts*.

¹ IASC's *Framework for the Preparation and Presentation of Financial Statements* was adopted by the IASB in 2001. In September 2010 the IASB replaced the *Framework* with the *Conceptual Framework for Financial Reporting*.

The use by others of entity assets gives rise to revenue in the form of:

- (a) interest—charges for the use of cash or cash equivalents or amounts due to the entity;
- (b) royalties—charges for the use of long-term assets of the entity, for example, patents, trademarks, copyrights and computer software; and
- (c) dividends—distributions of profits to holders of equity investments in proportion to their holdings of a particular class of capital.

This Standard does not deal with revenue arising from:

- (a) lease agreements (see IAS 17 *Leases*);
- (b) dividends arising from investments which are accounted for under the equity method (see IAS 28 *Investments in Associates and Joint Ventures*);
- (c) insurance contracts within the scope of IFRS 4 *Insurance Contracts*;
- (d) changes in the fair value of financial assets and financial liabilities or their disposal (see IFRS 9 *Financial Instruments*);
- (e) changes in the value of other current assets;
- (f) initial recognition and from changes in the fair value of biological assets related to agricultural activity (see IAS 41 *Agriculture*);
- (g) initial recognition of agricultural produce (see IAS 41); and
- (h) the extraction of mineral ores.

Definitions

The following terms are used in this Standard with the meanings specified:

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

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. (See IFRS 13 *Fair Value Measurement*.) Revenue includes only the gross inflows of economic benefits received and receivable by the entity on its own account. Amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes are not economic benefits which flow to the entity and do not result in increases in equity. Therefore, they are excluded from revenue. Similarly, in an agency relationship, the gross inflows of economic benefits include amounts collected on behalf of the principal and which do not result in increases in equity for the entity. The amounts collected on behalf of the principal are not revenue. Instead, revenue is the amount of commission.

Revenue shall be measured at the fair value of the consideration received or receivable. The amount of revenue arising on a transaction is usually determined by agreement between the entity and the buyer or user of the asset. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the entity. In most cases, the consideration is in the form of cash or

cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. However, when the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. For example, an entity may provide interest-free credit to the buyer or accept a note receivable bearing a below-market interest rate from the buyer as consideration for the sale of goods. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either: (a) the prevailing rate for a similar instrument of an issuer with a similar credit rating; or (b) a rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

When goods or services are exchanged or swapped for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction which generates revenue. This is often the case with commodities like oil or milk where suppliers exchange or swap inventories in various locations to fulfil demand on a timely basis in a particular location. When goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction which generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

Identification of the transaction

The recognition criteria in this Standard are usually applied separately to each transaction. However, in certain circumstances, it is necessary to apply the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. For example, 2 See also SIC-31 *Revenue—Barter Transactions Involving Advertising Services*—when the selling price of a product includes an identifiable amount for subsequent servicing, that amount is deferred and recognised as revenue over the period during which the service is performed. Conversely, the recognition criteria are applied to two or more transactions together when they are linked in such a way that the commercial effect cannot be understood without reference to the series of transactions as a whole. For example, an entity may sell goods and, at the same time, enter into a separate agreement to repurchase the goods at a later date, thus negating the substantive effect of the transaction; in such a case, the two transactions are dealt with together.

Sale of goods

Revenue from the sale of goods shall be recognised when all the following conditions have been satisfied:

(a) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods;

- (b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- (c) the amount of revenue can be measured reliably;
- (d) it is probable that the economic benefits associated with the transaction will flow to the entity; and
- (e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

The assessment of when an entity has transferred the significant risks and rewards of ownership to the buyer requires an examination of the circumstances of the transaction. In most cases, the transfer of the risks and rewards of ownership coincides with the transfer of the legal title or the passing of possession to the buyer. This is the case for most retail sales. In other cases, the transfer of risks and rewards of ownership occurs at a different time from the transfer of legal title or the passing of possession. If the entity retains significant risks of ownership, the transaction is not a sale and revenue is not recognised. An entity may retain a significant risk of ownership in a number of ways. Examples of situations in which the entity may retain the significant risks and rewards of ownership are:

- (a) when the entity retains an obligation for unsatisfactory performance not covered by normal warranty provisions;
- (b) when the receipt of the revenue from a particular sale is contingent on the derivation of revenue by the buyer from its sale of the goods;
- (c) when the goods are shipped subject to installation and the installation is a significant part of the contract which has not yet been completed by the entity; and
- (d) when the buyer has the right to rescind the purchase for a reason specified in the sales contract and the entity is uncertain about the probability of return.

If an entity retains only an insignificant risk of ownership, the transaction is a sale and revenue is recognised. For example, a seller may retain the legal title to the goods solely to protect the collectibility of the amount due. In such a case, if the entity has transferred the significant risks and rewards of ownership, the transaction is a sale and revenue is recognised. Another example of an entity retaining only an insignificant risk of ownership may be a retail sale when a refund is offered if the customer is not satisfied. Revenue in such cases is recognised at the time of sale provided the seller can reliably estimate future returns and recognises a liability for returns based on previous experience and other relevant factors.

Revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the entity. In some cases, this may not be probable until the consideration is received or until an uncertainty is removed.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognised by reference to the stage of completion of the transaction at the end

of the reporting period. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

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

Revenue—Barter Transactions Involving Advertising Services. The recognition of revenue by reference to the stage of completion of a transaction is often referred to as the percentage of completion method. Under this method, revenue is recognised in the accounting periods in which the services are rendered. The recognition of revenue on this basis provides useful information on the extent of service activity and performance during a period. IAS 11 also requires the recognition of revenue on this basis. The requirements of that Standard are generally applicable to the recognition of revenue and the associated expenses for a transaction involving the rendering of services. Revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the entity. However, when an uncertainty arises about the collectibility of an amount already included in revenue, the uncollectible amount, or the amount in respect of which recovery has ceased to be probable, is recognised as an expense, rather than as an adjustment of the amount of revenue originally recognised.

An entity is generally able to make reliable estimates after it has agreed to the following with the other parties to the transaction:

- (a) each party's enforceable rights regarding the service to be provided and received by the parties;
- (b) the consideration to be exchanged; and
- (c) the manner and terms of settlement.

It is also usually necessary for the entity to have an effective internal financial budgeting and reporting system. The entity reviews and, when necessary, revises the estimates of revenue as the service is performed. The need for such revisions does not necessarily indicate that the outcome of the transaction cannot be estimated reliably.

The stage of completion of a transaction may be determined by a variety of methods. An entity uses the method that measures reliably the services performed. Depending on the nature of the transaction, the methods may include:

- (a) surveys of work performed;
 - (b) services performed to date as a percentage of total services to be performed;
- or
- (c) the proportion that costs incurred to date bear to the estimated total costs of the transaction. Only costs that reflect services performed to date are included in costs incurred to date. Only costs that reflect services performed or to be

performed are included in the estimated total costs of the transaction. Progress payments and advances received from customers often do not reflect the services performed.

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

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognised only to the extent of the expenses recognised that are recoverable.

During the early stages of a transaction, it is often the case that the outcome of the transaction cannot be estimated reliably. Nevertheless, it may be probable that the entity will recover the transaction costs incurred. Therefore, revenue is recognised only to the extent of costs incurred that are expected to be recoverable.

As the outcome of the transaction cannot be estimated reliably, no profit is recognised.

28 When the outcome of a transaction cannot be estimated reliably and it is not probable that the costs incurred will be recovered, revenue is not recognised and the costs incurred are recognised as an expense.

Interest, royalties and dividends

29 Revenue arising from the use by others of entity assets yielding interest, royalties and dividends shall be recognised on the bases set out in paragraph 30 when:

- (a) it is probable that the economic benefits associated with the transaction will flow to the entity; and
- (b) the amount of the revenue can be measured reliably.

Revenue shall be recognised on the following bases:

- (a) interest shall be recognised using the effective interest method as set out in IAS 39,
- (b) royalties shall be recognised on an accrual basis in accordance with the substance of the relevant agreement; and
- (c) dividends shall be recognised when the shareholder's right to receive payment is established.

When unpaid interest has accrued before the acquisition of an interest-bearing investment, the subsequent receipt of interest is allocated between pre-acquisition and post-acquisition periods; only the post-acquisition portion is recognised as revenue.

Royalties accrue in accordance with the terms of the relevant agreement and are usually recognised on that basis unless, having regard to the substance of the agreement, it is more appropriate to recognise revenue on some other systematic and rational basis.

Revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the entity. However, when an uncertainty arises about the collectibility of an amount already included in revenue, the uncollectible amount, or the amount in respect of which recovery has ceased to be probable, is recognised as an expense, rather than as an adjustment of the amount of revenue originally recognised.

Disclosure

An entity shall disclose:

- (a) the accounting policies adopted for the recognition of revenue, including the methods adopted to determine the stage of completion of transactions involving the rendering of services;
- (b) the amount of each significant category of revenue recognised during the period, including revenue arising from:
 - (i) the sale of goods;
 - (ii) the rendering of services;
 - (iii) interest;
 - (iv) royalties;
 - (v) dividends; and
- (c) the amount of revenue arising from exchanges of goods or services included in each significant category of revenue.

An entity discloses any contingent liabilities and contingent assets in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Contingent liabilities and contingent assets may arise from items such as warranty costs, claims, penalties or possible losses.

International Financial Reporting Standards Tashkent Financial Institute



- **IAS 18 Revenue Recognition**

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IAS 18 Revenue Recognition

Objectives & Scope:

- The objective of this Standard is to prescribe the accounting treatment of revenue arising from certain types of transactions and events.
- This Standard shall be applied in accounting for revenue arising from the following transactions and events:
 - (a) the sale of goods;
 - (b) the rendering of services; and
 - (c) the use by others of entity assets yielding interest, royalties and dividends



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IAS 18 Revenue Recognition

Objectives & Scope:

- This Standard does NOT deal with revenue arising from:
 - (a) lease agreements (see IAS 17 *Leases*);
 - (b) dividends arising from investments which are accounted for under the equity method (see IAS 28 *Investments in Associates and Joint Ventures*);
 - (c) insurance contracts within the scope of IFRS 4 *Insurance Contracts*;
 - (d) changes in the fair value of financial assets and financial liabilities or their disposal (see IFRS 9 *Financial Instruments*);
 - (e) changes in the value of other current assets;
 - (f) initial recognition and from changes in the fair value of biological assets related to agricultural activity (see IAS 41 *Agriculture*);
 - (g) initial recognition of agricultural produce (see IAS 41); and
 - (h) the extraction of mineral ores.



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IAS 18 Revenue Recognition

Measurement of Revenue

- Revenue is measured at the fair value of the consideration received or receivable.
- The fair value is defined as.....
 - The amount for which an asset could be exchanged, or a liability settled between knowledgeable, willing parties in an arm's length transaction.
- Generally, the fair value is the amount of cash or cash equivalents received. If the amount due is paid over time, the cash flow needs to be discounted.



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IAS 18 Revenue Recognition

Measurement of Revenue

Practice

- Company A sells a large computer system to a customer on credit for \$1M on January 1, 2013. The customer promised to pay \$1M on June 30, 2013. What amount of revenue should Company A recognize on January 1, 2013?? Please show the journal entries to this transaction on January 1, 2013, and June 30, 2013. The interest rate that a bank lends money to Company A is 12% p.a.



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IAS 18 Revenue Recognition

Measurement of Revenue

- If goods or services of similar nature and value are exchanged, essentially no transaction has occurred and no revenue is recognized.
- If goods or services of a dissimilar nature are exchanged, a revenue transaction is recognized at the fair value of the goods or services received.
- If such fair value is not readily available, revenue is recognized at the fair value of goods given up or services provided.



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Identification of the Transactions

Sales of Goods

•Criteria for recognition of revenue for sale of goods are as follows:

- - Significant risks and rewards of ownership are transferred;
 - Neither continuing managerial involvement nor effective control over the goods sold is retained;
 - The amount of revenue is reliably measurable;
 - The economic benefits are probable; and
 - The costs are reliably measurable.



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Identification of the Transactions – Sales of Goods

Practice

Which of the following situations signify that “risk and rewards” have not been transferred to the buyer?

- XYZ sells goods to ABC Inc. In the sales contract, there is a clause that the seller has an obligation for unsatisfactory performance, which is not governed by normal warranty provisions.
- Zeta Inc. shipped machinery to a destination specified by the buyer. A significant part of the transaction involves installation that has not been fulfilled by Zeta Inc.
- The buyer has the right to cancel the purchase for a reason not specified in the contract of sale and the seller is uncertain about the outcome.
- (Wiley IFRS Practical Implementation Guide and Workbook 2nd Edition)



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Identification of the Transactions - Sales of Goods

Case

Bespoke Inc. has manufactured a machine specifically to the design of its customer. The machine could not be used by any other party. Bespoke Inc. has never manufactured this type of machine before and expects a number of faults to materialize in its operation during its 1st year of use, which Bespoke Inc. is contractually bound to fix at no further cost to the customer. The nature of this faults could well be significant. As of Bespoke Inc.'s year-end, the machine had been delivered and installed, the customer invoiced for \$100,000 (the contract price), and the costs incurred by Bespoke Inc. up to that date is \$65,000.

How should Bespoke Inc. recognize this transaction?

-(Wiley IFRS Practical Implementation Guide and Workbook 2nd Edition)

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Identification of the Transactions

Rendering of Services

•Criteria for recognition of revenue for sale of services are as follows:

•

- The amount of revenue is reliably measurable;
- The economic benefits are probable;
- The stage of completion can be measured reliably
- The costs incurred and the cost to complete can be measured reliably



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Identification of the Transactions

Interest, Royalties & Dividends

- Interest is recognized using the "effective interest method".
- Royalties are accrued on an accrual basis in accordance with the royalty agreement.
- Dividends are recognized when the shareholder has a right to receive payment.



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IAS 18 Revenue Recognition

Effective Interest Method

| Effective Interest Rate Method | | | | | | |
|--|------------------|--|----------------|------|----------------|------|
| An entity loaned \$1,000 at 10% interest rate. However, at the time of loan-out, the market interest rate suddenly increased to 20%. | | | | | | |
| | | | Interest = 20% | | Interest = 10% | |
| | | | Dr. | Cr. | Dr. | Cr. |
| Y0 | Loan Receivable | | 789 | | | 1000 |
| | Loss on the loan | | 211 | | | |
| | Cash | | | 1000 | | 1000 |
| Y1 | Cash | | 100 | | 100 | |
| | Interest income | | | 158 | | 100 |
| | Loan receivable | | 58 | | | |
| Y2 | Cash | | 100 | | 100 | |
| | Interest income | | | 170 | | 100 |
| | Loan receivable | | 70 | | | |
| Y3 | Cash | | 100 | | 100 | |
| | Interest income | | | 183 | | 100 |
| | Loan receivable | | 83 | | | |
| Y3 | Cash | | 1000 | | 1000 | |
| | Loan Receivable | | | 1000 | | 1000 |

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The Effects of Changes in Foreign Exchange Rates (International Accounting Standard 21)

Plan:

1. Objective, Definitions
2. Net investment in a foreign operation
3. Reporting at the ends of subsequent reporting periods
4. Disclosure

Objective- An entity may carry on foreign activities in two ways. It may have transactions in foreign currencies or it may have foreign operations. In addition, an entity may present its financial statements in a foreign currency. The objective of this Standard is to prescribe how to include foreign currency transactions and foreign operations in the financial statements of an entity and how to translate financial statements into a presentation currency. The principal issues are which exchange rate(s) to use and how to report the effects of changes in exchange rates in the financial statements.

Scope- This Standard shall be applied:

- (a) in accounting for transactions and balances in foreign currencies, except for those derivative transactions and balances that are within the scope of IFRS 9 *Financial Instruments*;
- (b) in translating the results and financial position of foreign operations that are included in the financial statements of the entity by consolidation or the equity method; and
- (c) in translating an entity's results and financial position into a presentation currency.

IFRS 9 applies to many foreign currency derivatives and, accordingly, these are excluded from the scope of this Standard. However, those foreign currency derivatives that are not within the scope of IFRS 9 (eg some foreign currency derivatives that are embedded in other contracts) are within the scope of this Standard. In addition, this Standard applies when an entity translates amounts relating to derivatives from its functional currency to its presentation currency. This Standard does not apply to hedge accounting for foreign currency items, including the hedging of a net investment in a foreign operation. IAS 39 applies to hedge accounting.

This Standard applies to the presentation of an entity's financial statements in a foreign currency and sets out requirements for the resulting financial statements to be described as complying with International Financial Reporting Standards (IFRSs). For translations of financial information into a foreign currency that do not meet these requirements, this Standard specifies information to be disclosed. This Standard does not apply to the presentation in a statement of cash flows of the cash flows arising from transactions in a foreign currency, or to the translation of cash flows of a foreign operation (see IAS 7 *Statement of Cash Flows*).

Definitions

The following terms are used in this Standard with the meanings specified:

Closing rate is the spot exchange rate at the end of the reporting period.

Exchange difference is the difference resulting from translating a given number of units of one currency into another currency at different exchange rates.

Exchange rate is the ratio of exchange for two currencies.

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. (See IFRS 13 *Fair Value Measurement*.)

Foreign currency is a currency other than the functional currency of the entity.

Foreign operation is an entity that is a subsidiary, associate, joint arrangement or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.

Functional currency is the currency of the primary economic environment in which the entity operates.

A *group* is a parent and all its subsidiaries.

Monetary items are units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.

Net investment in a foreign operation is the amount of the reporting entity's interest in the net assets of that operation.

Presentation currency is the currency in which the financial statements are presented.

Spot exchange rate is the exchange rate for immediate delivery.

Elaboration on the definitions

Functional currency

The primary economic environment in which an entity operates is normally the one in which it primarily generates and expends cash. An entity considers the following factors in determining its functional currency:

(a) the currency:

(i) that mainly influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled); and

(ii) of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services.

(b) the currency that mainly influences labour, material and other costs of providing goods or services (this will often be the currency in which such costs are denominated and settled).

The following factors may also provide evidence of an entity's functional currency:

(a) the currency in which funds from financing activities (ie issuing debt and equity instruments) are generated.

(b) the currency in which receipts from operating activities are usually retained.

The following additional factors are considered in determining the functional currency of a foreign operation, and whether its functional currency is the same as that of the reporting entity (the reporting entity, in this context,

being the entity that has the foreign operation as its subsidiary, branch, associate or joint arrangement):

(a) whether the activities of the foreign operation are carried out as an extension of the reporting entity, rather than being carried out with a significant degree of autonomy. An example of the former is when the foreign operation only sells goods imported from the reporting entity and remits the proceeds to it. An example of the latter is when the operation accumulates cash and other monetary items, incurs expenses, generates income and arranges borrowings, all substantially in its local currency. (b) whether transactions with the reporting entity are a high or a low proportion of the foreign operation's activities.

