# IFRS Diploma Summery

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# IAS 1- Presentation of FS

IAS 1 requires that all income and expenses are presented in a statement of profit or loss and other comprehensive income.

IAS 1 does not allow entities to choose whether to present income and expenses in the **P/L** or the **OCI** section of the statement. IAS 1 states that, unless required by a specific IFRS standard, all items of income and expense should be presented in the **P/L** section of the statement.

IAS 1 states that the tax relating to items of other comprehensive income is either shown as a separate line in the 'other comprehensive income' section of the statement or netted off against each component of **OCI** and disclosed in the notes to the financial statements.

The key implication of an item being presented in other comprehensive income rather than profit or loss is that the item would not be taken into account when measuring earnings per share, an important performance indicator for listed entities

IAS 1 requires that the statement of profit or loss and other comprehensive income discloses certain key elements, for example, revenue and income tax expense.

As far as other detailed line items are concerned, IAS 1 states that they should be presented in a manner that is relevant to an understanding of the financial performance of the reporting entity.

In particular, IAS 1 states that operating expenses should be presented based on either their nature or their function, whichever provides financial information which is more reliable or relevant.

# IAS 2- Inventory

Inventory is asset held for sale in ordinary course of business, or in the process of production for such a sale, or in the form of material to be consumed in the production process.

<u>criteria to recognize the inventory are:</u>

- controlled by the entity
- measured reliably
- as a result of past event
- probable future economic benefit

IAS 2 states the inventory must be remeasured each year at the lower of cost and the Net realizable value (NVR)

NRV is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs to make the sale.

NRV must be reassessed at the end of each period and compared again with cost. if the NRV has risen for inventory, then the previous write down must be reversed to the extent that the inventory is then valued at the lower of cost and the new NRV.

# IAS 8-accounting policies & estimates

IAS 8- Accounting policies, changes in accounting estimates and errors- defines an **accounting policy** as the **specific** principles, base, rules and practices applied by an entity in preparing and presenting financial statements.

An example of an accounting policy would be the decision to apply the cost model or the fair value model when measuring investment properties.

When an entity changes an accounting policy, the change is applied **retrospectively**. This means that the **comparative figures are based on the new policy**. The opening balance of retained earnings is restated in the statement of changes in equity.

**Accounting estimate** are made in order to implement accounting policies. An example of an accounting estimate would be the change in the fair value of the asset.

Changes in accounting estimates are made **prospectively**. This means applying the new estimates in future financial statement, **without change the previous published amounts.**

# IAS 10- Events after reporting period

IAS 10 define events after the reporting period as being those events occurring after the end of the **reporting period** up to the date the financial statements **authorized for issue**.

IAS 10 classifies the events after the reporting period to **adjusting** and **non-adjusting**.

**Adjusting events** provide additional evidence of conditions existing at the reporting period.

- Under the principles of IAS 10 – Events After the Reporting Date – the post year-end date sale of goods held in inventory at the year-end is an adjusting event. (Dec-22. Q3)

The adjusting events should be recognized in the financial statements.

IAS 10 requires to disclosure of the impact of non-adjusting events in the nots to the financial statements.

The only exception to this rule would be if the event impacted on the going concern status of the entity.

# IAS 12 -Income Tax

**Temporary differences** are differences between the **carrying amount** of an asset or liability and its **tax base**

- **Taxable temporary difference** will create a potential deferred tax liability and income tax expense.
- **Deductible temporary difference** will create a potential deferred tax asset and tax gain.

**The tax base of an asset:** is the **future tax deduction** which will be available when the asset generates taxable economic benefits.

**The tax base of a liability:** is its **carrying amount**, **less** **the future tax deduction** which will be available when the liability is settled.

**Deferred tax liabilities** are the amount of income taxes **payable** in the future in respect of **taxable temporary difference**

- IAS 12- income taxes- requires that **deferred tax liabilities** are recognized on all taxable temporary differences.
- IAS 12 requires that **deferred tax liabilities** should always be shown in **non-current liabilities.**

**Deferred tax assets** are the amount of income taxes **recoverable** in the future in respect of **deductible temporary differences.**

- **The deferred tax asset** can be recognized when it is **expected to generate taxable income** for the foreseeable future.

The **deffered tax asset** is **netted** off against the **deferred tax liabilities** when bothe relate to the same tax jurisdiction.