(c) whether cash flows from the activities of the foreign operation directly affect the cash flows of the reporting entity and are readily available for remittance to it. (d) whether cash flows from the activities of the foreign operation are sufficient to service existing and normally expected debt obligations without funds being made available by the reporting entity.

When the above indicators are mixed and the functional currency is not obvious, management uses its judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

Net investment in a foreign operation

An entity may have a monetary item that is receivable from or payable to a foreign operation. An item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the entity's net investment in that foreign operation, and is accounted for in accordance. Such monetary items may include long-term receivables or loans. They do not include trade receivables or trade payables.

The entity that has a monetary item receivable from or payable to a foreign operation described in paragraph 15 may be any subsidiary of the group. For example, an entity has two subsidiaries, A and B. Subsidiary B is a foreign operation. Subsidiary A grants a loan to Subsidiary B. Subsidiary A's loan receivable from Subsidiary B would be part of the entity's net investment in Subsidiary B if settlement of the loan is neither planned nor likely to occur in the foreseeable future. This would also be true if Subsidiary A were itself a foreign operation.

Monetary items

The essential feature of a monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: pensions and other employee benefits to be paid in cash; provisions that are to be settled in cash; and cash dividends that are recognised as a liability. Similarly, a contract to receive (or deliver) a variable number of the entity's own equity instruments or a variable amount of assets in which the fair value to be received (or delivered) equals a fixed or determinable number of units of currency is a monetary item. Conversely, the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: amounts

prepaid for goods and services (eg prepaid rent); goodwill; intangible assets; inventories; property, plant and equipment; and provisions that are to be settled by the delivery of a non-monetary asset.

Summary of the approach required by this Standard In preparing financial statements, each entity—whether a stand-alone entity, an entity with foreign operations (such as a parent) or a foreign operation (such as a subsidiary or branch)—determines its functional currency in accordance with paragraphs 9–14. The entity translates foreign currency items into its functional currency and reports the effects of such translation in accordance

Many reporting entities comprise a number of individual entities (eg a group is made up of a parent and one or more subsidiaries). Various types of entities, whether members of a group or otherwise, may have investments in associates or joint arrangements. They may also have branches. It is necessary for the results and financial position of each individual entity included in the reporting entity to be translated into the currency in which the reporting entity presents its financial statements. This Standard permits the presentation currency of a IAS 21

Reporting at the ends of subsequent reporting periods

At the end of each reporting period:

- (a) foreign currency monetary items shall be translated using the closing rate;
- (b) non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and
- (c) non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was measured.

The carrying amount of an item is determined in conjunction with other relevant Standards. For example, property, plant and equipment may be measured in terms of fair value or historical cost in accordance with IAS 16 *Property, Plant and Equipment*. Whether the carrying amount is determined on the basis of historical cost or on the basis of fair value, if the amount is determined in a foreign currency it is then translated into the functional currency in accordance with this Standard.

The carrying amount of some items is determined by comparing two or more amounts. For example, the carrying amount of inventories is the lower of cost and net realisable value in accordance with IAS 2 *Inventories*. Similarly, in accordance with IAS 36 *Impairment of Assets*, the carrying amount of an asset for which there is an indication of impairment is the lower of its carrying amount before considering possible impairment losses and its recoverable amount. When such an asset is non-monetary and is measured in a foreign currency, the carrying amount is determined by comparing:

- (a) the cost or carrying amount, as appropriate, translated at the exchange rate at the date when that amount was determined (ie the rate at the date of the transaction for an item measured in terms of historical cost); and
- (b) the net realisable value or recoverable amount, as appropriate, translated at the

exchange rate at the date when that value was determined (eg the closing rate at the end of the reporting period).

Change in functional currency

When there is a change in an entity's functional currency, the entity shall apply the translation procedures applicable to the new functional currency prospectively from the date of the change.

Tax effects of all exchange differences

Gains and losses on foreign currency transactions and exchange differences arising on translating the results and financial position of an entity (including a foreign operation) into a different currency may have tax effects. IAS 12 *Income Taxes* applies to these tax effects.

Disclosure

In paragraphs 53 and 55–57 references to 'functional currency' apply, in the case of a group, to the functional currency of the parent.

An entity shall disclose:

- (a) the amount of exchange differences recognised in profit or loss except for those arising on financial instruments measured at fair value through profit or loss in accordance with IFRS 9; and
- (b) net exchange differences recognised in other comprehensive income and accumulated in a separate component of equity, and a reconciliation of the amount of such exchange differences at the beginning and end of the period.

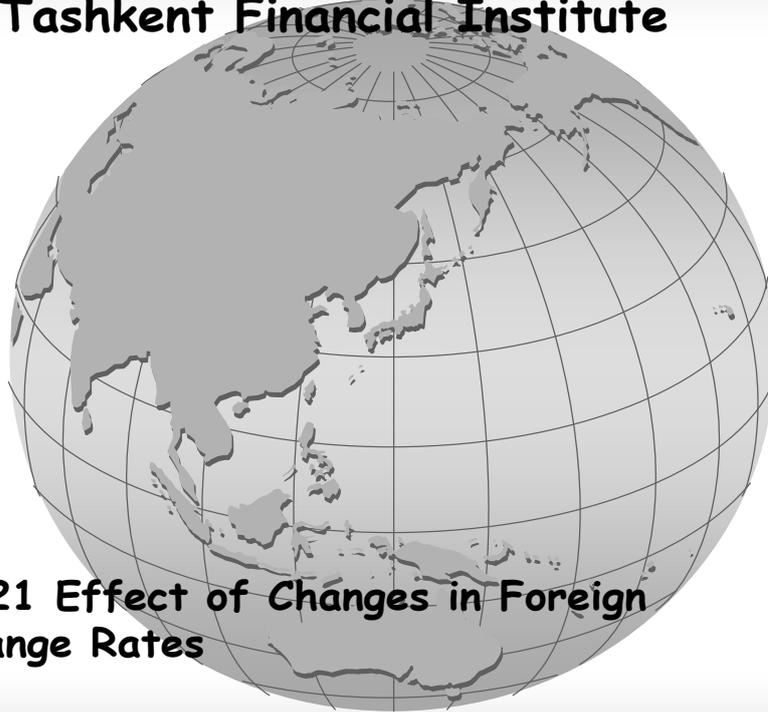
When the presentation currency is different from the functional currency, that fact shall be stated, together with disclosure of the functional currency and the reason for using a different presentation currency.

When there is a change in the functional currency of either the reporting entity or a significant foreign operation, that fact and the reason for the change in functional currency shall be disclosed.

When an entity displays its financial statements or other financial information in a currency that is different from either its functional currency or its presentation currency and the requirements, it shall:

- (a) clearly identify the information as supplementary information to distinguish it from the information that complies with IFRSs;
- (b) disclose the currency in which the supplementary information is displayed; and
- (c) disclose the entity's functional currency and the method of translation used to determine the supplementary information.

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- **IAS 21 Effect of Changes in Foreign Exchange Rates**

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IAS 21 Effect of Changes in Foreign Exchange Rates

What is IAS 21?

IAS 21 prescribes.....

- how to include foreign currency transactions and foreign operations in the financial statements of an entity
- how to translate financial statements into a presentation currency.



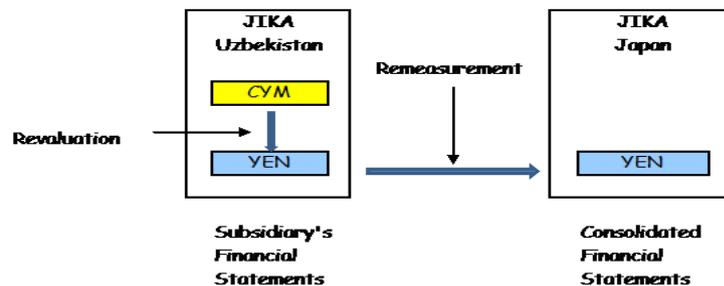
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IAS 21 Effect of Changes in Foreign Exchange Rates

Example

- JIKA Uzbekistan Manufacturing Inc. is a subsidiary of JIKA Japan Manufacturing Corp.
- JIKA Uzbekistan prepares its financial statements in Uzbek Cym.
- JIKA Japan has to include JIKA Uzbekistan's financial statements into its consolidated financial statements.
- JIKA Japan's currency is Japanese Yen.



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IAS 21 Effect of Changes in Foreign Exchange Rates

Functional Currency and Presentation Currency

- In IAS 21, there are two currencies; i.e., **functional currency** and **presentation currency**.
- The functional currency is the currency of the primary economic environment in which the company operates.
- The presentation currency is the currency that is used to present the financial statements.



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IAS 21 Effect of Changes in Foreign Exchange Rates

Determination of Functional Currency

•The functional currency is normally the currency used in a country where an entity is doing business.

•In determining the functional currency, several factors must be considered as follows:

- Currency which influences the prices
- Currency which influences the costs
- Currency of the country whose competitive forces & regulations influence the pricing structure
- Currency of the funds generated from financing activities
- Currency in which cash from operating activities are retained.



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IAS 21 Effect of Changes in Foreign Exchange Rates

Determination of Functional Currency

•In determining the functional currency for a foreign operation,

- whether the activities of the foreign operation are carried out as an extension of the reporting entity, rather than being carried out with a significant degree of autonomy.
- An example of the former is when the foreign operation only sells goods imported from the reporting entity and remits the proceeds to it. An example of the latter is when the operation accumulates cash and other monetary items, incurs expenses, generates income and arranges borrowings, all substantially in its local currency.



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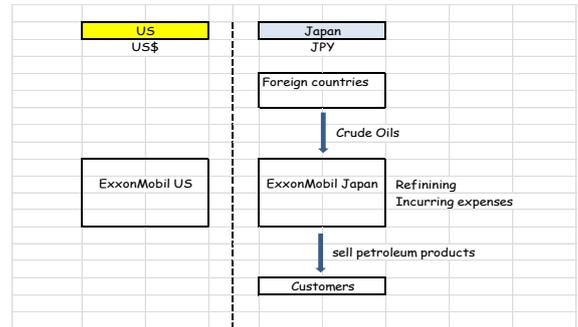
IAS 21 Effect of Changes in Foreign Exchange Rates

Determination of Functional Currency

Exercise 1

ExxonMobil Japan is 100% owned by Exxon Mobil Corp. in US. It imports crude oils from foreign countries, and refine them into petroleum products, and sell them in Japan. It has about 2000 service stations across the country. The price for gasoline is determined by the cost of crude oils, foreign exchange rate, and competition in the market. The functional currency of ExxonMobil US is \$.

•What is the functional currency for ExxonMobil Japan?



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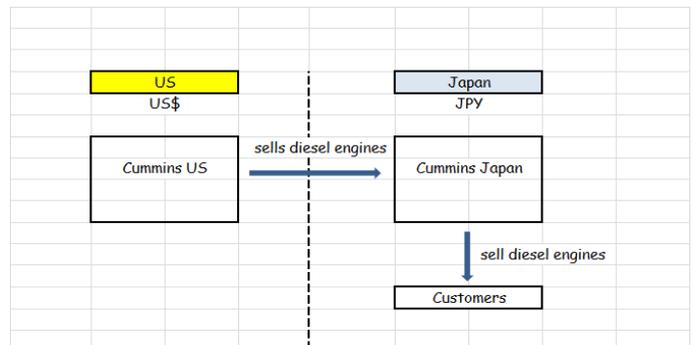
IAS 21 Effect of Changes in Foreign Exchange Rates

Determination of Functional Currency

Exercise 2

Cummins Japan is 100% owned by Cummins Engine Company in US. It imports diesel engines from Cummins US, and sell them to Japanese ship builders, construction machinery manufacturing companies, and so force. The price for engines is based on the price list prepared by Cummins US. The functional currency of Cummins US is \$.

•What is the functional currency for Cummins Japan?



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IAS 21 Effect of Changes in Foreign Exchange Rates

Revaluation - Foreign Currency Transactions

Initial measurement

- Any foreign currency transactions must be measured by the foreign exchange rate at the date of transaction.
- "Foreign currency transactions" mean any transactions conducted by other than a functional currency.



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IAS 21 Effect of Changes in Foreign Exchange Rates

Subsequent measurement

- Any monetary items must be re-measured by the foreign exchange rate at the date of reporting. Any gains or losses arising from the re-measurement will be booked to profit and loss.
- Any non-monetary items are not re-measured except for revalued items.
- For revalued non-monetary items, the foreign exchange rate at the date of revaluation is used, and any gains or losses are booked to either profit and loss or OCI.



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IAS 12 Income Taxes

Monetary items & non-monetary items

•Monetary items

The essential feature of a monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include:

- Trade account receivable
- Pensions and other employee benefits to be paid in cash;
- Provisions that are to be settled in cash;
- Cash dividends that are recognized as a liability.
- Conversely, the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: amounts prepaid for goods and services (eg prepaid rent); goodwill; intangible assets; inventories; property, plant and equipment; and provisions that are to be settled by the delivery of a non-monetary asset.

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IAS 21 Effect of Changes in Foreign Exchange Rates

Monetary items & non-monetary items

•Non-monetary items

The essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include:

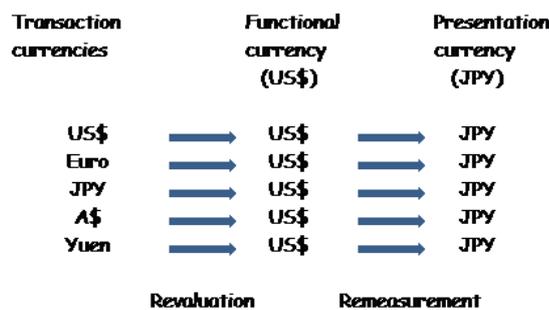
- Amounts prepaid for goods and services (eg prepaid rent);
- Goodwill;
- Intangible assets;
- Inventories;
- Property, plant and equipment; and
- provisions that are to be settled by the delivery of a non-monetary asset.

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Remeasurement to the presentation currency

•If the functional currency is not the same with the presentation currency, the financial statements in the functional currency must be translated into the ones in the presentation currency.



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IAS 21 Effect of Changes in Foreign Exchange Rates

Translation of B/S

•(a) assets and liabilities for each statement of financial position presented (i.e. including comparatives) shall be translated at the closing rate at the date of that statement of financial position;

Translation of P/L and OCI

•(b) income and expenses for each statement presenting profit or loss and other comprehensive income (i.e. including comparatives) shall be translated at exchange rates at the dates of the transactions; and

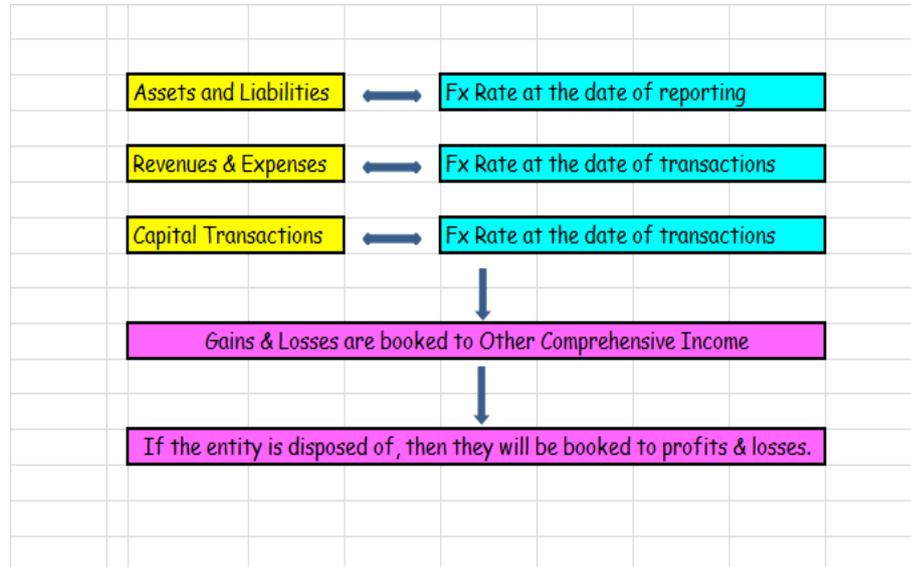
Exchange Differences

•(c) all resulting exchange differences shall be recognized in other comprehensive income.

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IAS 21 Effect of Changes in Foreign Exchange Rates



Related Party Disclosures (International Accounting Standard 24)

Plan:

1. Objective
2. Government-related entities
3. Disclosures
4. All entities

Objective The objective of this Standard is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties.

Scope This Standard shall be applied in:

- (a) identifying related party relationships and transactions;
- (b) identifying outstanding balances, including commitments, between an entity and its related parties;
- (c) identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- (d) determining the disclosures to be made about those items.

This Standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of a parent or investors with joint control of, or significant influence over, an investee presented in accordance with IFRS 10 *Consolidated*

Financial Statements or IAS 27 *Separate Financial Statements*. This Standard also applies to individual financial statements.

Related party transactions and outstanding balances with other entities in a group

are disclosed in an entity's financial statements. Intragroup related party transactions and outstanding balances are eliminated in the preparation of consolidated financial statements of the group. Purpose of related party disclosures

Related party relationships are a normal feature of commerce and business. For example, entities frequently carry on parts of their activities through subsidiaries, joint ventures and associates. In those circumstances, the entity has the ability to affect the financial and operating policies of the investee through the presence of control, joint control or significant influence. 6 A related party relationship could have an effect on the profit or loss and financial position of an entity. Related parties may enter into transactions that unrelated parties would not. For example, an entity that sells goods to its parent at cost might not sell on those terms to another customer. Also, transactions between related parties may not be made at the same amounts as between unrelated parties.

The profit or loss and financial position of an entity may be affected by a related party relationship even if related party transactions do not occur. The mere existence of the relationship may be sufficient to affect the transactions of the entity with other parties. For example, a subsidiary may terminate relations with a trading partner on acquisition by the parent of a fellow subsidiary engaged in the same activity as the former trading partner. Alternatively, one party may refrain from acting because of the significant influence of another—for example, a subsidiary may be instructed by its parent not to engage in research and development.

For these reasons, knowledge of an entity's transactions, outstanding balances, including commitments, and relationships with related parties may affect assessments of its operations by users of financial statements, including assessments of the risks and opportunities facing the entity.

Definitions

The following terms are used in this Standard with the meanings specified:

A *related party* is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the 'reporting entity').

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

(i) has control or joint control of the reporting entity;

(ii) has significant influence over the reporting entity; or

(iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

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

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

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

(iii) Both entities are joint ventures of the same third party.

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

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

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

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

A *related party transaction* is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (a) that person's children and spouse or domestic partner;
- (b) children of that person's spouse or domestic partner; and
- (c) dependants of that person or that person's spouse or domestic partner.

Compensation includes all employee benefits (as defined in IAS 19 *Employee Benefits*) including employee benefits to which IFRS 2 *Share-based Payment* applies. Employee benefits are all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered to the entity. It also includes such consideration paid on behalf of a parent of the entity in respect of the entity. Compensation includes: (a) short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees; (b) post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care; (c) other long-term employee benefits, including long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are not payable wholly within twelve months after the end of the period, profit-sharing, bonuses and deferred compensation; (d) termination benefits; and (e) share-based payment.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. *Government* refers to government, government agencies and similar bodies whether local, national or international. A *government-related entity* is an entity that is controlled, jointly controlled or significant influence by a government. The terms 'control', 'jointly control' and 'significant influence' are defined in IFRS 10, IFRS 11 *Joint Arrangements* and IAS 28 *Investments in Associates and Joint*

Ventures and are used in this Standard with the meanings specified in those IFRSs.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

In the context of this Standard, the following are not related parties:

- (a) two entities simply because they have a director or other member of key management personnel in common or because a member of key management personnel of one entity has significant influence over the other entity.
- (b) two joint venturers simply because they share joint control of a joint venture.
 - (i) providers of finance,
 - (ii) trade unions,
 - (iii) public utilities, and

(iv) departments and agencies of a government that does not control, jointly control or significant influence the reporting entity, simply by virtue of their normal dealings with an entity (even though they may affect the freedom of action of an entity or participate in its decision-making process).

(d) a customer, supplier, franchisor, distributor or general agent with whom an entity transacts a significant volume of business, simply by virtue of the resulting economic dependence. In the definition of a related party, an associate includes subsidiaries of the

associate and a joint venture includes subsidiaries of the joint venture. Therefore, for example, an associate's subsidiary and the investor that has significant influence over the associate are related to each other.

Disclosures - All entities

Relationships between a parent and its subsidiaries shall be disclosed irrespective of whether there have been transactions between them. An entity shall disclose the name of its parent and, if different, the ultimate controlling party. If neither the entity's parent nor the ultimate controlling party produces consolidated financial statements available for public use, the name of the next most senior parent that does so shall also be disclosed. To enable users of financial statements to form a view about the effects of related party relationships on an entity, it is appropriate to disclose the related party relationship when control exists, irrespective of whether there have been transactions between the related parties. The requirement to disclose related party relationships between a parent and its subsidiaries is in addition to the disclosure requirements in IAS 27 and IFRS 12

Disclosure of Interests in Other Entities.

Paragraph 13 refers to the next most senior parent. This is the first parent in the group above the immediate parent that produces consolidated financial statements available for public use.

An entity shall disclose key management personnel compensation in total and for each of the following categories:

- (a) short-term employee benefits;
- (b) post-employment benefits;
- (c) other long-term benefits;
- (d) termination benefits; and
- (e) share-based payment.

If an entity has had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to those in paragraph 17. At a minimum, disclosures shall include:

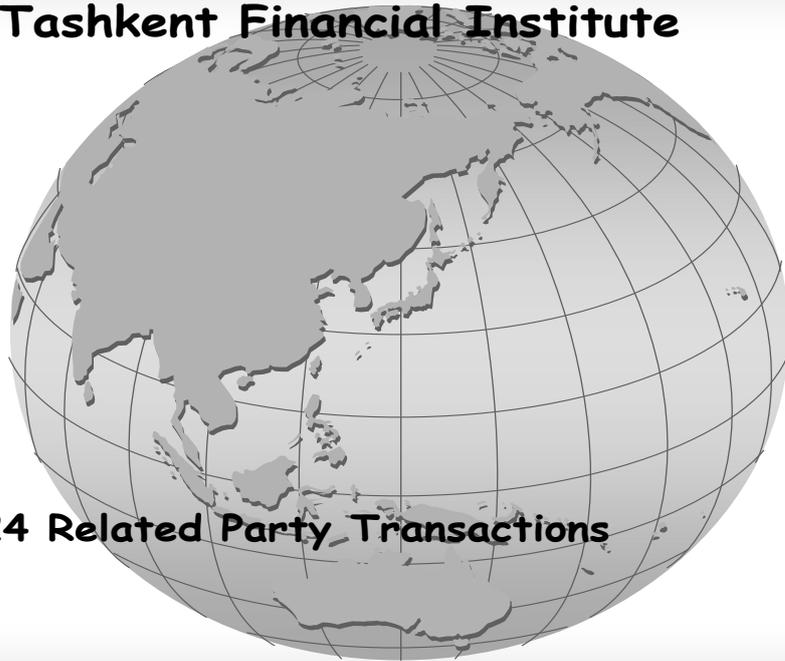
- (a) the amount of the transactions;
- (b) the amount of outstanding balances, including commitments, and:

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

The disclosures required by paragraph 18 shall be made separately for each of the following categories:

- (a) the parent;
- (b) entities with joint control of, or significant influence over, the entity;
- (c) subsidiaries;
- (d) associates;
- (e) joint ventures in which the entity is a joint venturer;
- (f) key management personnel of the entity or its parent; and
- (g) other related parties.

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- **IAS 24 Related Party Transactions**

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IAS 24 Related Party Transactions

Objectives & Background:

- Arms-length transactions: fair value in various markets
 - However, related party transactions: other than fair values.
 - Such non-arms length fair value → the entity's profit
 - Financial statement users needs to be aware of such related party transactions.
-
- IAS 10 prescribes **the disclosure requirement** for the related party transactions.



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IAS 24 Related Party Transactions

What are the related party transactions?

- Transaction with a parent company
- Transaction with a subsidiary company
- Transaction with a fellow subsidiary
- Transaction with a joint venture
- Transaction with key management personnel
- Transaction with close member of the family of an individual



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IAS 24 Related Party Transactions

Practice..

Consider the following situations, and decide if the parties are related with each other.

- A is a director of the entity
- B is the parent company of the entity.
- C is the shareholder who owns 0.1% of the entity's share.
- J is the CEO of Company K.
- L is married to J, CEO of Company L.
- K and L are ventures who jointly control M.



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IAS 24 Related Party Transactions

Disclosures

- Parent-subsidiary relationship
 - This needs to be disclosed even though there are no transactions
- Management compensation
 - This includes post-employment benefits, share-based payments etc.
- Related party transaction
 - The relationship between the related parties, information about the transaction and outstanding balances for the transaction needs to be disclosed.



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IAS 24 Related Party Transactions

Disclosures - Examples

• Nokia's notes to 2011 financial statements

•7B. Related Party Transactions (P184)

There have been no material transactions during the last three fiscal years to which any director, executive officer or 5% shareholder, or any relative or spouse of any of them, was a party. There is no significant outstanding indebtedness owed to Nokia by any director, executive officer or 5% shareholder.

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IAS 24 Related Party Transactions

Disclosures - Examples

• Nestlé's notes to 2011 financial statements

20.1 Compensation of the Board of Directors and the Executive Board

Board of Directors

•With the exception of the Chairman and the CEO, members of the Board of Directors receive an annual compensation that varies with the Board and the Committee responsibilities as follows:

- Board members: CHF 280 000;
- members of the Chairman's and Corporate Governance Committee: additional CHF 200 000;

Executive Board

•The total annual remuneration of the members of the Executive Board comprises a salary, a bonus.....

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IAS 24 Related Party Transactions

Disclosures - Examples

• Nestlé's notes to 2011 financial statements

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- Board members: CHF 280 000;
- members of the Chairman's and Corporate Governance Committee: additional CHF 200 000;

Executive Board

•The total annual remuneration of the members of the Executive Board comprises a salary, a bonus.....

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Interim Financial Reporting (International Accounting Standard 34)

Plan:

1. Objective, Definitions
2. Disclosure in annual financial statements
3. Revenues received seasonally, cyclically, or occasionally

Objective The objective of this Standard is to prescribe the minimum content of an interim financial report and to prescribe the principles for recognition and measurement in complete or condensed financial statements for an interim period. Timely and reliable interim financial reporting improves the ability of investors, creditors, and others to understand an entity's capacity to generate earnings and cash flows and its financial condition and liquidity.

Scope This Standard does not mandate which entities should be required to publish interim financial reports, how frequently, or how soon after the end of an interim period. However, governments, securities regulators, stock exchanges, and accountancy bodies often require entities whose debt or equity securities are publicly traded to publish interim financial reports. This Standard applies if an entity is required or elects to publish an interim financial report in accordance with International Financial Reporting Standards (IFRSs). The International Accounting Standards Committee encourages publicly traded entities to provide interim financial reports that conform to the recognition, measurement, and disclosure principles set out in this Standard. Specifically, publicly traded entities are encouraged:

- a) to provide interim financial reports at least as of the end of the first half of their financial year; and
- (b) to make their interim financial reports available not later than 60 days after the end of the interim period.

Each financial report, annual or interim, is evaluated on its own for conformity with IFRSs. The fact that an entity may not have provided interim financial reports during a particular financial year or may have provided interim financial reports that do not comply with this Standard does not prevent the entity's annual financial statements from conforming to IFRSs if they otherwise do so. If an entity's interim financial report is described as complying with IFRSs, it must comply with all of the requirements of this Standard. Paragraph 19 requires certain disclosures in that regard.

The International Accounting Standards Committee was succeeded by the International

Definitions

The following terms are used in this Standard with the meanings specified:

Interim period is a financial reporting period shorter than a full financial year.

Interim financial report means a financial report containing either a complete set of financial statements (as described in IAS 1 *Presentation of Financial Statements* as revised in 2007) or a set of condensed financial statements (as described in this standard) for an interim period.

Content of an interim financial report

5 IAS 1 (as revised in 2007) defines a complete set of financial statements as including the following components:

- (a) a statement of financial position as at the end of the period;
- (b) a statement of comprehensive income for the period;
- (c) a statement of changes in equity for the period;
- (d) a statement of cash flows for the period;
- (e) notes, comprising a summary of significant accounting policies and other explanatory information; and
- (f) a statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

In the interest of timeliness and cost considerations and to avoid repetition of information previously reported, an entity may be required to or may elect to provide less information at interim dates as compared with its annual financial statements. This Standard defines the minimum content of an interim financial report as including condensed financial statements and selected explanatory notes. The interim financial report is intended to provide an update on the latest complete set of annual financial statements. Accordingly, it focuses on new activities, events, and circumstances and does not duplicate information previously reported.

Nothing in this Standard is intended to prohibit or discourage an entity from publishing a complete set of financial statements (as described in IAS 1) in its interim financial report, rather than condensed financial statements and selected explanatory notes. Nor does this Standard prohibit or discourage an entity from including in condensed interim financial statements more than the minimum items or selected explanatory notes as set out in this Standard.

The recognition and measurement guidance in this Standard applies also to complete financial statements for an interim period, and such statements would include all of the disclosures required by this Standard (particularly the selected note disclosures in paragraph 16) as well as those required by other IFRSs.

Minimum components of an interim financial report

An interim financial report shall include, at a minimum, the following components:

- (a) a condensed statement of financial position;
- (b) a condensed statement or condensed statements of profit or loss and other comprehensive income;
- (c) a condensed statement of changes in equity;
- (d) a condensed statement of cash flows; and
- (e) selected explanatory notes.

If an entity publishes a complete set of financial statements in its interim financial report, the form and content of those statements shall conform to the

requirements of IAS 1 for a complete set of financial statements.

If an entity publishes a set of condensed financial statements in its interim financial report, those condensed statements shall include, at a minimum, each of the headings and subtotals that were included in its most recent annual financial statements and the selected explanatory notes as required by this Standard.

Additional line items or notes shall be included if their omission would make the condensed interim financial statements misleading.

In the statement that presents the components of profit or loss for an interim period, an entity shall present basic and diluted earnings per share for that period when the entity is within the scope of IAS 33 *Earnings per Share*.²

If an entity presents items of profit or loss in a separate statement as described in paragraph 10A of IAS 1 (as amended in 2011), it presents basic and diluted earnings per share in that statement.

IAS 1 (as revised in 2007) provides guidance on the structure of financial statements. The Implementation Guidance for IAS 1 illustrates ways in which the statement of financial position, statement of comprehensive income and statement of changes in equity may be presented.

An interim financial report is prepared on a consolidated basis if the entity's most recent annual financial statements were consolidated statements. The parent's separate financial statements are not consistent or comparable with the consolidated statements in the most recent annual financial report. If an entity's

This paragraph was amended by Improvements to IFRSs issued in May 2008 to clarify the scope of IAS 34. annual financial report included the parent's separate financial statements in addition to consolidated financial statements, this Standard neither requires nor prohibits the inclusion of the parent's separate statements in the entity's interim financial report.

Significant events and transactions

An entity shall include in its interim financial report an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period. Information disclosed in relation to those events and transactions shall update the relevant information presented in the most recent annual financial report.

A user of an entity's interim financial report will have access to the most recent annual financial report of that entity. Therefore, it is unnecessary for the notes to an interim financial report to provide relatively insignificant updates to the information that was reported in the notes in the most recent annual financial report.

The following is a list of events and transactions for which disclosures would be required if they are significant: the list is not exhaustive.

(a) the write-down of inventories to net realisable value and the reversal of such a write-down;

- (b) recognition of a loss from the impairment of financial assets, property, plant and equipment, intangible assets, or other assets, and the reversal of such an impairment loss;
- (c) the reversal of any provisions for the costs of restructuring;
- (d) acquisitions and disposals of items of property, plant and equipment;
- (e) commitments for the purchase of property, plant and equipment;
- (f) litigation settlements;
- (g) corrections of prior period errors;
- (h) changes in the business or economic circumstances that affect the fair value of the entity's financial assets and financial liabilities, whether those assets or liabilities are recognised at fair value or amortised cost;
- (i) any loan default or breach of a loan agreement that has not been remedied on or before the end of the reporting period;
- (j) related party transactions;
- (k) transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments;
- (l) changes in the classification of financial assets as a result of a change in the purpose or use of those assets; and
- (m) changes in contingent liabilities or contingent assets.

Individual IFRSs provide guidance regarding disclosure requirements for many of

the items listed in paragraph 15B. When an event or transaction is significant to an understanding of the changes in an entity's financial position or performance since the last annual reporting period, its interim financial report should provide an explanation of and an update to the relevant information included in the financial statements of the last annual reporting period.

Other disclosures

In addition to disclosing significant events and transactions in accordance with paragraphs 15–15C, an entity shall include the following information, in the notes to its interim financial statements, if not disclosed elsewhere in the interim financial report. The information shall normally be reported on a financial year-to-date basis.

- (a) a statement that the same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements or, if those policies or methods have been changed, a description of the nature and effect of the change.
- (b) explanatory comments about the seasonality or cyclical nature of interim operations.
- (c) the nature and amount of items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence.
- (d) the nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years.
- (e) issues, repurchases and repayments of debt and equity securities.

(f) dividends paid (aggregate or per share) separately for ordinary shares and other shares.

(g) the following segment information (disclosure of segment information is required in an entity's interim financial report only if IFRS 8 *Operating Segments* requires that entity to disclose segment information in its annual financial statements):

(i) revenues from external customers, if included in the measure of segment profit or loss reviewed by the chief operating decision maker or otherwise regularly provided to the chief operating decision maker.

(ii) intersegment revenues, if included in the measure of segment profit or loss reviewed by the chief operating decision maker or otherwise regularly provided to the chief operating decision maker.

(iii) a measure of segment profit or loss.

(iv) total assets for which there has been a material change from the amount disclosed in the last annual financial statements.

(v) a description of differences from the last annual financial statements in the basis of segmentation or in the basis of measurement of segment profit or loss.

(vi) a reconciliation of the total of the reportable segments' measures of profit or loss to the entity's profit or loss before tax expense (tax income) and discontinued operations. However, if an entity allocates to reportable segments items such as tax expense (tax income), the entity may reconcile the total of the segments' measures of profit or loss to profit or loss after those items. Material reconciling items shall be separately identified and described in that reconciliation.

(h) events after the interim period that have not been reflected in the financial statements for the interim period.

(i) the effect of changes in the composition of the entity during the interim period, including business combinations, obtaining or losing control of subsidiaries and long-term investments, restructurings, and discontinued operations. In the case of business combinations, the entity shall disclose the information required by IFRS 3 *Business Combinations*.

Costs incurred unevenly during the financial year

Costs that are incurred unevenly during an entity's financial year shall be anticipated or deferred for interim reporting purposes if, and only if, it is also appropriate to anticipate or defer that type of cost at the end of the financial year. Applying the recognition and measurement principles

The measurement procedures to be followed in an interim financial report shall be designed to ensure that the resulting information is reliable and that all material financial information that is relevant to an understanding of the financial position or performance of the entity is appropriately disclosed. While measurements in both annual and interim financial reports are often based on reasonable estimates, the preparation of interim financial reports generally will require a greater use of estimation methods than annual financial reports.

One objective of the preceding principle is to ensure that a single accounting policy is applied to a particular class of transactions throughout an

entire financial year. Under IAS 8, a change in accounting policy is reflected by retrospective application, with restatement of prior period financial data as far back as is practicable. However, if the cumulative amount of the adjustment relating to prior financial years is impracticable to determine, then under IAS 8 the new policy is applied prospectively from the earliest date practicable. The effect of the principle in paragraph 43 is to require that within the current financial year any change in accounting policy is applied either retrospectively or, if that is not practicable, prospectively, from no later than the beginning of the financial year.

To allow accounting changes to be reflected as of an interim date within the financial year would allow two differing accounting policies to be applied to a particular class of transactions within a single financial year. The result would be interim allocation difficulties, obscured operating results, and complicated analysis and understandability of interim period information.

Effective date

This Standard becomes operative for financial statements covering periods beginning on or after 1 January 1999. Earlier application is encouraged. IAS 1 (as revised in 2007) amended the terminology used throughout IFRSs. In addition it amended paragraphs 4, 5, 8, 11, 12 and 20, deleted paragraph 13 and added paragraphs 8A and 11A. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies IAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.

International Financial Reporting Standards Tashkent Financial Institute



- **IAS34 Interim Financial Reporting**

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IAS 34 Interim Financial Statements

Objectives:

- The objective of this Standard is
 - to prescribe the minimum content, and the principles for recognition and measurement for the interim financial statements.

Scope:

- This Standard does not mandate which entities should be required to publish interim financial reports, how frequently, or how soon after the end of an interim period.....
- This Standard applies if an entity is required or elects to publish an interim financial report in accordance with IFRSs.



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IAS 34 Interim Financial Statements

Minimum components of an interim financial report:

• An interim financial report shall include, at a minimum, the following components:

- a. a condensed statement of financial position;
- b. a condensed statement or condensed statements of profit or loss and other comprehensive income;
- c. a condensed statement of changes in equity;
- d. a condensed statement of cash flows; and
- e. selected explanatory notes.