When **revaluation gain or loss** is recognized in **OCI** as part of items that will not subsequently be reclassified to profit or loss, the related differed tax is also recognised there as a part of the tax relating to **OCI.**

# IAS 16- PPE

IAS 16 defined the property, plant and equipment: any **tangible** asset that are **held for use** in the production or supply of goods or service, for rental to other, or for administrative purpose, and expected to be used during **more than one period**.

***There are two criteria to recognize the asset:***

1) It is probable that **future economic benefit** will flow to the company
2) The company able to **measure** the asset **reliably**

IAS 16 states that the cost of PPE should be its **purchase price** plus any **costs directly attributable to bringing the asset** to the location and condition for it to be capable of operating in the manner intended by management (to become **ready for use**).

The **installation cost**, **inspection cost**, **test cost** and **safety certificate** will be included in the initial cost of PPE, because these costs are **necessary** to make the PPE **ready for use.**

the depreciation starts when an asset is **ready to use** rather than when it is brought into use.

A single physical asset which has **two or more significant component** with different useful lives is regarded as two assets **for depreciation purpose.**

If there is **dismantling cost** will be incurred in the future, the company will charge the PV of the dismantling cost on the asset and will recognize a provision in SOFP as a non-current liability under the govern of **IAS 37**.

- The **provision** is increased over time as the discount unwinds. The amount of the discount is recognized in profit or loss as a **finance cost**.

***there are two model to measure the asset subsequently:***

**cost model:** in this model we measure the asset at its initial cost and distract the accumulated depreciation and accumulated impermeant from it.

**Revaluation model:** in this model we measure the asset in its **fair value** less accumulated depreciation and accumulated impermeant.

- Any increase in the FV of the asset up to the net amount of the previously recognized decrease would be recognized in the profit or loss statement. Any excess would be recognized in OCI as a revaluation surplus.
- Any decrease in the fair value of the asset up to the balance of any remaining revaluation surplus would **reduce** OCI, and any excess would be recognized in SOPL as an Expense.

In disposal of revalued asset, the entity is allowed to transfer the revaluation surplus to the Retained earnings or to keep it in revaluation surplus.

(IAS 16 states that the accounting treatment of PPE is determined on a **class-by-class basis**).

# IAS 19- Employee Benefits

**Defined contribution plan**: is one where the value of the retirement benefits paid out depends on the value of the plan. Which itself depends on the value of the contribution made.

The party who makes contributions and receive benefits bears the risk here, since if the value of the plan falls then so do the benefits paid out.

This means the liability of the entity is limited to the payment of contributions into the plan. The entity has no responsibility for the adequacy of the plan or payments to the employees.

Therefore, the **contributions payable by the entity** for the period will be **shown as an employment expense** in the statement of profit or loss.

The **current service cost** is **irrelevant** to the financial reporting of amounts relating to a defined contribution plan.

The **benefits paid to the former employees** are paid by the plan and so aren't **relevant** to the entity. **Neither** is the fair value of the **plan assets**

- an **accrual** should be made for any contributions **unpaid** at the period end. Any **excess** contribution should be recognized as **prepaid expenses.**

No requirement for discounting if the obligation is settled in the current period

**Defined benefit plan**: the value of retirement benefits paid out is defined in advance, and is not affected by the value of the plan.

The risk here is with the plan operator because if the plan does not have sufficient funds to pay out the defined benefits, then these must be made up for.

The plan will use its own funds to make future payments, so the entity recognizes a liability (or an asset) if it needs to contribute more to ensure the plan can make those payments.

the difference between the **PV of the obligation** and the **FV of the plan assets** is reflected in the **SOFP** as **a net liability or a net asset**.

the **current service cost** is shown as an operating **expense** in SOPL.

Since, the entity has a constructive **obligation to fund any deficits**, it is appropriate to recognize a **net interest cost** in the SOPL. (**net of the interest on the liability and on the assets).**

**Benefits paid to the employees** are paid by the plan and **so are not relevant** to the entity.

This liability or asset would **be adjusted for any remeasurements by the actuary**, and gain or loss will be recognized in **OCI.** (Amounts in OCI aren't recycled on PL).