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IAS 34 Interim Financial Statements

Minimum components of an interim financial report:

• In the interest of timeliness and cost considerations and to avoid repetition of information previously reported,

• an entity may be required to or may elect to provide **less information at interim dates as compared with its annual financial statements.**



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IAS 34 Interim Financial Statements

- Periods for which interim financial statements are required to be presented:
 - statement of financial position as of the end of the current interim period and a comparative statement of financial position as of the end of the immediately preceding financial year.
 - statements of comprehensive income for the current interim period and cumulatively for the current financial year to date, with comparative statements of comprehensive income for the comparable interim periods (current and year-to-date) of the immediately preceding financial year
 - statement of changes in equity cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year.
 - statement of cash flows cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year.



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IAS 34 Interim Financial Statements

- Periods for which interim financial statements are required to be presented:

| Example: | |
|--|--|
| Fiscal Year: January 1 to December 31 | Current Interim Period: Sept. 30, 2012 |
| <u>Current</u> | <u>Comparative</u> |
| Statement of Financial Position | |
| Sept. 30, 2012 | Dec. 31, 2011 |
| Statement of Comprehensive Income | |
| July - Sept, 2012 | July - Sept, 2011 |
| Jan. - Sept, 2012 | Jan. - Sept, 2011 |
| Statement of Changes in Equity & Statement of Cash Flows | |
| July - Sept, 2012 | July - Sept, 2011 |



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IAS 34 Interim Financial Statements

- **Same accounting policies as annual**
 - An entity shall apply **the same accounting policies** in its interim financial statements as are applied in its annual financial statements
 - And, as if each interim period stands alone as an independent reporting period.

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IAS 34 Interim Financial Statements

- **Same accounting policies as annual**
 - income tax expense is recognized in each interim period based on **the best estimate of the weighted average annual income tax rate** expected for the full financial year.
 - Example
 - Annual effective tax rate = 30%
 - Q1 net income before tax : \$1,000 --> Tax \$300
 - Q2 net income before tax : \$800 --> Tax \$240
 - Q3 net income before tax: \$1,600 --> Tax \$480

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IAS 34 Interim Financial Statements

- **Form and content of interim financial statements:**
 - Interim financial report is prepared **on a consolidated basis** if the entity's most recent annual financial statements were consolidated statements.
- **Significant events and transactions**
 - An entity shall include in its interim financial report **an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance** of the entity since the end of the last annual reporting period.



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IAS 34 Interim Financial Statements

Disclosure of compliance with IFRSs

- If an entity's interim financial report is in compliance with this Standard, that fact shall be disclosed.

Revenues received seasonally, cyclically, or occasionally

- Revenues that are received seasonally, cyclically, or occasionally within a financial year shall NOT be anticipated or deferred as of an interim date.

Costs incurred unevenly during the financial year

- Costs that are incurred unevenly during an entity's financial year shall be anticipated or deferred for interim reporting purposes if, and only if, it is also appropriate to anticipate or defer that type of cost at the end of the financial year.



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Case for Revenues received seasonally, cyclically, or occasionally

- Company A is a chocolate manufacturing company. The business is quite seasonal, and 80% of its sales, i.e., \$80M takes place in February. The company is about to issue its interim financial report covering January to March. Should the company defer part of the revenue to other months?



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Case for Costs incurred unevenly during the financial year

- Company B is a chemical manufacturing company, and has several manufacturing plants in Tokyo. Because of the regulation, the company has to stop the operations of the plants and inspect the safeness of the plants in September once every two years. The cost associated with it is \$10M. The company is about to issue the interim financial report for January to March. Should the company recognize the cost and include it in the interim financial statements??



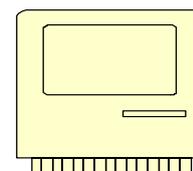
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IAS 34 Interim Financial Statements

Restatement of previously reported interim periods

- A change in accounting policy shall be reflected by:
 - Restating the financial statements of prior interim periods of the current financial year and the comparable interim periods
 - Example
 - For the Statement of Comprehensive Income for July - Sept, 2012, the following statements must be restated:
 - Statement of Comprehensive Income for Jan - Sept 2012
 - Statement of Comprehensive Income for July - Sept 2011
 - Statement of Comprehensive Income for Jan - Sept 2011
- when it is impracticable to determine the cumulative effect.... apply the new accounting policy prospectively from the earliest date practicable.



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IAS 34 Interim Financial Statements

Appendix

•Significant events and transactions

- the write-down of inventories to net realizable value and the reversal of such a write-down;
- recognition of a loss from the impairment of financial assets, property, plant and equipment, intangible assets, or other assets, and the reversal of such an impairment loss;
- the reversal of any provisions for the costs of restructuring;
- acquisitions and disposals of items of property, plant and equipment;
- commitments for the purchase of property, plant and equipment;
- litigation settlements;
- corrections of prior period errors;
- changes in the business or economic circumstances that affect the fair value of the entity's financial assets and financial liabilities, whether those assets or liabilities are recognized at fair value or amortized cost;
- any loan default or breach of a loan agreement that has not been remedied on or before the end of the reporting period;
- related party transactions;
- transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments;
- changes in the classification of financial assets as a result of a change in the purpose

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Intangible Assets (International Accounting Standard 38)

1. Objective, Definitions
2. Identifiability
3. Separate acquisition
4. Acquisition as part of a business combination

Objective- The objective of this Standard is to prescribe the accounting treatment for intangible assets that are not dealt with specifically in another Standard. This Standard requires an entity to recognise an intangible asset if, and only if, specified criteria are met. The Standard also specifies how to measure the carrying amount of intangible assets and requires specified disclosures about intangible assets.

Scope

This Standard shall be applied in accounting for intangible assets, except:

- (a) intangible assets that are within the scope of another Standard;
- (b) financial assets, as defined in IAS 32 *Financial Instruments: Presentation*;
- (c) the recognition and measurement of exploration and evaluation assets (see IFRS 6 *Exploration for and Evaluation of Mineral Resources*); and
- (d) expenditure on the development and extraction of minerals, oil, natural gas and similar non-regenerative resources.

If another Standard prescribes the accounting for a specific type of intangible asset, an entity applies that Standard instead of this Standard. For example, this Standard does not apply to:

- (a) intangible assets held by an entity for sale in the ordinary course of business (see IAS 2 *Inventories* and IAS 11 *Construction Contracts*).
- (b) deferred tax assets (see IAS 12 *Income Taxes*).
- (c) leases that are within the scope of IAS 17 *Leases*.
- (d) assets arising from employee benefits (see IAS 19 *Employee Benefits*).
- (e) financial assets as defined in IAS 32. The recognition and measurement of some financial assets are covered by IFRS 10 *Consolidated Financial Statements*,
- (f) goodwill acquired in a business combination (see IFRS 3 *Business Combinations*).
- (g) deferred acquisition costs, and intangible assets, arising from an insurer's contractual rights under insurance contracts within the scope of IFRS 4 *Insurance Contracts*. IFRS 4 sets out specific disclosure requirements for those deferred acquisition costs but not for those intangible assets. Therefore, the disclosure requirements in this Standard apply to those intangible assets.
- (h) non-current intangible assets classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Some intangible assets may be contained in or on a physical substance such as a compact disc (in the case of computer software), legal documentation (in the case of a licence or patent) or film. In determining whether an asset that

incorporates both intangible and tangible elements should be treated under IAS 16 *Property*,

Plant and Equipment or as an intangible asset under this Standard, an entity uses judgement to assess which element is more significant. For example, computer software for a computer-controlled machine tool that cannot operate without that specific software is an integral part of the related hardware and it is treated as property, plant and equipment. The same applies to the operating system of a computer. When the software is not an integral part of the related hardware, computer software is treated as an intangible asset.

This Standard applies to, among other things, expenditure on advertising, training, start-up, research and development activities. Research and development activities are directed to the development of knowledge. Therefore, although these activities may result in an asset with physical substance (eg a prototype), the physical element of the asset is secondary to its intangible component, ie the knowledge embodied in it. In the case of a finance lease, the underlying asset may be either tangible or intangible. After initial recognition, a lessee accounts for an intangible asset held under a finance lease in accordance with this Standard. Rights under licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights are excluded from the scope of IAS 17 and are within the scope of this Standard.

Exclusions from the scope of a Standard may occur if activities or transactions are so specialised that they give rise to accounting issues that may need to be dealt with in a different way. Such issues arise in the accounting for expenditure on the exploration for, or development and extraction of, oil, gas and mineral deposits in extractive industries and in the case of insurance contracts. Therefore, this Standard does not apply to expenditure on such activities and contracts. However, this Standard applies to other intangible assets used (such as computer software), and other expenditure incurred (such as start-up costs), in extractive industries or by insurers.

Definitions

The following terms are used in this Standard with the meanings specified:

Amortisation is the systematic allocation of the depreciable amount of an intangible asset over its useful life.

An *asset* is a resource:

- (a) controlled by an entity as a result of past events; and
- (b) from which future economic benefits are expected to flow to the entity.

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated amortisation and accumulated impairment losses thereon.

Cost is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction, or, when applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other IFRSs, eg IFRS 2 *Share-based Payment*.

Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

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

Entity-specific value is the present value of the cash flows an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.

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. (See IFRS 13 *Fair Value Measurement*.)

An *impairment loss* is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An *intangible asset* is an identifiable non-monetary asset without physical substance.

Monetary assets are money held and assets to be received in fixed or determinable amounts of money.

Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

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

Useful life is:

- (a) the period over which an asset is expected to be available for use by an entity; or
- (b) the number of production or similar units expected to be obtained from the asset by an entity.

Intangible assets

Entities frequently expend resources, or incur liabilities, on the acquisition, development, maintenance or enhancement of intangible resources such as scientific or technical knowledge, design and implementation of new processes or systems, licences, intellectual property, market knowledge and trademarks (including brand names and publishing titles). Common examples of items encompassed by these broad headings are computer software, patents, copyrights, motion picture films, customer lists, mortgage servicing rights, fishing licences, import quotas, franchises, customer or supplier relationships, customer loyalty, market share and marketing rights.

Not all the items described in paragraph 9 meet the definition of an intangible asset, ie identifiability, control over a resource and existence of future economic benefits. If an item within the scope of this Standard does not meet the definition of an intangible asset, expenditure to acquire it or generate it

internally is recognised as an expense when it is incurred. However, if the item is acquired in a business combination, it forms part of the goodwill recognised at the acquisition date

Identifiability

The definition of an intangible asset requires an intangible asset to be identifiable

to distinguish it from goodwill. Goodwill recognised in a business combination is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised. The future economic benefits may result from synergy between the identifiable assets acquired or from assets that, individually, do not qualify for recognition in the financial statements.

An asset is identifiable if it either:

- (a) is separable, ie is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or
- (b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Control

13 An entity controls an asset if the entity has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits. The capacity of an entity to control the future economic benefits from an intangible asset would normally stem from legal rights that are enforceable in a court of law. In the absence of legal rights, it is more difficult to demonstrate control. However, legal enforceability of a right is not a necessary condition for control because an entity may be able to control the future economic benefits in some other way.

Market and technical knowledge may give rise to future economic benefits. An entity controls those benefits if, for example, the knowledge is protected by legal rights such as copyrights, a restraint of trade agreement (where permitted) or by a legal duty on employees to maintain confidentiality. An entity may have a team of skilled staff and may be able to identify incremental staff skills leading to future economic benefits from training. The entity may also expect that the staff will continue to make their skills available to the entity. However, an entity usually has insufficient control over the expected future economic benefits arising from a team of skilled staff and from training for these items to meet the definition of an intangible asset. For a similar reason, specific management or technical talent is unlikely to meet the definition of an intangible asset, unless it is protected by legal rights to use it and to obtain the future economic benefits expected from it, and it also meets the other parts of the definition.

An entity may have a portfolio of customers or a market share and expect that, because of its efforts in building customer relationships and loyalty, the customers will continue to trade with the entity. However, in the absence of legal rights to protect, or other ways to control, the relationships with customers or the loyalty of the customers to the entity, the entity usually has insufficient control over the expected economic benefits from customer relationships and loyalty for such items (eg portfolio of customers, market shares, customer relationships and customer loyalty) to meet the definition of intangible assets. In the absence of legal rights to protect customer relationships, exchange transactions for the same or similar non-contractual customer relationships (other than as part of a business combination) provide evidence that the entity is nonetheless able to control the expected future economic benefits flowing from the customer relationships. Because such exchange transactions also provide evidence that the customer relationships are separable, those customer relationships meet the definition of an intangible asset.

Future economic benefits

The future economic benefits flowing from an intangible asset may include revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset by the entity. For example, the use of intellectual property in a production process may reduce future production costs rather than increase future revenues.

Acquisition as part of a business combination

In accordance with IFRS 3 *Business Combinations*, if an intangible asset is acquired in a business combination, the cost of that intangible asset is its fair value at the acquisition date. The fair value of an intangible asset will reflect market participants' expectations at the acquisition date about the probability that the expected future economic benefits embodied in the asset will flow to the entity.

Intangible asset acquired in a business combination

35 If an intangible asset acquired in a business combination is separable or arises from contractual or other legal rights, sufficient information exists to measure reliably the fair value of the asset. When, for the estimates used to measure an intangible asset's fair value, there is a range of possible outcomes with different probabilities, that uncertainty enters into the measurement of the asset's fair value.

An intangible asset acquired in a business combination might be separable, but only together with a related contract, identifiable asset or liability. In such cases, the acquirer recognises the intangible asset separately from goodwill, but together with the related item.

The acquirer may recognise a group of complementary intangible assets as a single asset provided the individual assets have similar useful lives. For example, the terms 'brand' and 'brand name' are often used as synonyms for trademarks and other marks. However, the former are general marketing terms that are typically used to refer to a group of complementary assets such as a

trademark (or service mark) and its related trade name, formulas, recipes and technological expertise.

Subsequent expenditure on an acquired in-process research and development project

42 Research or development expenditure that:

- (a) relates to an in-process research or development project acquired separately or in a business combination and recognised as an intangible asset; and
- (b) is incurred after the acquisition of that project shall be accounted for in accordance

Internally generated goodwill

Internally generated goodwill shall not be recognised as an asset.

In some cases, expenditure is incurred to generate future economic benefits, but it does not result in the creation of an intangible asset that meets the recognition criteria in this Standard. Such expenditure is often described as contributing to internally generated goodwill. Internally generated goodwill is not recognised as an asset because it is not an identifiable resource (ie it is not separable nor does it arise from contractual or other legal rights) controlled by the entity that can be measured reliably at cost.

Differences between the fair value of an entity and the carrying amount of its identifiable net assets at any time may capture a range of factors that affect the fair value of the entity. However, such differences do not represent the cost of intangible assets controlled by the entity.

Internally generated intangible assets

It is sometimes difficult to assess whether an internally generated intangible asset qualifies for recognition because of problems in:

- (a) identifying whether and when there is an identifiable asset that will generate expected future economic benefits; and
- b) determining the cost of the asset reliably. In some cases, the cost of generating an intangible asset internally cannot be distinguished from the cost of maintaining or enhancing the entity's internally generated goodwill or of running day-to-day operations.

Research phase

No intangible asset arising from research (or from the research phase of an internal project) shall be recognised. Expenditure on research (or on the research phase of an internal project) shall be recognised as an expense when it is incurred.

In the research phase of an internal project, an entity cannot demonstrate that an intangible asset exists that will generate probable future economic benefits. Therefore, this expenditure is recognised as an expense when it is incurred.

56 Examples of research activities are:

- (a) activities aimed at obtaining new knowledge;
- (b) the search for, evaluation and final selection of, applications of research findings or other knowledge;

- (c) the search for alternatives for materials, devices, products, processes, systems or services; and
- (d) the formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, processes, systems or services.

Development phase

An intangible asset arising from development (or from the development phase of an internal project) shall be recognised if, and only if, an entity can demonstrate all of the following:

- (a) the technical feasibility of completing the intangible asset so that it will be available for use or sale.
- (b) its intention to complete the intangible asset and use or sell it.
- (c) its ability to use or sell the intangible asset.
- (d) how the intangible asset will generate probable future economic benefits.

Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.

- (e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset. (f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

In the development phase of an internal project, an entity can, in some instances, identify an intangible asset and demonstrate that the asset will generate probable future economic benefits. This is because the development phase of a project is further advanced than the research phase.

Examples of development activities are:

- (a) the design, construction and testing of pre-production or pre-use prototypes and models;
- (b) the design of tools, jigs, moulds and dies involving new technology;
- (c) the design, construction and operation of a pilot plant that is not of a scale economically feasible for commercial production; and
- (d) the design, construction and testing of a chosen alternative for new or improved materials, devices, products, processes, systems or services.

To demonstrate how an intangible asset will generate probable future economic benefits, an entity assesses the future economic benefits to be received from the asset using the principles in IAS 36 *Impairment of Assets*. If the asset will generate economic benefits only in combination with other assets, the entity applies the concept of cash-generating units in IAS 36.

Availability of resources to complete, use and obtain the benefits from an intangible asset can be demonstrated by, for example, a business plan showing the technical, financial and other resources needed and the entity's ability to secure those resources. In some cases, an entity demonstrates the availability of external finance by obtaining a lender's indication of its willingness to fund the plan.

An entity's costing systems can often measure reliably the cost of generating an intangible asset internally, such as salary and other expenditure incurred in securing copyrights or licences or developing computer software.

Internally generated brands, mastheads, publishing titles, customer lists and

items similar in substance shall not be recognised as intangible assets.

64 Expenditure on internally generated brands, mastheads, publishing titles, customer lists and items similar in substance cannot be distinguished from the cost of developing the business as a whole. Therefore, such items are not recognised as intangible assets.

Cost of an internally generated intangible asset

The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management. Examples of directly attributable costs are: (a) costs of materials and services used or consumed in generating the intangible asset; (b) costs of employee benefits (as defined in IAS 19) arising from the generation of the intangible asset; (c) fees to register a legal right; and (d) amortisation of patents and licences that are used to generate the intangible asset. IAS 23 specifies criteria for the recognition of interest as an element of the cost of an internally generated intangible asset.

The following are not components of the cost of an internally generated intangible asset:

- (a) selling, administrative and other general overhead expenditure unless this expenditure can be directly attributed to preparing the asset for use;
- (b) identified inefficiencies and initial operating losses incurred before the asset achieves planned performance; and
- (c) expenditure on training staff to operate the asset.

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- **IAS 38: Intangible Assets**

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0

IAS 38: Intangible Assets

Definition:

• An intangible asset is defined as “an identifiable non-monetary asset without physical substance”

• Examples...

- Computer Software
- Licensing right to movie films
- Goodwill
- Franchises
- Copyrights
- Patents
- Brand names
- Industrial property rights



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1

IAS 38: Intangible Assets

•Like tangible assets, it must be 1) identifiable, 2) controllable and have 3) future economic benefit.

•Also its cost needs to be measured reliably.



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IAS 38: Intangible Assets

Recognition and Measurement:

•An item may be recognized as an intangible asset if meeting the criterion below:

- It is probable that the expected future benefits will flow to the entity; and
- The cost of the assets can be measured reliably.