*The movements on the defined benefit item are due to:*

1. cash contributions to the plan
2. current service cost (to P&L)
3. past service cost (to P&L)
4. gains or loss on settlement (to P&L)
5. net interest (exp. & income) (P&L)
6. remeasurement of the net defined benefit liability (OCI)

**FV of plan asset** = interest + contribution – benefit paid – settlement

**PV of the defined obligation** = interest + service cost– benefit paid – settlement

# IAS 20- government grants

IAS 20 requires grants to be recognized **as income over the relevant periods to match them with related costs** which they have been received to compensate. This should be done on a systematic basis.

Where the grants are received in relation to a depreciating asset, the grant will be recognized over the periods in which the asset is depreciated and in the same proportions.

## Presentation of grants related to assets

A grant relating to assets may be presented in one of two ways:

- As **deferred income** (and charged to profit or loss when related expenditure impacts PL)
- Or by **deducting the grant from the asset**'s carrying amount.

## Presentation of grants related to income

A grant receivable as compensation for costs, either:

- Already incurred
- Or for immediate financial support, with no future related costs.

A grant relating to income may be presented in one of two ways:

- Separately as 'other income
- Deducted from the related expense.

# IAS 21- Foreign exchange rate

Under IAS 21- the effects of changes in foreign exchange rate, PPE and the associated liability would be recognized in the financial staments using the rate of exchange at the transaction date.

Because PPE is **non-monetary item** which is measured under the **cost model**, its carrying amount will **not be affected by future currency fluctuations**. (In other words, it is not retranslated as the exchange rate changes.)

the liability is a **monetary item**, so it needs to be **remeasured** using the rate of exchange at the **reporting date** or when **settle the liability**.

the difference between the **original liability** and the **settlement amount** (remeasured amount) will be an exchange loss or gain which will be recognized in the **SOPL.**

# IAS 23- Borrowing Cost

Under IAS 23, borrowing costs which are directly attributable to the acquisition of an asset should be included as a part of the carrying amount of the asset.

The borrowing costs are started to charge on the carrying amount of the asset when the **expenditure is incurred** on the asset and end when the asset become **ready for use**.

the **gain from investment** of the loan, **reduces the borrowing cost** would charge on the asset.

# IAS 24 related party

IAS 24 states that a director of an entity is a member of the key management personnel (KMP) of that entity. Key management personnel are automatically related parties.

IAS 24 states that because Gower is controlled by the spouse of a director of Omega, then Gower is itself a related party of Omega.

close family members of the related parties of an entity are themselves related parties.

- (family member- brother) is **related party** of (Omega) because the firm is **controlled by the close family member** who is **member of the key management personnel of (**Omega).

where transactions occur with related parties, IAS 24 requires that details of the transactions and outstanding balances are disclosed in a note to the financial statements.

IAS 24 regards related party relationships as material by their nature so the fact that the transaction is financially insignificant to the entity isn't relevant in terms of requiring the disclose.

# IAS 28- Investment in associates

When a reporting entity has an investment which gives it **significant influence**, but **not control**, over the investee entity then, according to requirements of IAS 28- investment in associates- the investment is **recognized as an associate in the consolidated financial statements.**

IAS 28 Investments in Associates and Joint venture states that associates and joint ventures must be accounted for using the **equity method**.

**Equity method** is a method of accounting whereby the investment is **initially recognised at cost** and **adjusted subsequently for the post-acquisition change** in the investor's share of the investee's net assets.

The investor's profit or loss includes its share of the investee's profit or loss, and the investor's other comprehensive income includes its share of the investee's other comprehensive income.

If there are transactions between the associate and the investor, then any profits made by either party are eliminated to the extent of the investor's share in the associate.

If, at the year end, the investment in the associate has suffered impairment, then the investment should be written down to its recoverable amount.

# IAS 33 Earning per share

## Basic EPS

**Basic earnings per share (EPS)** is calculated by dividing the net profit or loss for the period attributable to ordinary shareholders, by the weight average of number of ordinary shares outstanding during the period.

### Bonus issue (No additional consideration)

In the case of issue bonus shares, IAS 33 requires the weighted average to be calculated as if **the bonus shares have always been in issue**.

### Right issue (price below market value)

Rights issue of shares include a **bonus element** which must be taken into account for calculation of weighted average number of shares.

comparative figure must be restated by multiplying previous year's EPS by inverse of the 'Right issue bonus fraction' (Actual right price divide by Theoretical ex-right price).

## Diluted EPS

**Potential ordinary shares** are financial instruments or other contracts which may entitle the holder to ordinary shares.