•Initially, intangible assets shall be measured at cost, and the cost should include purchase prices, and directly attributable costs.



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3

IAS 38: Intangible Assets

Internally Generated Intangible Assets

• Internally generated goodwill is NOT recognized as an asset.

• Examples includes.....

- Brand names such as Coca Cola, Nike, Adidas, D&G etc.



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4

IAS 38: Intangible Assets

Internally Generated Intangible Assets

• Research & Development Costs

- Any expenditures on **RESEARCH** activities are **EXPENSED** as incurred.
- It is not certain that they will generate probable economic benefit.
- Examples includes
 - Search for new materials, devices, products, processes, systems or services, design,,,,,

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IAS 38: Intangible Assets

Internally Generated Intangible Assets

- **DEVELOPMENT** costs are recognized as **INTANGIBLE** Assets if, and only if **ALL** six of the following factors can be demonstrated:
 - Technical Feasibility
 - Intention
 - Ability
 - Future economic benefit
 - Availability/Resources
 - Reliable measurement

Memo:

US GAAP requires both research & development costs to be **EXPENSED**.

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6

IAS 38: Intangible Assets

Acquired Intangible Assets

- Acquired intangible assets can be recognized as an intangible asset.
 - Separable/Identifiable
 - Future economic benefit
 - Reliable cost
- Example
 - TMI purchased Adidas brand for \$100 billion.

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7

IAS 38: Intangible Assets

Acquired Intangible Assets

- Intangible assets acquired in a business combination can be recognized as intangible assets.
- Example
TMI purchased JIKA, and JIKA has the in-process R&D cost of \$1M in its book. JIKA can capitalize this 1M as intangible assets.

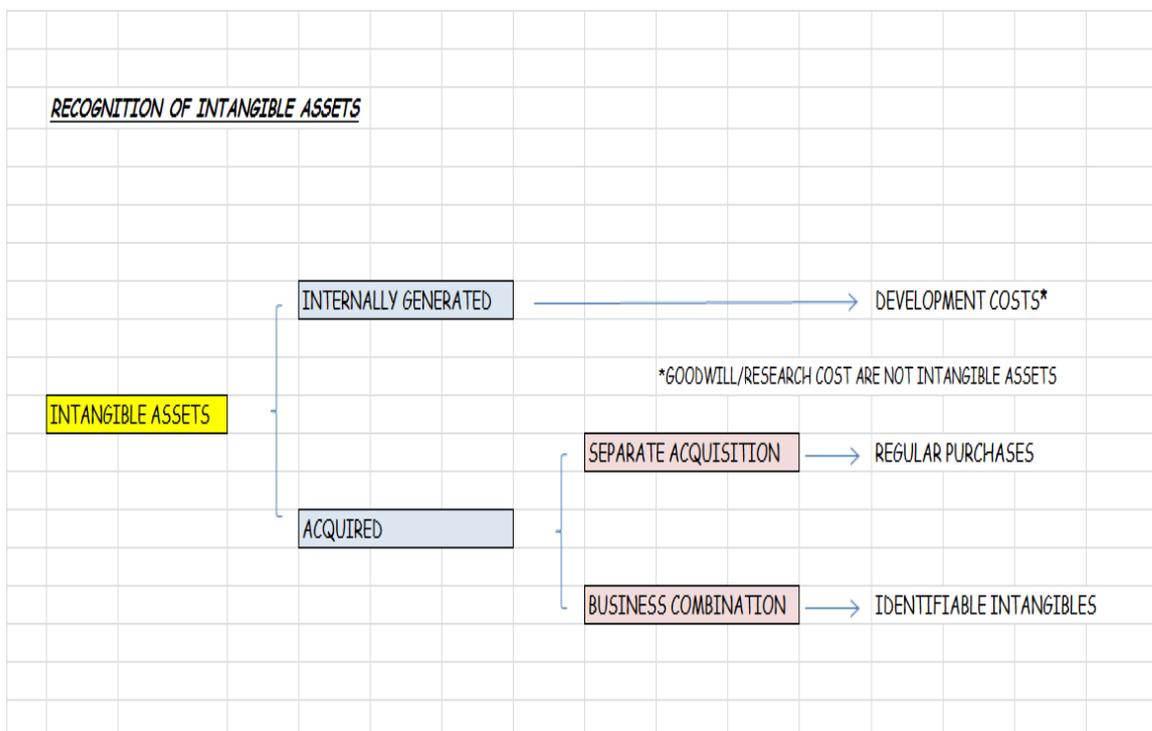
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8

IAS 37: Provisions, Contingent Liabilities & Assets

Summary:



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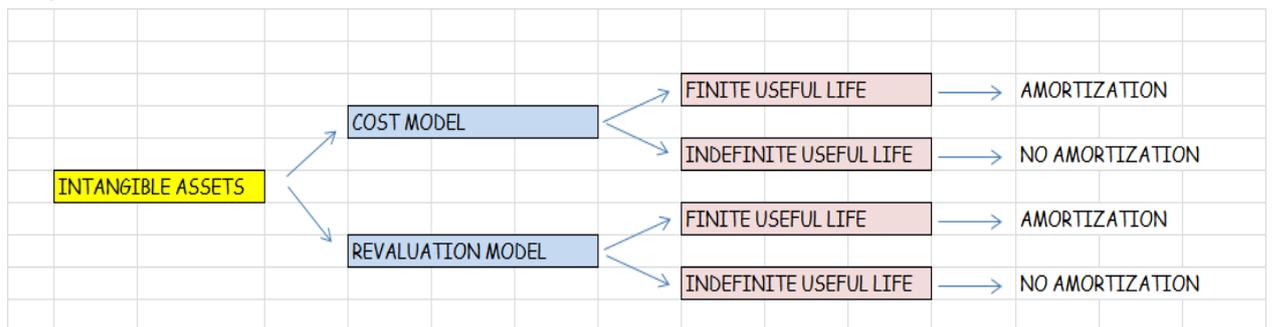
9

IAS 38: Intangible Assets

Measurement after Recognition:

• Like in accounting for PP&E (IAS16), it has two models, i.e. Cost Model and Revaluation Model.

• If the intangible asset's useful life is **INDIFINITE**, that asset is **NOT** amortized. (like in the case of land in PP&E)



Investment Property (International Accounting Standard 40)

PLAN:

1. Objective
2. Recognition
3. Inability to measure fair value reliably
4. Disclosure, Fair value model and cost model

Objective The objective of this Standard is to prescribe the accounting treatment for investment property and related disclosure requirements.

Scope This Standard shall be applied in the recognition, measurement and disclosure of investment property.

Among other things, this Standard applies to the measurement in a lessee's financial statements of investment property interests held under a lease accounted for as a finance lease and to the measurement in a lessor's financial statements of investment property provided to a lessee under an operating lease. This Standard does not deal with matters covered in IAS 17 *Leases*, including:

- (a) classification of leases as finance leases or operating leases;
- (b) recognition of lease income from investment property (see also IAS 18 *Revenue*);
- (c) measurement in a lessee's financial statements of property interests held under a lease accounted for as an operating lease;
- (d) measurement in a lessor's financial statements of its net investment in a finance lease;
- (e) accounting for sale and leaseback transactions; and
- (f) disclosure about finance leases and operating leases.

This Standard does not apply to:

- (a) biological assets related to agricultural activity (see IAS 41 *Agriculture*); and
- (b) mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources.

Definitions

The following terms are used in this Standard with the meanings specified:

Carrying amount is the amount at which an asset is recognised in the statement of financial position.

Cost is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other IFRSs, eg

IFRS 2 *Share-based Payment*.

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. (See IFRS 13 *Fair Value Measurement*).

Investment property is property (land or a building—or part of a building—or both)

held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

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

(b) sale in the ordinary course of business.

Owner-occupied property is property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes.

A *property interest* that is held by a lessee under an operating lease may be classified and accounted for as investment property if, and only if, the property would otherwise meet the definition of an investment property and the lessee uses the fair value model set out in paragraphs 33–55 for the asset recognised. This classification alternative is available on a property-by-property basis. However, once this classification alternative is selected for one such property interest held under an operating lease, all property classified as investment property shall be accounted for using the fair value model. When this classification alternative is selected, any interest so classified is included in the disclosures required

Investment property is held to earn rentals or for capital appreciation or both. Therefore, an investment property generates cash flows largely independently of the other assets held by an entity. This distinguishes investment property from owner-occupied property. The production or supply of goods or services (or the use of property for administrative purposes) generates cash flows that are attributable not only to property, but also to other assets used in the production or supply process. IAS 16 *Property, Plant and Equipment* applies to owner-occupied property.

The following are examples of investment property:

(a) land held for long-term capital appreciation rather than for short-term sale in the ordinary course of business.

(b) land held for a currently undetermined future use. (If an entity has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation.)

(c) a building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases.

(d) a building that is vacant but is held to be leased out under one or more operating leases.

(e) property that is being constructed or developed for future use as investment property.

Recognition

Investment property shall be recognised as an asset when, and only when:

- (a) it is probable that the future economic benefits that are associated with the investment property will flow to the entity; and**
- (b) the cost of the investment property can be measured reliably.**

An entity evaluates under this recognition principle all its investment property costs at the time they are incurred. These costs include costs incurred initially to acquire an investment property and costs incurred subsequently to add to, replace part of, or service a property.

Under the recognition principle in paragraph 16, an entity does not recognise in the carrying amount of an investment property the costs of the day-to-day servicing of such a property. Rather, these costs are recognised in profit or loss as incurred. Costs of day-to-day servicing are primarily the cost of labour and consumables, and may include the cost of minor parts. The purpose of these expenditures is often described as for the ‘repairs and maintenance’ of the property.

Parts of investment properties may have been acquired through replacement. For example, the interior walls may be replacements of original walls. Under the recognition principle, an entity recognises in the carrying amount of an investment property the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognised in accordance with the derecognition provisions of this Standard.

Disclosure

Fair value model and cost model

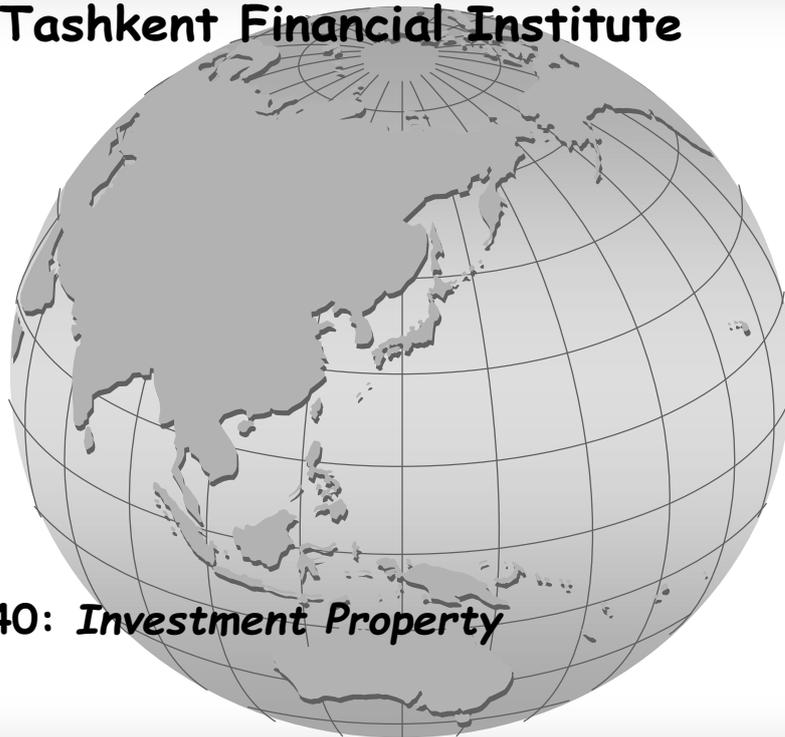
The disclosures below apply in addition to those in IAS 17. In accordance with IAS 17, the owner of an investment property provides lessors’ disclosures about leases into which it has entered. An entity that holds an investment property under a finance or operating lease provides lessees’ disclosures for finance leases and lessors’ disclosures for any operating leases into which it has entered.

An entity shall disclose:

- (a) whether it applies the fair value model or the cost model.
- (b) if it applies the fair value model, whether, and in what circumstances, property interests held under operating leases are classified and accounted for as investment property.
- (c) when classification is difficult (see paragraph 14), the criteria it uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business.
- (e) the extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact shall be disclosed.
- (f) the amounts recognised in profit or loss for:
 - (i) rental income from investment property;

- (ii) direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period; and
- (iii) direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental income during the period.
- (iv) the cumulative change in fair value recognised in profit or loss on a sale of investment property from a pool of assets in which the cost model is used into a pool in which the fair value model
- (g) the existence and amounts of restrictions on the realisability of investment property or the remittance of income and proceeds of disposal.
- (h) contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

International Financial Reporting Standards Tashkent Financial Institute



- **IAS 40: Investment Property**

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IAS 40: Investment Property

Definition:

•What is an Investment Property?

•Land or building held by the owner (or the lessee under a finance lease) to earn rentals and/or capital appreciation, rather than for use in production or supply of goods and services or for administrative purposes or for sale in the ordinary course of business.

Cf. Owner Occupied Property

•Property held by the owner (or the lessee under a finance lease) for use in production or supply of goods and services or for administrative purposes.



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1

IAS 40: Investment Property

Exercise

•JIKA Inc. has the following properties. Under IFRS, how should they be treated??

- Land held by JIKA for undeterminable future use
- A vacant land owned by JIKA to be leased out under an operating lease
- Property held by JIKA in the ordinary course of business
- Property held by JIKA for the use in production



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IAS 40: Investment Property

Recognition

•Investment property shall be recognized only when

- It is probable that the expected future benefits will flow to the entity; and
- The cost of the assets can be measured reliably.

•An investment property shall be measured at cost, including transaction charges.



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3

IAS 38: Investment Property

Subsequent Measurement

• An entity shall select either the cost model or the fair value model.

Fair Value Model

- Investment property shall be accounted for at Fair Value.
- Any gains or losses arising from changes in fair values shall be recognized in the income statement.
- No depreciation is recorded.
- The fair value should reflect the market conditions at the balance sheet date.

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IAS 40: Investment Property

Subsequent Measurement

Cost Model

- The same accounting treatment for PP&E under IAS 16,
- The investment property is reported on the statement of financial position as its cost less accumulated depreciation.

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5

IAS 40: Investment Property

Exercise 1

• TMI acquired a supermarket in the center of city for \$100. Cost of the supermarket and the cost associated with this acquisition were the followings:

| | |
|---|-------|
| - Purchase Price | \$100 |
| - Costs to transfer goods & property | 5 |
| - Note payable assumed | 73 |
| - Tenant deposit obligation assumed | 14 |
| - Cost to paint empty store space | 2 |
| - Legal fees for the registration of the property | 3 |

TMI classifies the acquired supermarket as an investment property. Determine the acquisition cost of the supermarket.

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IAS 40: Investment Property

Exercise 2 - Fair Value Model

- TMI decided to apply the fair value model. TMI has a Dec. 31 year-end and TMI recognized the property at \$108. TMI has the following fair market value information:

| | |
|-----------------|-------|
| • Dec. 31, 2013 | \$105 |
| • Dec. 31, 2014 | \$104 |
| • Dec. 31, 2015 | \$110 |

- Please make journal entries at the end of each year.

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7

IAS 40: *Investment Property*

Exercise 3 - Cost Model

- TMI decided to use the cost model. TMI expects the supermarket have 35-year useful life and a residual value of \$11.

What entries are required at each year? Confirm the different accounting treatment from the one for the fair value model



GLOSSARY (terminologies dictionary)

A

Abandonment (decommissioning, dismantlement) costs Затраты на ликвидацию (закрытие)
Abnormal (gains, losses) Необычные по размеру (прибыли, убытки)
Absorption costing Абсорбционное ценообразование
Acceptance sampling Приемлемая выборка
Account Счет
Account balance Сальдо по счету (остаток по счету)
Accounting Бухгалтерский учет
Accounting and review service Услуги по учету и проверке
Accounting base Базовые правила и методы учета
Accounting concept Концепция бухгалтерского учета
Accounting data Учетные данные
Accounting estimate Бухгалтерский расчет (бух.учет) Оценочное значение (аудит)
Accounting income Учетная прибыль
Accounting method Метод учета
Accounting model Учетная модель, бухгалтерская модель
Accounting period Учетный период
Accounting policy Учетная политика
Accounting principle Принцип бухгалтерского учета
Accounting procedure Учетная процедура
Accounting profit Бухгалтерская прибыль
Accounting record Бухгалтерская, учетная запись
Accounting standard Стандарт учета
Accounting system Система бухгалтерского учета
Accounting treatment Порядок учета
Accounts / Financial Statements Финансовая отчетность
Accounts payable Кредиторская задолженность
Accounts receivable Дебиторская задолженность
Accrual basis Метод начисления
Accrual basis of accounting Учет по методу начисления
Accruals concept Принцип начисления
Accrued expenses Начисленные расходы
Accrued expenses payable Задолженность по начисленным расходам
Accrued liability Начисленное обязательство
Accrued revenue Начисленная выручка
Accumulated depreciation Накопленная амортизация
Accumulated loss Накопленный убыток
Accumulated profit Накопленная прибыль
Accumulating compensated absences Накапливаемые оплачиваемые отпуска
Accrued benefit valuation method Метод оценки причитающихся выгод
Acquiree Приобретенная, приобретаемая компания
Acquirer Компания_покупатель
Acquisition Приобретение, покупка
Acquisition accounting Учет приобретения
Acquisition costs Затраты на приобретение (бухгалтерский учет)
Аквизиционные расходы (расходы по привлечению страхователей) (бухгалтерский учет в страховании)
Active market Активный рынок

Actuarial assumption Актуарное допущение
 Actuarial gains and losses Актуарные прибыль и убытки
 Actuarial present value of promised retirement benefit Актуарная дисконтированная стоимость причитающихся пенсий
 Actuarial valuation Актуарная оценка
 Actuarial valuation method Метод актуарной оценки
 Add value Добавленная стоимость
 Adequate control Адекватный контроль
 Additional consideration Дополнительное возмещение
 Additional paid_in capital Дополнительно оплаченная часть акционерного капитала
 Adjusted trial balance Скорректированный проверочный / пробный баланс
 Adjusting entry Корректирующая проводка
 Adjusting event (after the balance sheet date) Корректирующее событие (после отчетной даты)
 Adjustment Корректировка
 Administrative expenses Административные расходы
 Advance Авансовые платежи, аванс, авансировать
 Adverse opinion Отрицательное мнение
 Advisory service Консультационные услуги
 Aggregation Суммирование, обобщение
 Agreed upon procedures Согласованные процедуры
 Agreed upon procedures engagement Задание по выполнению согласованных процедур
 Agricultural activity Сельскохозяйственная деятельность
 Agricultural inventories Запасы сельскохозяйственной продукции
 AICPA (American Institute of Certified Public Accountants) Институт дипломированных бухгалтеров США
 Allocation Распределение, списание, отнесение
 Allowance Оценочный резерв
 Allowance for doubtful accounts Резерв по сомнительным долгам
 Allowance for sampling risk Резерв на покрытие риска выборки
 Allowed alternative method Разрешенный альтернативный подход
 Allowed alternative treatment Допустимый альтернативный порядок учета
 Amortisation Амортизация
 Amortization method Метод начисления амортизации
 Amortisation period Срок амортизации
 Amortised cost of a financial asset or financial liability Амортизируемая стоимость финансового актива или финансового обязательства
 Amount of inventories Величина запасов
 Amount of shares issued Количество выпущенных акций
 Amounts recognised in the balance sheet and income statement Суммы, признанные в балансе и отчете о прибылях и убытках
 Analytical procedure Аналитическая процедура
 Annual lease costs Годовая стоимость аренды
 Annual report Годовой отчет
 Annuities Аннуитет
 Anomalous error Нетиповая ошибка
 Application control Прикладные средства контроля

Appraisal (of mineral reserves) Оценка (запасов полезных ископаемых)
Appraisal well Оценочная скважина
Appraised value Оценочная стоимость
Appropriateness Уместность
Appropriation accounting Учет путем распределения
Area of interest Перспективная территория
Area of interest accounting Учет в разрезе перспективных территорий
Arm's length transaction Сделка между независимыми друг от друга сторонами
Asking price Цена предложения
Assertion Утверждение
Assess Оценка
Asset Актив
Asset exchanged at a loss (at a gain) Актив, обмененный с убытком (с прибылью)
Assets held by a long_term employee benefit fund Активы в распоряжении фонда долгосрочных выплат сотрудникам
Assistance Помощь, содействие
Assistant Ассистент (аудитора)
Associate Ассоциированная компания
Assurance Уверенность
Assurance engagement Задание по подтверждению достоверности информации
Assurance service Услуги по предоставлению заключения в отношении финансовой информации
At cost По себестоимости, по первоначальной стоимости
Attendance Присутствие
Attestation Аттестация
Attribute sampling Атрибутивная выборка
Audit Аудит
Audit adjustment Аудиторская корректировка
Audit analytical review Аналитические процедуры проведения аудита
Audit committee Комитет по аудиту
Audit contract Договор оказания аудиторских услуг
Audit evidence Аудиторское доказательство
Audit firm Аудиторская фирма
Audit objective Цели аудита
Audit plan План аудита
Audit procedures Процедуры аудита
Audit program Программа аудита
Audit risk Аудиторский риск
Audit sampling Аудиторская выборка
Audit team Аудиторская команда
Auditing Standards Board Совет по стандартам аудита
Auditor Аудитор
Auditor's association Причастность аудитора
Auditor's opinion Аудиторское мнение
Auditor's responsibility Ответственность аудитора
Authorisation Разрешение
Available_for_sale financial assets Финансовые активы, имеющиеся в наличии для продажи
Average cost Средняя стоимость, средние затраты

В

Backup Дублирование
Balance between benefit and cost Соотношение между выгодами и затратами
Balance sheet Бухгалтерский баланс
Balance sheet date Отчетная дата
Balance sheet liability method Метод обязательств по балансу
Balance Сальдо (остаток)
Balancing item Статья, по которой выводится остаток
Bank Банк
Bank overdraft Банковский овердрафт
Bankrupt Банкрот
Bankruptcy Банкротство
Barrels_of_oil equivalent Эквивалент в баррелях нефти
Base stock Метод базовых запасов
Basic accounting equation Основное балансовое равенство
Basic earnings per share Базовая прибыль на акцию
Beginning inventory Запасы на начало периода
Benchmark Основной подход
Benchmark treatment Основной порядок учета
Beneficiary Выгодоприобретатель
Benefit Выгода, польза, выплата
Bill of lading Накладная, коносамент
Binding sale agreement Соглашение о продаже, имеющее обязательную силу
Biological asset Биологический актив
Biological transformation Биотрансформация
Block or group or «book» of policies Блок, группа или «журнал учета» полисов
Bonds payable Облигации к оплате
Bonus Бонус, дополнительная выплата, премиальные
Bonus plan Схема премиальных выплат
Book value (Carrying amount) Балансовая стоимость (Учетная стоимость)
Book value of a liability Балансовая стоимость обязательства
Book value of an asset Балансовая стоимость актива
Borrowing costs Затраты по займам
Borrowings Заемные средства
Bottom hole contribution Вклад в покрытие затрат на забой скважины
Break_up basis Метод учета в условиях срочной реализации имущества
Broker's commission Комиссионное вознаграждение брокеру
Business combination Объединение бизнеса
Business segment Хозяйственный сегмент
By_product Побочный продукт

С

Call option Опцион покупателя
Cancel supporting documents Аннулирование первичной документации
Capability to change Способность к изменению
Capital Капитал
Capital asset Капитальный (внеоборотный) актив
Capital expenditures Капитальные затраты
Capital lease Аренда основных средств
Capital maintenance Поддержание капитала
Capital stock Акционерный капитал

Capital surplus Добавочный капитал
 Capitalisation of interest Капитализация процентов
 Capitalised costs Капитализируемые затраты
 Carried interest (carrying arrangement) Полупассивное долевое участие (договоренность о «полупассивном» долевом участии в добыче полезных ископаемых)
 Carryforward of unused tax credit Перенос неиспользованных налоговых кредитов на будущий период
 Carrying amount (Book value) Учетная стоимость (балансовая стоимость)
 Cash Денежные средства
 Cash balancing Компенсационный остаток
 Cash commitments Денежные обязательства
 Cash equivalents Эквиваленты денежных средств
 Cash flow risk Риск, связанный с движением денежных средств, риск денежного потока
 Cash flow statement (Statement of cash flows) Отчет о движении денежных средств
 Cash flow Денежный поток, движение денежных средств
 Cash generating unit Актив или группа активов, генерирующих денежные средства (генерирующая единица)
 Cash inflow Поступление денежных средств
 Cash method Кассовый метод
 Cash on hand Денежные средства в кассе, касса
 Cash outflows (payments) Выбытие денежных средств
 Cash payments Денежные платежи, выплаты, расчеты
 Cash proceeds Денежные поступления
 Cash receipts from customers Поступление денежных средств от клиентов
 Cash received on account with a discount Денежные средства, полученные с учетом скидки
 Cash surrender value Выкупная стоимость, сумма, на которую имеет право страхователь в случае досрочного прекращения договора страхования жизни
 Catastrophe (cat) provisions Резервы на катастрофы (РК)
 Catastrophe bonds Облигации, связанные с риском катастроф
 Caveat Предупреждение
 Ceding insurer Цедент, перестрахователь (передающая страховая компания)
 Certificate of deposit Депозитный сертификат
 Changes in accounting policy Изменения в учетной политике
 Changes in equity Изменения в капитале
 Changes in financial position Изменения финансового положения
 Check register Реестр чеков
 Chief audit executive Руководитель внутреннего аудита
 Claim processing expenses Расходы по обработке требований о возмещении ущерба
 Claims payable Страховое возмещение к оплате
 Claims reported but not paid Заявленные, но неоплаченные убытки (РЗУ – резерв заявленных, но неоплаченных убытков)
 Class of assets Вид активов
 Classification Классификация
 Client's account Счет клиента
 Client's funds Денежные средства клиентов
 Closing rate Валютный курс на отчетную дату

Closing rate method Метод курса на отчетную дату
Closure Закрытие
Code of Ethics Кодекс этики
Collateral Залог, обеспечение
Collateralization Закладывание
Collusion Тайное соглашение
Comfort letter Рекомендательное письмо
Commercial property Имущество, используемое для коммерческих целей
(бухгалтерский учет общий)
Имущественный комплекс коммерческого
месторождения (бухгалтерский учет в добывающих
отраслях)
Commercially recoverable reserves Извлекаемые запасы промышленного значения
Commission Комиссионные, вознаграждение, комиссионные
вознаграждения
Commodity contract Контракт на поставку товара
Common stock Обыкновенные акции
Communication Представление отчетности, информации
(заинтересованным пользователям)
Comparability Сопоставимость
Comparable financial statements Сопоставимая финансовая отчетность
Comparatives Относительные показатели
Compensating balance Компенсационный остаток
Competence Компетенция
Compilation Подготовка информации
Compilation engagement Задание по подготовке информации
Completed contract method Метод учета результата проекта по его окончании
Completeness Полнота
Completion Заканчивание (скважины)
Compliance Соответствие
Component Компонент, составляющая, часть, статья
Compound financial instrument Комбинированный финансовый инструмент
Comprehensive basis of accounting Общие основы бухгалтерского учета
Comprehensive income Полный доход, включая все изменения в чистых
активах, за исключением тех средств, которые
являются результатом операций с собственниками
компании
Computation Подсчет
Computer information systems (CIS) Компьютерные информационные системы
Computer_ assisted audit techniques (CAAT) Методы аудита с использованием
компьютеров
(МАК)
Concession (concessionary agreement) Концессия (концессионный договор)
Condensed (internal) financial reports Сокращенная (внутренняя) финансовая отчетность
Confidentiality Конфиденциальность
Confirmation Подтверждение
Conflict of interest Конфликт интересов
Conservatism Принцип консерватизма
Consideration Возмещение
Control procedures Процедура проверки контроля
Compensation Компенсация (плата)
Consignment Консигнация

Consistency Последовательность
 Consolidated financial statements Сводная финансовая отчетность
 Consolidated group Группа, представляющая сводную отчетность
 Consolidation Сведение, консолидация
 Construction Строительство
 Construction contract Договор на строительство
 Construction costs Затраты на строительство
 Constructive obligation Обязательство, вытекающее из практики
 Consulting service Консалтинг, консультационные услуги
 Contingency Условный факт хозяйственной деятельности
 Contingent asset Условный актив
 Contingent gain Условный доход
 Contingent liability Условное обязательство
 Contingent loss Условный убыток
 Contingent rent Условная арендная плата
 Continuing accounting significance Постоянная учетная значимость
 Continuing auditor Постоянный аудитор
 Contra account Контрсчет
 Contributed surplus Взносы в капитал компании со стороны акционеров (участников) и прочих лиц, а также эмиссионный доход
 Contribution from owner Вклад (взнос) собственника
 Control environment Контрольная среда
 Control of an asset Контроль за активом
 Control of an enterprise Контроль над предприятием (компанией)
 Control procedure Процедура контроля
 Control process Процесс контроля
 Control risk Риск системы контроля
 Control version Контрольная версия
 Controlled entity Контролируемая организация
 Controller Проверяющий
 Controlling entity Контролирующая организация
 Conveyance Передача прав собственности (на месторождение полезных ископаемых)
 Core deposit intangibles Депозитные средства в распоряжении компании; разница между суммой страхового взноса и суммой, причитающейся к возврату на определенных условиях
 Corporate assets Корпоративные активы
 Corporate governance Корпоративное управление
 Corresponding figures Соответствующие показатели
 Corroboration Подтверждение
 Cost Стоимость, себестоимость, затраты
 Cost center Центр затрат
 Cost method Метод учета по фактической стоимости приобретения
 Cost of acquisition Затраты на приобретение
 Cost of an investment Фактическая стоимость инвестиции
 Cost of an item of property, plant and equipment Фактическая стоимость единицы основных средств
 Cost of asset acquired in exchange for dissimilar asset Стоимость актива, приобретенного в обмен на другой, отличный от первого, актив

Cost of conversion Затраты на переработку, затраты на производство
 Cost of disposal Затраты на выбытие
 Cost of goods available for sale Фактическая стоимость товаров для продажи
 Cost of goods purchased Фактическая стоимость купленных товаров
 Cost of goods sold Фактическая стоимость проданных товаров
 Cost of inventories Себестоимость запасов
 Cost of purchase Затраты на приобретение
 Cost of sales Себестоимость продаж
 Cost recovery oil Выручка от продажи нефти, используемая для возмещения затрат
 Cost_plus contract Договор «затраты плюс»
 Cost_plus method Метод «затраты плюс»
 Costs and revenues Затраты и выручка
 Credibility Кредитоспособность
 Credit risk Кредитный риск
 Creditor Кредитор, кредитующая организация
 Critical component Критический компонент
 Cross selling Продажа одним и тем же страхователям различных страховых продуктов
 Cumulative effect Кумулятивный эффект
 Currency risk Валютный риск
 Current asset Оборотный актив
 Current cost Текущая стоимость, текущие затраты
 Current cost approach Подход, основанный на текущих затратах
 Current cost method Метод учета по текущим затратам
 Current exchange rate method Метод учета по текущему валютному курсу
 Current expenditures (revenue expenditures) Текущие расходы
 Current investment Краткосрочная инвестиция
 Current liabilities Краткосрочные обязательства
 Current ratio Коэффициент текущей ликвидности
 Current recovery value Текущая восстановительная стоимость
 Current service cost Стоимость текущих услуг
 Current tax Текущие налоговые платежи
 Current value Текущая стоимость
 Curtailment Секвестр, ограничение, уменьшение
 Custodian Кастодиан, хранитель
 Custody Ответственное хранение
 Cutoff (of financial year, of reporting period) Закрытие (финансового года, отчетного периода)

D

Damaged inventories Поврежденные запасы
 Database База данных
 Date of acquisition Дата приобретения
 Dealing securities Дилинговые ценные бумаги
 Debt instruments Долговые инструменты
 Debt securities Долговые ценные бумаги
 Debtor Дебитор, должник
 Decline curves Кривые падения (добычи)
 Declining balance method Метод уменьшаемого остатка (амортизация)
 Decommissioning costs Затраты на закрытие скважины
 Decomposition (of the contract) Расчленение (договора)
 Decrease in long_term loan Уменьшение долгосрочных займов, кредитов

Deductible temporary difference Вычитаемая временная разница
 Deferral and matching Отсрочка и соответствие (соотнесение)
 Deferral method Метод отсрочки
 Deferral model Модель с отсроченной премией
 Deferred annual accounting Отсроченная годовая финансовая отчетность
 Deferred compensation Отсроченная компенсация
 Deferred income Отложенная прибыль
 Deferred payment Отсроченный платеж
 Deferred payment terms Условия отсрочки платежа
 Deferred revenue Отложенная выручка
 Deferred tax Отложенный налог
 Deferred tax asset Отложенные налоговые требования
 Deferred tax liabilities Отложенные налоговые обязательства
 Deferred tax expense Отложенный расход по налогу
 Deferred tax income Отложенное возмещение налога
 Defined benefit obligation Обязательство по пенсионному плану
 с установленными выплатами
 Defined benefit plan Пенсионный план с установленными выплатами
 Defined contribution plan Пенсионный план с установленными взносами
 Delay rentals Дополнительные арендные платежи собственнику
 при задержке начала работ
 Demutualising Преобразование общества взаимного страхования
 в акционерное страховое общество
 Depletion Истощение (месторождения полезных ископаемых)
 Deposit (mineral resource or oil and gas in place) Месторождение
 Depreciable amount Амортизируемая стоимость
 Depreciable asset Амортизируемый актив
 Depreciable basis База амортизации
 Depreciable cost Амортизируемые затраты
 Depreciation Амортизация (основных средств)
 Depreciation charges Амортизационные отчисления
 Depreciation cost per unit Затраты на амортизацию в расчете на единицу
 продукции
 Depreciation expense Амортизационные расходы
 Depreciation schedule Схема начисления амортизации
 Derecognition Прекращение признания, списание с баланса
 Derivative financial instrument Производные финансовые инструменты, деривативы
 Detail test Детальный тест
 Detection risk Риск необнаружения
 Detective control Контроль обнаружения
 Deterministic approach Детерминированный метод
 Developed reserves Освоенные (разработанные) запасы
 Development Разработка
 Development cost Затраты на разработку
 Development risk Риск развития страхового случая (в страховании)
 Риск разработки (в добыв.отраслях)
 Development well Эксплуатационная скважина
 Deviation Отклонение
 Diluted earnings per share Разводненная прибыль на акцию
 Diluted loss per share Разводненный убыток на акцию
 Dilutive potential ordinary shares Потенциальные обыкновенные акции
 с разводняющим эффектом

Diminishing balance method Метод убывающего остатка
 Direct acquisition cost Прямые затраты на приобретение
 Прямые затраты на заключение договоров страхо_ вания (аквизиционные расходы)
 Direct costing Отнесение постоянных производственных расходов непосредственно на счет прибылей и убытков
 Direct insurer Прямой страховщик
 Direct method of reporting cash flows Прямой способ составления отчета о движении денежных средств
 Disclaimer of opinion Отказ от выражения мнения
 Disclosure Раскрытие информации
 Discontinuing operation Прекращаемая деятельность
 Discovery Открытие (месторождения)
 Dismantlement costs Затраты по демонтажу
 Disposal Выбытие
 Disposal consideration Возмещение при выбытии (продаже)
 Disposal of subsidiary Продажа дочерней компании
 Disposal proceeds Поступления от выбытия (активов)
 Distribution costs Затраты на сбыт продукции
 Dividends Дивиденды
 Divisible surplus Подлежащий распределению остаток
 Documentation Документация
 Double declining method Метод двойного уменьшаемого остатка
 Downstream transaction Операция «сверху вниз»
 Dry hole contribution Вклад в «сухую» скважину
 Due care Должная тщательность

Е

Earnings Фактическая прибыль, нераспределенная прибыль
 Economic benefits Экономические выгоды
 Economic entity Экономическая организация
 Economic life Период эффективного использования
 Effective interest method Метод эффективной ставки процента
 Effective interest rate Эффективная ставка процента
 Effective internal control Действующий внутренний контроль
 Effective tax rate Фактическая (действующая) налоговая ставка
 Effectiveness Эффективность
 Efficiency Продуктивность, производительность
 Embedded derivative Встроенный производный инструмент
 Embedded value Встроенная стоимость
 Emphasis of matter paragraph(s) Поясняющие параграфы
 Employee benefit Вознаграждение работникам
 Ending inventory Запасы на конец периода
 End_of_period rate Ставка (курс) на конец периода
 Engagement Аудиторское задание
 Engagement letter Письмо_обязательство
 Engagement objective Цель аудиторского задания
 Engagement work program Программа аудиторского задания
 Enterprise Организация
 Entitlements method Метод учета прав на продукцию
 Entity_specific measurement Специфическая оценка
 Entry Проводка
 Environmental matters Экологические вопросы