**Diluted EPS** is calculated by computing what the EPS figure would have been if the potential ordinary shares had been converted into ordinary shares.

profit for the year should be **adjusted for dividends deducted** when calculating basic EPS, and **interests deducted from profit** should be added back after post-tax adjustment.

The number of shares used in the calculation is the weighted average if all potential ordinary shares were converted.

Diluted EPS figure only needs to be **disclosed if it is lower than the basic EPS** figure.

## Disclosure

### Discontinuing operations

Disclose EPS both for total profit and profit for continued operations, on the face of the statement of profit or loss.

### Numerical disclousers

Disclose basic and diluted EPS on the face of the SOPL.

Disclose for each class of ordinary share with a different right to share in profit.

Disclose the amounts used as numerators and denominators in basic and diluted EPS.

Disclose the reconciliation of the numerator to net profit, and between the basic and diluted number of shares.

# IAS 36- Impairment of asset

Under IAS 36- Impairment of asset, the **impairment loss** is recognized with the difference between the **recoverable amount** and **carrying amount**, only when the **carrying amount exceed the recoverable amount.**

**The recoverable amount** of an asset or Cash generating unite is defined as the **higher of** its **fair value less costs of disposal** or its **value in use.**

- IAS 36 requires that value in use be computed based on the existing use to which the asset is being put, with no account taken of potential changes in use due to possible future restructurings

the impairment loss should be charged as an **expense** in the statement of profit or loss.

After impairment loss have been recognized, depreciation charges should be **revised**.

When an impairment loss occurs for **a revalued asset**, the **impairment loss should be charged to the revaluation surplus (OCI),** any **excess** is then charged to **SOPL**. (The impairment loss on the revalued asset treated as revaluation decrease).

If there has been an increase in the recoverable amount after previous decrease, then we can reverse the previous impairment loss under the condition that **the reversal will not exceed the value of the asset less the accumulated depreciation, as if it had not experienced any impairment.**

## Cash-generation unite & goodwill

IF it is not possible to estimate the recoverable amount of an **individual asset**, an entity should determine the recoverable amount of the **cash-generating units**.

**Cash-generating unit** is smallest group of assets that generate cash inflows that are independent from other cash inflow of other group of assets.

Impairment losses for cash generating units should be allocated initially to any **damaged assets**, then to **goodwill**, then to all **other assets** on a pro rata basis.

The impairment loss recognized for **goodwill cannot be reversed**.

IF an intangible asset has an **indefinite useful** life like goodwill, then **impairment review is required annually.**

IFRS 3- Business Combinations- allows us to make **adjustments** to the initial valuations for assets **within 12 months** of the acquisition date.

# IAS 37- provisions

**Provisions:** are **liabilities** with **uncertain timing or amount**, and the **future outflow is probable**.

**Liabilities:** are **present obligations** of the entity to transfer an economic resource **as a result of past events.**

Under IAS 37, provisions must be recognized in the following circumstances.

- There is **a legal or constructive obligation** to transfer benefits as a result of past events.
- It's **probable outflows of economic resources** will be required **to settle the obligation**.
- A **reasonable estimate** of the Provision can be made at the report date.

provisions should be measured based on the **best estimate on report date** (up to authorization date) **of the probable outflow of economic benefits.**

IAS 37 states that for a provision to be recognised, an obligating event must have incurred before the year end.

IAS 37 interprets '**probable' to be 50% or more**. it is also necessary to **disclose key facts** relating to the case in the notes to the financial statements.

If an entity has an **onerous contract**, the present obligation **should be recognized**.

**No provisions for future operating losses** should be recognized.

When there is only a possible (rather than a probable) **chance of an outflow of economic** benefits. then it will be dealt with by disclosure (**contingent liabilities**), rather than provision.

## Contingent asset

Where there is a **probability of an inflow** of funds relating to a **contingent asset**, then this is dealt with by **disclosure** under IAS 37.

**A contingent asset** must **not be recognized,** unless the related economic benefit is **virtually certain** (rather than highly probable), then it should be recognized as an asset.

## Redundancy programmers

IAS 37 requires a provision for the **redundancy costs** to be included in the financial statements when a constructive obligation exists at the reporting date when the **details are announced** to those affected by it.

# IAS 38- intangible asset

Intangible asset is an identifiable non-monetary asset without physical existence, and must be controlled by the entity

intangible assets can only be recognised if it is probable that **economic benefits will flow to the entity** and the cost of the asset can be **measured reliably**

Under the principles of IAS 38, the ability to recognize an intangible asset depends on **how the potential asset arose.**

Since the brand has been **separately purchased**, IAS 38 Intangible Assets requires that it is initially recognised at its cost.