Environmental risk Риск, связанный с окружающей средой
 Equity compensation benefit Компенсационные выплаты долевыми инструментами
 Equity compensation plan План компенсационных выплат долевыми инструментами
 Equalization reserves Резервы колебаний убыточности
 Equipment Оборудование
 Equity Капитал
 Equity instrument Долевой инструмент
 Equity method Метод долевого участия
 Equity securities Долевые ценные бумаги
 Error Ошибка
 Estate of policy holder Наследуемое имущество страхователя
 Estimation sampling Оценочная выборка
 Evaluation Оценка
 Event Событие
 Events occurring after the balance sheet date События после отчетной даты
 Evidence Основание, свидетельство
 Examination Проверка
 Excess of loss reinsurance Перестрахование эсцедента убытков
 Exchange difference Курсовая разница
 Exchange rate Обменный курс
 Execution Исполнение
 Existence Существование
 Expected disposals of assets Ожидаемое выбытие активов
 Expected error Ожидаемая ошибка
 Expected exit value Ожидаемая конечная стоимость («стоимость выхода»)
 Expenditure Затраты
 Expenditures carried forward Затраты, переносимые на будущие периоды
 Expenses Расходы
 Experience adjustment Корректировка на основе опыта
 Expert Эксперт
 Explanatory note Пояснительная записка
 Explicit discounting computation Расчеты на основании явных методов дисконтирования
 Exploration permit Разрешение на поисково_разведочные работы
 Exploratory well Разведочная скважина
 Extensions Прирост запасов в результате доразведки
 External auditor Внешний аудитор
 External confirmation Внешнее подтверждение
 External service production Сторонняя организация по оказанию услуг
 Extractive industries Добывающие отрасли
 Extraordinary effect Эффект чрезвычайных обстоятельств
 Extraordinary items Чрезвычайные статьи, результаты чрезвычайных обстоятельств
 Extraordinary profit Прибыль от чрезвычайных обстоятельств
F
 Factoring of receivables Факторинг дебиторской задолженности
 Fair presentation Объективное представление
 Fair value Справедливая стоимость
 Faithful representation Правдивое (достоверное) представление
 Farm out / farm in Договор о предоставлении / получении доли участия (в освоении и разработке месторождения)

FASB (Financial Accounting Standards Board) Совет по стандартам финансовой отчетности
Field Месторождение
Field work Работа на местах, вне штаб_квартиры фирмы
FIFO method Метод ФИФО (первый – приход, первый – выбытие)
Finance costs Затраты на финансирование
Finance lease Финансовая аренда
Financial asset Финансовый актив
Financial asset or liability held for trading Финансовый актив или обязательство, предназначенное для торговли
Financial assets and liabilities available for sale Финансовые активы и обязательства, имеющиеся в наличии для продажи
Financial forecast Финансовый прогноз
Financial institution confirmation request Запрос подтверждения из финансовой организации
Financial instrument Финансовый инструмент
Financial liability Финансовое обязательство
Financial period Отчетный период
Financial position Финансовое положение
Financial reporting Финансовая отчетность
Financial statements Финансовая отчетность
Financial statements assertions Утверждения, на основе которых подготовлена финансовая отчетность
Financing activities Финансовая деятельность
Finding costs Затраты на поисковые работы
Finished goods Готовая продукция
Firm commitment Твердое соглашение, твердое обязательство
Fiscal period Налоговый период
Fixed asset Основное средство
Fixed costs Постоянные затраты
Fixed price contract Договор с фиксированной ценой
Fixed production overheads Постоянные накладные производственные расходы
FOB (Free on board) destination Условия поставки Ф.О.Б. в порту назначения
FOB (Free on board) shipping point Условия поставки Ф.О.Б. в порту отгрузки
Foreign currency Иностранная валюта
Foreign currency loans Займы и кредиты в иностранной валюте
Foreign currency transactions Операции с иностранной валютой
Foreign entity Зарубежное предприятие
Foreign exchange difference Курсовая разница
Foreign exchange gain Положительная курсовая разница; прибыль, полученная в результате изменения величины курса
Foreign exchange loss Отрицательная курсовая разница; убыток, полученный в результате изменения величины курса
Foreign operation Зарубежная деятельность, зарубежные операции
Foreign source of income Зарубежный источник дохода
Forgivable loan Условно_безвозвратный заем
Framework Концепция (МСФО)
Fraud Мошенничество
Freight costs on purchases Стоимость транспортировки при покупке
Freight_in Транспортные расходы (фрахт) при покупке
Freight_out Транспортные расходы (фрахт) при продаже

Full cost accounting Метод учета по полным затратам
 Fully depreciated asset Полностью амортизированный актив
 Functional currency (reporting, measurement, presentation) Функциональная валюта (отчетная, базовая)
 Fundamental error Фундаментальная ошибка
 Funding Финансирование
 Funds held for customer Средства, которые компания держит для клиента
 Future economic benefit Будущая экономическая выгода

G

GAAP (Generally accepted accounting principles) Общепринятые принципы бухгалтерского учета (ОПБУ)
 GAAS (Generally accepted auditing standards) Общепринятые стандарты аудиторской деятельности
 Gain Доход
 Gain (loss) on sale Доход (убыток) от продажи
 Gain on disposal Доход от выбытия (актива, оборудования и т.д.)
 General controls in computer information systems Общие средства контроля в компьютерных информационных системах
 General disclosure Основные требования к раскрытию информации
 General insurance Общее страхование
 General journal Журнал учета операций
 General ledger Главная бухгалтерская книга
 General purchasing power approach Подход, основанный на общей покупательной способности
 General standard Общий стандарт
 Geographical segment Географический сегмент
 Geologic province Геологическая провинция
 Geological and geophysical costs (G & G) Затраты на проведение геологической и геофизической разведки (месторождений)
 Going concern Непрерывность деятельности
 Going concern assumption Допущение о непрерывности деятельности предприятия
 Going concern value Стоимость активов компании, основанная на допущении о непрерывности ее деятельности
 Goodwill Гудвилл
 Governance Управление
 Governance process Процесс управления
 Government assistance Государственная помощь
 Government business enterprise Государственное коммерческое предприятие
 Government grant Государственная субсидия
 Governmental auditing standards Стандарты аудита государственных учреждений
 Grade Сортность, сорт, качество
 Grant related to assets Субсидия, относящаяся к активам
 Grant related to income Субсидия, относящаяся к доходу
 Gross investment in the lease Валовые инвестиции в аренду
 Gross margin Валовая маржа (прибыль)
 Gross profit Валовая прибыль
 Gross revenue approach (to unit_of_production depreciation) Метод валовых доходов (применительно к начислению амортизации пропорционально объему продукции)
 Gross turnover Валовый оборот

Gross/net representation Представление по валовому/нетто_методу
Group Группа
Group administration (employee benefit) plan Совместно управляемый пенсионный план
Group financial statements/accounts Финансовая отчетность группы
Group of biological assets Группа биологических активов
Guaranteed residual value Гарантированная ликвидационная стоимость

Н

Nash total Итоговая (общая) сумма
Hedge Хедж / Хеджирование
Hedge accounting Учет хеджирования
Hedge effectiveness Эффективность хеджирования
Hedged item Хеджируемая статья
Hedging Хеджирование
Hedging instrument Инструмент хеджирования
Held_to_maturity investment Инвестиция, удерживаемая до погашения
Hire_purchase contract Договор аренды с правом выкупа
Historical cost Первоначальная стоимость, фактическая стоимость приобретения
Historical cost accounting Учет по первоначальной стоимости, по фактической стоимости приобретения
Holding company Холдинговая компания
Host bond Основная облигация
Host contract Основной договор
Hurdle rate Минимальная ставка доходности (используемая в той или иной организации)
Hyperinflation Гиперинфляция
Hypothecation Ипотека
IBNR (incurred but not reported) Резерв произошедших, но незаявленных убытков (РПНУ)

И

Identifiable assets and liabilities Идентифицируемые активы и обязательства (соответствующие определенным требованиям)
Identifying Выявление фактов хозяйственной деятельности, идентификация
Immaterial (item) Несущественная (статья)
Immediate family Член семьи
Impairment Обесценение, снижение стоимости
Impairment loss Убыток от обесценения
Imparity principle Учет в соответствии с принципом обесценивания
Improved recovery projects Проекты для повышения отдачи
Imputed rate of interest Вмененная ставка процента
Inception of the lease Начало срока аренды
Incidental (indirect) acquisition costs Побочные (косвенные) затраты на приобретение
Income Доход, прибыль
Income and expenditure account Счет доходов и расходов
Income distributions to owners Распределение прибыли (дохода) между собственниками
Income statement Отчет о прибылях и убытках
Income statement liability method Метод обязательств по отчету о прибылях и убытках
Income tax expense Расходы по налогу на прибыль
Incoming auditor Новый аудитор

Incorrect acceptance Ошибочное принятие
 Incorrect rejection Ошибочное отклонение (непринятие)
 Incremental borrowing rate of interest (lessee's) Приростная ставка процента на заемный капитал (арендатора)
 Incremental sale Продажа с платежом в рассрочку
 Indemnity reinsurance Перестрахование возмещения ущерба
 Independence Независимость
 Independent foreign operation Независимая зарубежная деятельность
 Indexed contract Индексируемый договор страхования
 Indicated mineral resources (reserves) Предполагаемые запасы полезных ископаемых
 Indirect method Косвенный метод
 Individual accounts Индивидуальная отчетность (счета) компании
 Individual evaluation concept Принцип индивидуальной оценки
 Industry and geographical segments Отраслевые и географические сегменты
 Industry segment Отраслевой сегмент
 Inferred mineral resources Предварительно оцененные запасы
 Inherent limitation Неотъемлемое ограничение
 Inherent risk Неотъемлемый риск
 Initial disclosure event (for a discontinuing operation) Событие, определяющее момент первоначального раскрытия (для прекращаемой деятельности)
 Inquiry Запрос
 Inspection Инспектирование
 Instalment sale Продажа в рассрочку
 Insurable interest Страховой интерес
 Insurance contract Договор страхования
 Insurance expenses Расходы на страхование
 Insured event Страховой случай (застрахованное событие)
 Intangible asset Нематериальный актив
 Integral foreign operation Интегрированная зарубежная деятельность
 Integrated enterprise Интегрированная компания
 Integrity Целостность
 Intercompany balances (transactions) Внутригрупповые остатки (операции)
 Interest cost (for an employee benefit plan) Затраты на проценты (для пенсионного плана с установленными выплатами)
 Interest expense Расходы на выплату процентов
 Interest in joint venture Доля участия в совместной деятельности
 Interest payable Задолженность по процентам
 Interest rate implicit in a lease Расчетная процентная ставка по договору аренды
 Interest rate risk Риск ставки процента
 Interim financial reporting / statements / information Промежуточная финансовая отчетность/информация
 Interim period Промежуточный период
 Internal auditing Внутренний аудит
 Internal auditor Внутренний аудитор
 Internal audit department Отдел внутреннего аудита
 Internal control questionnaire Анкета внутреннего контроля
 Internal control system Система внутреннего контроля
 Internal control weakness Недостаток внутреннего контроля
 International Financial Reporting Standards (IFRS)

International Accounting Standards (IAS) Международные стандарты финансовой отчетности (МСФО),
Международные стандарты бухгалтерского учета (МСБУ)
International Accounting Standards Board (IASB) Правление Совета по международным стандартам финансовой отчетности (Правление СМСФО)
International Financial Reporting Standards (IFRS) Международные стандарты финансовой отчетности (МСФО)
International Standards of Auditing Международные стандарты аудиторской деятельности
Intracompany balance Внутригрупповые обороты
Introductory paragraph Вводный параграф
Inventories Запасы
Invest rate risk Риск процентной ставки
Investee Объект инвестиций
Investigation Расследование
Investment activities Инвестиционная деятельность
Investment Инвестиция, инвестирование
Investment object Объект инвестирования
Investment property Инвестиции в недвижимость
Investment securities Инвестиционные ценные бумаги
Investment_linked contract Договор страхования, обязательства по которому связаны с результатами инвестиций
Investments held to maturity Инвестиции, удерживаемые до погашения
Investor Инвестор
Investor in a joint venture Инвестор в совместную деятельность
Invoice Счет_фактура
Item Статья, объект

Ж
Joint control Совместный контроль
Joint operating agreement Соглашение о совместной деятельности
Joint products Совместно производимая продукция
Joint venture Совместная деятельность
Joint venture agreement Договор (соглашение) о совместной деятельности
Jointly controlled entity Совместно контролируемая компания
Journal Журнал, учетный регистр
Just_in_time Точно в срок

К
Knowledge of the business Знание бизнеса

Л
Lease Аренда
Lease term Срок аренды
Legal merger Юридическое слияние
Legal obligation Юридическое обязательство
Legal right of set_off Юридическое право на зачет требований
Legal title Право собственности, правовой титул
Letter of attorney Доверенность
Leverage Экономический рычаг, «леверидж»
Leveraged leases Кредитный лизинг; аренда, частично финансируемая за счет кредита

Liability method Метод обязательств
 LIFO method Метод ЛИФО (последний_ поступление, первый –
 выбытие)
 Limitation on scope Ограничение объема
 Liquidity Ликвидность
 Liquidity risk Риск ликвидности
 Listed company Компания, акции которой котируются на бирже
 Зарегистрированная на бирже компания
 Loans and receivables originated by the enterprise Ссуды и дебиторская задолженность,
 предоставленные
 компанией
 Long_ term assets and liabilities Долгосрочные активы и обязательства
 Long_ term employee benefits Долгосрочные обязательства по выплатам сотрудникам
 Long_ term investment Долгосрочная инвестиция
 Long_ term receivables Долгосрочная дебиторская задолженность
 Loss Убыток
 Loss on disposal Убыток от выбытия (актива, оборудования и т. д.)
 Loss on sale of equipment Убыток от продажи оборудования
 Loss recognition test Критерий признания убытка
М
 Main product Основная продукция
 Makeup product Компенсационная продукция
 Management Руководство, менеджмент
 Management of change Управление изменениями
 Management representations Заявления руководства
 Management representation letter Письменное заявление руководства
 Market risk Рыночный риск
 Market value Рыночная стоимость
 Marketable (adj) Рыночный
 Markdown Понижающая составляющая нормы прибыли, скид_
 ка
 Markon Закладываемая норма прибыли
 Markup Добавочная норма прибыли, наценка
 Matching concept Концепция соотнесения доходов и расходов
 Matching of costs with revenues Соотнесение затрат и выручки
 Material (adj) Существенный
 Material inconsistency Существенное несоответствие
 Material misstatement of fact Существенное искажение факта
 Material weaknesses Существенные недостатки
 Materiality Существенность
 Materiality level Уровень существенности
 Measured mineral resources (reserves) Оцененные запасы (полезных ископаемых)
 Measured reliably Надежно оцененный
 Measurement Оценка, измерение
 Measurement of change Оценка изменений
 Merchandise Inventory Товарные запасы
 Merchandising company Торговая компания
 Merger Слияние
 Merger accounting Учет при слиянии
 Mineral property Имущественный комплекс месторождения полезных
 ископаемых
 Mineral resource Ресурсы полезных ископаемых

Mineral rights (interests) Права на разработку недр
 Minerals Полезные ископаемые
 Minerals in place Полезные ископаемые в недрах
 Minimum lease payments Минимальные арендные платежи
 Minority interest Доля меньшинства
 Mismatch risk Риск несопоставимости (несоотнесения)
 Misstatement Искажение
 Mitigating Уменьшение (компенсация влияния фактора)
 Modified auditor's report Модифицированное аудиторское заключение
 Monetary assets Денежные активы
 Monetary financial assets and financial liabilities Денежные финансовые активы и
 финансовые
 обязательства
 Monetary financial instrument Денежный финансовый инструмент
 Monetary item Денежная статья
 Mortality protection Страхование на случай смерти
 Mortgages Ипотечные кредиты
 Multy_employer (benefit) plan Пенсионный план группы работодателей
 Mutual insurer Компания взаимного страхования
N
 National practices Национальная практика
 National standards Национальные стандарты
 Negative assurance Отрицательное подтверждение
 Negative goodwill Отрицательный гудвилл
 Net assets Чистые активы
 Net assets available for benefits Чистые активы пенсионного плана
 Net cash Чистые денежные средства
 Net cash investment Чистые денежные инвестиции
 Net current assets Чистые текущие активы
 Net deficit Чистый дефицит
 Net equity Чистый капитал
 Net income Чистая прибыль (термин используется в США,
 см. также Net profit)
 Net investment in a foreign entity Чистые инвестиции в зарубежное предприятие
 Net investment in a lease Чистые инвестиции в аренду
 Net loss Чистый убыток
 Net profit Чистая прибыль (термин используется в Великобритании,
 см. также Net income)
 Net purchases Чистые покупки
 Net realisable value Возможная чистая стоимость продаж
 Net revenue approach (to unit_of_production depreciation) Метод чистого (нетто) дохода
 (применительно к
 начислению амортизации пропорционально объему
 продукции)
 Net sales Чистые продажи
 Net selling price Чистая цена продаж
 Net surplus Чистый избыток, профицит
 Neutrality Нейтральность
 No entry Операция не отражается
 Non_cancellable lease Неаннулируемая аренда
 Non_cash charges and credits Затраты и поступления в неденежной форме
 Non_cash item Неденежная статья

Noncommercial property Имущественный комплекс некоммерческого значения
 Noncompliance Несоответствие
 Noncontrolling interest Неконтролируемый интерес (амер.)
 Non_current Долгосрочный (внеоборотный)
 Non_current liability Долгосрочное обязательство
 Non_operating interest Пассивное долевое участие
 Non_producing reserves Неразрабатываемые запасы
 Non_sampling risk Риск, не связанный с использованием выборочного метода
 Normal capacity of production facilities Нормальная производственная мощность оборудования
 Normal surplus_deficit Нормальный прирост/убыток от обычной деятельности
 Notes payable Счета к оплате
 Notes to the accounts Пояснения к отчетности
 Notional amount Условная сумма
 Novation/assumption reinsurance Перестрахование в порядке новации/принятия обязательств

О

Objectivity Объективность
 Obligating event Обязывающее событие
 Obligation Обязательство
 Observation Наблюдение
 Obsolescence Моральный износ, устаревание
 Occurrence Возникновение
 Occurrence risk Риск частоты страховых случаев
 Off_balance_sheet item Забалансовая статья
 Offset Взаимозачет
 Oil and gas in place Запасы нефти и газа в недрах
 Oil and gas lease Аренда месторождения нефти и газа
 Oil and gas reserves Запасы нефти и газа
 On account За счет
 On_balance_sheet item Балансовая статья
 Onerous contract Обремененный договор
 Opening balance Начальное сальдо
 Operating activity Операционная деятельность
 Operating costs Операционные затраты
 Operating cycle Операционный цикл
 Operating expenses Операционные расходы
 Operating income Операционный доход
 Operating lease Операционная аренда
 Operating profit Операционная прибыль
 Opinion Мнение
 Option Опцион
 Option to acquire acreage Опцион на приобретение участка недр
 Option to acquire mineral rights Опцион на приобретение прав на разработку полезных ископаемых
 Ordinary activities Обычная деятельность
 Ordinary share Обыкновенная акция
 Ore body Рудное тело
 Ore reserve Запасы руды
 Originated loans and receivables Сумма выданных займов и дебиторской задолженности
 Other auditor Другой аудитор

Overlift (overtake, overproduction) Перепроизводство

Owner_occupied property Объект недвижимости, занимаемый собственником

P

Paid in cash Оплата денежными средствами

Paid_in capital Оплаченный капитал

Par value Номинальная стоимость, паритет

Parent company Материнская компания

Participant of a retirement benefit plan Участник пенсионного плана

Participating contract / variable life insurance (with_profits policies) Договор участия (договор страхования жизни с участием в прибыли страховщика)

Partner (of an audit company) Партнер (аудиторской фирмы)

Past service cost Стоимость прошлых услуг работников

Payables Кредиторская задолженность

Payments Платежи

Pension plan settlement Расчет по пенсионному плану

Percentage_of_completion method Метод «по мере готовности»

Performance Результаты деятельности

Performance statement Отчет о результатах деятельности

Periodic inventory Метод периодического учета запасов

Periodic system Система периодического учета

Permanent difference Постоянная разница

Perspective financial information Прогнозная финансовая информация

Persuasive Убедительный

Petroleum Нефть и газ

Physical unit_of_production method Метод физического учета добычи

Planning Планирование

PPE, Plant assets (Property, Plant and Equipment), fixed assets Основные средства

Plant assets disposals Выбытие основных средств

Pledge Залог

Policyholder Страхователь, застрахованное лицо

Policyholder_Benefits (prospective) accounting model Перспективная модель учета, основанная на выплатах страхового возмещения страхователю

Policyholder_deposit (retrospective) accounting model Ретроспективная модель учета, основанная на депозите страхователя

Pooling of capital (interests) Объединение капитала (интересов)

Pooling of interests method Метод консолидации при объединении интересов

Population Генеральная совокупность

Portfolio basis Метод портфельной оценки

Positive assurance Положительное подтверждение

Possible (mineral) reserves Возможные запасы полезных ископаемых

Post balance sheet events События после отчетной даты

Post_employment benefit Вознаграждение по окончании трудовой деятельности

Post_employment benefit plan План вознаграждений по окончании трудовой деятельности

Potential ordinary share Потенциальные обыкновенные акции

Practice Практика

Predecessor auditor Предшествующий аудитор

Predetermined application rate Установленный заранее заявочный курс

Premium deficiency Недостаточность премии

Premiums Страховые премии по договорам страхования
 Prepaid expenses Расходы будущих периодов
 Prepaid insurance Расходы будущих периодов на страхование
 Prepayment Предоплата
 Pre_production activity Деятельность до начала добычи полезных ископаемых
 Pre_production costs Затраты, произведенные до начала добычи полезных ископаемых
 Pre_production revenues Доходы, полученные до начала добычи полезных ископаемых
 Present value Дисконтированная стоимость
 Present value of a defined benefit obligation Дисконтированная стоимость обязательств по пенсионному плану с установленными выплатами
 Presentation Представление (информации)
 Presentation and disclosure Представление и раскрытие информации
 Price risk Ценовой риск
 Primary financial instrument Базовый финансовый инструмент
 Principal auditor Главный аудитор
 Probabilistic approach Вероятностный метод (подход)
 Probable reserves Вероятные запасы
 Proceeds Поступления
 Produce (agricultural) Сельскохозяйственная продукция
 Producing reserves Разрабатываемые запасы
 Product financial arrangement Финансовое соглашение о выкупе товара
 Production Добыча (полезных ископаемых)
 Production cost Производственная себестоимость
 Production in kind Продукция в натуральном выражении
 Production_sharing agreement (contract) Соглашение (договор) о разделе продукции
 Professional conduct Профессиональное поведение аудитора
 Professional services Профессиональные услуги
 Profit Прибыль
 Profit and loss account Счет прибылей и убытков
 Profit before tax Прибыль до налогообложения
 Profit from operations Прибыль от операций, прибыль от основной деятельности
 Profit oil Прибыльная нефть
 Project method Проектный метод
 Projected benefit valuation method Метод оценки прогнозируемых выгод
 Projected unit credit method Метод прогнозируемой условной единицы
 Projection Прогнозирование
 Property and casualty insurance Страхование имущества и страхование от несчастного случая;
 Casualty _ любое страхование, кроме страхования жизни, страхования имущества от огня, морского страхования и страхования финансовых рисков.
 Property, plant and equipment Основные средства
 Proportionate consolidation Пропорциональное сведение
 Prospect Территория изысканий
 Prospecting Поисковые работы
 Prospecting permit Разрешение на изыскательские работы
 Prospective application Перспективное применение
 Prospective financial information Ожидаемая финансовая информация

Proved (un)developed reserves Доказанные (не)разработанные запасы
Proved reserves Доказанные (достоверные) запасы
Provision Резерв
Provision for taxes payable Резерв по налогам к уплате
Prudence Осмотрительность, осторожность
Prudence concept Принцип осмотрительности, осторожности
Public sector accounting Учет в государственном секторе экономики
Publicly traded company Компания, акции которой свободно обращаются на открытом рынке ценных бумаг
Purchase account Счет покупок
Purchase discounts Скидки при покупке
Purchase method Метод покупки
Purchase of merchandise on credit Покупка товаров в кредит
Purchase order Заказ на приобретение, покупку
Purchase price Цена покупки
Purchase returns and allowances Возврат и уценка купленных товаров
Purchases Покупки

Q

Qualification Оговорка (аудиторская)
Qualified asset Квалифицируемый актив; актив, удовлетворяющий критериям
Qualified opinion Условно_положительное мнение (мнение с оговорками)
Qualitative Качественный
Quality control Контроль качества
Quantitative Количественный
Quarrying Разработка (полезных ископаемых) открытым способом
Quota share reinsurance Квотное перестрахование

R

Ratio estimation Оценочное значение коэффициента
Raw material Сырье
Realisable cost Возможная стоимость реализации
Realisable value Возможная стоимость продаж
Realised / unrealised gain Реализованная/нереализованная прибыль
Reasonable assurance Достаточная уверенность
Reaudit Повторный аудит
Receivables Дебиторская задолженность
Recognition Признание
Recognition and measurement Признание и оценка
Recognition criteria Критерий признания
Recompletion Переоборудование скважины
Reconciliation Сверка, выверка
Recording Отражение в учете, запись
Recoverable amount Возмещаемая сумма / стоимость
Recoveries from salvage Поступления от реализации поврежденного застрахованного имущества, перешедшего в собственность страховой организации
Redemption of the long_term loan Погашение долгосрочного кредита
Refuse to recognize Отказаться от признания
Reinsurance premium Перестраховочная премия
Reinsurer Перестраховщик
Related parties Связанные стороны
Related party disclosures Раскрытие информации о связанных сторонах

Related party transaction Операции между связанными сторонами
 Related services Сопутствующие услуги
 Relevance Уместность
 Reliability Надежность
 Removal and restoration costs Затраты по очистке и восстановлению территории
 Rent expense Расходы на аренду
 Repairs expense Расходы на ремонт
 Replacement cost (of an asset) Затраты на замену (актива)
 REPO (repurchase agreement) Договор РЕПО, соглашение о продаже с обратной покупкой
 Reverse repurchase agreement Договор обратного РЕПО, соглашение о покупке с обязательством обратной продажи
 Reportable segment Отчетный сегмент
 Reporting accountant Бухгалтер, составляющий отчетность
 Reporting currency Отчетная валюта
 Reporting date Отчетная дата
 Reporting enterprise Отчитывающаяся компания
 Reporting on a net basis Отчетность на нетто_основе
 Reporting period Отчетный период
 Repurchase agreement Договор РЕПО, соглашение о продаже с обратной покупкой
 Research Исследование
 Research and development costs Затраты на исследования и разработки, затраты на научно_исследовательские и опытно_конструктор_ские разработки (НИОКР)
 Reserve for warranty liability Аннулирование гарантийного обязательства
 Reserve recognition accounting (RRA) Учет признания резерва
 Reserve replacement ratio (RRR) Коэффициент замещения резервов
 Reserves Фонды (резервы)
 Reserves behind the pipe Запасы «вне трубы»
 Reserves in place Запасы (полезных ископаемых) в недрах
 Reserve_to_production ratio Отношение разведанных запасов к годовому объему добычи
 Reservoir Коллектор, залежи (полезных ископаемых)
 Residual claim on total assets Остаточная доля в активах
 Residual value (Salvage value) Ликвидационная стоимость
 Restatement Пересчет
 Restoration costs Затраты по восстановлению территории
 Restructuring Реструктуризация
 Retail method Метод учета по розничным ценам
 Retained earnings Нераспределенная прибыль
 Retirement benefit plan Пенсионный план
 Retirements Списание (основных средств)
 Retrospective application Ретроспективное применение
 Return of merchandise Возврат проданных товаров
 Return on investment Доход на инвестицию
 Return on plan assets Доходы на активы пенсионного плана
 Returns on equity securities (dividends) Доходы на долевые ценные бумаги (дивиденды)
 Returns on loans (interest) Доходы по ссудам (проценты)
 Revaluation Переоценка
 Revaluation reserve Резерв переоценки
 Revaluation surplus Прирост стоимости имущества от переоценки

Revalued amount of an asset Переоцененная стоимость актива
 Revenue Выручка (амер. – доход)
 Reversal of impairment loss Реверсирование (восстановление) убытка от обесценения
 Reversal of temporary difference Реверсирование (восстановление) временной разницы
 Reverse acquisition Обратная покупка
 Review engagement Задание по обзору
 Reward associated with a leased asset Вознаграждение, связанное с арендой актива
 Reward associated with financial asset Вознаграждение, связанное с финансовым активом
 Right to mine contract Договор о правах на разработку
 Risk associated with a leased asset Риск, связанный с арендой актива
 Risk service contract (agreement) Контракт с минимальной гарантией возмещения
 ((рисковый) договор об оказании услуг)
S
 Salaries expense Расходы на оплату труда
 Salaries payable Задолженность по оплате труда
 Sale and leaseback transaction Продажа с обратной арендой (лизингом)
 Sale of merchandise on credit Продажа товаров в кредит
 Sales Продажи
 Sales discounts Скидки при продаже
 Sales method Метод продаж
 Sales of goods and services Продажа товаров и услуг
 Sales returns and allowances Возврат и уценка проданных товаров
 Sales revenue Выручка от продажи
 Sample size Размер выборки
 Sampling error Ошибка выборки
 Sampling risk Риск выборочного метода
 Sampling unit Элемент выборки
 Schedule of an audit Расписание / график аудиторской проверки
 Scope limitation Ограничение объема
 Scope of an audit Объем аудита
 Second request Повторный запрос
 Section Секция
 Securities held for resale Ценные бумаги для перепродажи
 Segment assets Активы сегмента
 Segment expense Расходы сегмента
 Segment information Информация по сегментам
 Segment result Результат сегмента
 Segment revenue Выручка сегмента
 Selling costs Затраты по сбыту (продаже)
 Selling expenses Коммерческие расходы (расходы по продаже)
 Service (risk) contract (agreement) Контракт (соглашение) на предоставление услуг
 (с риском) или сервис_контракт
 Service assets Вспомогательные активы
 Service revenue Выручка от реализации услуг
 Set_off Зачет
 Settle net Осуществить зачет встречных требований
 Settlement Урегулирование, погашение
 Settlement of employee benefit obligations Расчет по обязательствам пенсионного плана
 Settlement date Дата расчетов
 Settlement value Стоимость погашения
 Severance tax Налог на добытые полезные ископаемые
 Severity risk Риск размера страхового возмещения

Share capital Акционерный капитал
 Share premium Эмиссионный доход, премия на акцию
 Shareholders' equity (interests) Собственный капитал
 Shares outstanding Акции в обращении
 Sharing arrangement (pooling of capital) Договор о разделе (слияние капитала)
 Short seller Продавец ценных бумаг, играющий на понижение
 Short-term employee benefit Краткосрочное вознаграждение работникам
 Significance Значимость
 Significant influence Значительное влияние
 Single-premium contract Договор с единовременной уплатой страховой премии
 Small entity Малое предприятие
 Solvency Платежеспособность
 Special purpose auditor's report Отчет аудитора по специальному заданию
 Specific identification method Специальный идентификационный метод
 Standard cost Нормативная себестоимость, затраты
 Standard measure of oil and gas reserves Нормативная оценка запасов нефти и газа
 State (employee benefit) plan Государственный (пенсионный) план
 Statement of cash flows Отчет о движении денежных средств
 Statistical sampling Статистическая выборка
 Stock Ценная бумага
 Stock count Инвентаризация
 Stockholder-owned insurer Акционерная страховая компания
 Straight-line (depreciation) method Линейный метод (амортизации)
 Stratification Стратификация
 Subrogation Суброгация, переход к страховщику прав страхователя на возмещение ущерба
 Subsequent event Последующее событие
 Subsidiary Дочерняя компания
 Substance over form Приоритет содержания над формой
 Substantiated Подтвержденный доказательствами
 Substantive procedure Процедура проверки по существу
 Successful efforts accounting Учет по себестоимости успешных работ (метод учета результативных затрат, «продуктивных скважин»)
 Sufficiency Достаточность
 Summarized financial statements Обобщенная финансовая отчетность
 Sum-of-the-year-digits (depreciation) method Метод амортизации по сумме числа лет полезного использования
 Supervision Непосредственный контроль
 Supplier Поставщик
 Supplies Материалы
 Supreme audit institution Высший орган аудита
 Surplus Избыток, профицит
 Surviving annuitant Доживший получатель аннуитета (аннуитент)
 Suspense sale Сделка с отложенной продажей
 Synthetic financial instrument Синтетический финансовый инструмент

Т

Take or pay contract Договор, обязывающий покупателя принять товар или выплатить неустойку
 Tax allocation Распределение налогов
 Tax base of asset or liability Налоговая база актива или обязательства
 Tax expense Расходы по налогу

Tax liability Обязательства по налогам
 Tax loss Налоговый убыток
 Tax loss carryback Перенос налогового убытка на прошлый период
 Tax loss carryforward Налоговый убыток, перенесенный на будущие пе_риоды
 Tax on income Налог на прибыль
 Taxable profit Налогооблагаемая прибыль
 Taxable temporary difference Налогооблагаемая временная разница
 Taxes payable Задолженность по налогам
 Temporal method Временной метод
 Temporary / timing difference Временная разница
 Temporary investments Краткосрочные инвестиции
 Term life insurance Страхование жизни на срок
 Termination benefit Выходные пособия
 Test count Контрольный подсчет
 Tests of control Тесты контроля
 Time period assumption Допущение периодичности
 Timeliness Своевременность
 Title insurance Титульное страхование
 Title to assets Право собственности на активы
 Tolerable error Допустимая ошибка
 Tolerable misstatement Допустимое искажение
 Total operating expenses Общая величина операционных расходов
 Trade date Дата заключения сделки
 Trade liability Задолженность перед поставщиками и подрядчиками
 Trade receivable Задолженность покупателей и заказчиков
 Trading securities Торговые ценные бумаги
 Transaction Сделка
 Transaction costs Затраты по сделке
 Transaction_based accounting Пооперационный учет/учет на основе сделок
 Transitional liability (defined benefit plan) Переходные обязательства (по пенсионному плану на основе трудового участия)
 Treasury stock Собственные выкупленные акции (доли)
 Trend analysis Анализ тенденций
 Trial balance Пробный (проверочный) баланс
 True and fair view / fair presentation Достоверное и объективное представление
 Trust activities Операции доверительного управления
 Trustee Доверительный управляющий
 Turnover Оборот

U

Uncertainty Неопределенность
 Underlift (undertake) Недостаточная добыча (недобор)
 Underlying Основообразующий
 Understandability Понятность
 Underwriter Андеррайтер
 Undeveloped reserves Неосвоенные запасы
 Undivided interest Неделимое долевое участие
 Unearned finance income Незаработанный финансовый доход
 Unearned premium Незаработанная премия (РНП – резерв незарабо_танной премии)
 Unearned rent Арендная плата, полученная авансом

Unearned revenue Незаработанные доходы (доходы будущих периодов)
 Unevaluated preproduction costs Неоцененные предэксплуатационные затраты
 Unexpired premium Премия за неистекший период страхования
 Unexpired risk Неистекший риск
 Unfunded benefit plan Нефондированный пенсионный план
 Unguaranteed residual value Негарантированная ликвидационная стоимость
 Unit Единица (продукции)
 Unit cost Себестоимость единицы продукции
 Unit of account Единица учета
 Uniting of interests Объединение интересов
 Unitisation Централизованная эксплуатация (месторождения)
 Unit_of_production_method Списание стоимости пропорционально объему производства продукции
 Units and goods available Общее количество товаров
 Units of activity Объем продукции
 Units_of_activity_method Метод списания пропорционально объему продукции
 513
 Глоссарий финансовых терминов и выражений
 Universal life contract Договор универсального страхования жизни
 Unproved reserves Недоказанные запасы
 Unqualified opinion Безусловно_положительное мнение
 Useful life Срок полезного использования
V
 Valuation Оценка
 Value at risk Стоимость, подверженная риску
 Value in use Ценность от использования
 Value in use concept Концепция ценности от использования
 Variable contract Договор страхования с переменной суммой
 Variable costs Переменные затраты
 Variable production overheads Переменные производственные накладные расходы
 Variable sampling Изменяемая выборка
 Variance Величина отклонения
 Venturer Участник (совместной деятельности)
 Verification Подтверждение
 Vested employee benefit Гарантированная пенсия
 Voucher Ваучер; подтверждающий документ
W
 Wages payable Задолженность по оплате труда
 Walk_through_test Сквозная проверка
 Warrant Варрант
 Warranty expense Расходы по гарантийному обслуживанию
 Wasting natural resources Истощимые природные ресурсы
 Weighted average cost Средневзвешенная стоимость
 Weighted average cost method Метод средневзвешенной стоимости
 Weighted average number of ordinary shares outstanding during the period
 Средневзвешенное количество обыкновенных акций
 в обращении за период
 Whole_life_contracts Договоры пожизненного страхования
 Work in progress Незавершенное производство
 Working capital Оборотные средства
 Working papers Рабочие документы
 Workovers Капитальный ремонт (скважин)

Write_down on an item by item basis Пообъектная уценка, пообъектное списание

Write_off Списание

Write_up Повышение стоимости

Y

Yearly term reinsurance Перестрахование на годичный срок

Z

Zero_balance model (cost recovery basis) Модель нулевого остатка (на основе покрытия затрат)

Zero_budget model Бюджетирование с нуля (модель бюджетирования, при которой каждый год решается вопрос продолжать или нет финансирование того или иного проекта)

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FOR NOTES

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