The entity is unable to use the **revaluation model** to measure the brand because IAS 38 requires the existence of an **active market** in the asset before this can occur.

Under the **cost model**, intangible assets are amortised over their useful lives. If the useful life is assessed as indefinite, then no amortisation is charged but the asset must be reviewed annually for impairment.

A brand name (or any other intangible asset for that matter) is regarded as identifiable intangible if it is separable (can be sold without selling the whole business) or arises from contractual or legal rights.

Identifiable intangible assets associated with an acquired subsidiary can be recognized separately in the consolidated financial statements provided their **fair value can be reliably estimated.**

IAS 38 does not allow the recognition of internally developed intangible asset because of the inherent difficulties involved in identifying and measuring them.

Research costs must be expensed as incurred.

**Development cost may be capitalized as intangible asset if the entity can demonstrate the:**

1. Technical feasibility of completion
2. Intention to complete.
3. Ability to use or sell the asset.
4. probable future economic benefit (will exceed the capitalized cost).
5. Ability to measure expenditures reliably.
6. The costs are recoverable
7. Availability of resources to complete and use or sell the asset.

# IAS 40- Investment property

IAS 40 defines investment properties: as property held for rental or capital appreciation or both rather than for use in production, or supply goods or services, or for administrative purposes, or sale in the ordinary course of business.

IAS 40 states that investment properties are **initially** accounted for **at cost**

Under IAS 40, there are two permitted methods of accounting for investment properties;

- **fair value method**, under this method investment properties are **not depreciated**, but are measured annually at **FV**, and gain or loss on remeasurement is recognized in SOPL.
- **cost model**: properties are measured at original cost less accumulated depreciation

AS 40 Investment Property states that where a property is held for **mixed-use** in this way, then the portions should be **accounted for separately if they could be sold separately**.

The investment property is shown in the statement of financial position **as non-current asset in separate line.**

When the entity changes the use of property **from** **investment property** **to** **owner-occupied property or inventory**, the **fair value** at the transfer date is the **initial measurement** for asset.

In the case of the change in the use of the property **from** **owner-occupied** **to** **investment property**, the property should be **revalued at transfer date** and variances charge to **revaluation surplus** as per IAS 16.

in the case of the change in the use **from** **inventory** **to** **investment property**, the property should be **revalued at the transfer date** and the variances charge to **SOPL.**

# IAS 41- Agriculture

**Agricultural activity:** is the management by an entity of biological transformation and harvest of biological assets for sale or conversion into agricultural produce or into additional biological assets.

**biological asset**: living Animals and plants

**Agricultural produce:** The harvested produce of the entity's biological assets.

Biological asset should be recognized and remeasurement at each year-end at **fair value less cost to sell** and any gain or loss should be recognized in **SOPL**, and the fair value must be **measured reliably.**

IAS 41 does allow the **'cost model'** to be used for biological assets **if fair values cannot be measured reliably** but this is **unlikely** to be true for biological assets like cattle or sheep **where market values are available**.

The difference between amount paid and amount recognized as a biological asset will be recognized as expenses.

When the biological **asset transforms and its fair value less costs to sell changes**, the carrying amount of the asset should be **updated** with changes being recognised in **profit or loss**.

harvested (agriculture) produce is recognized in inventory at initial carrying amount of fair value less cost to sell at the point of harvesting, and then applying IAS 2 subsequently.

Biological assets are a **non-current asset** in the SOFP and will be disclosed **separately**.

Unconditional government grants received in respect of biological assets are recognized in profit or loss when the grant becomes receivable.

If such a grant is conditional the entity recognizes the grant in profit or loss only when the conditions have been met.

The IAS 20 treatment of grants is to recognize them in profit or loss as the expenditure to which they relate is recognized. This means that recognition of grants relating to property, plant and equipment takes place over the life of the asset rather than when the relevant conditions are satisfied.

# IFRS 1-First time adoption IFRS

At the date of transition to IFRS standards, the entity should prepare and present opening IFRS **statement of financial position.**

the **date of transition** to IFRS is the **beginning of the earliest period** for which the entity provides comparative information.

The opening IFRS **statement of financial position** and the **comparative figures** should be prepared in accordance with **IFRSs** which are **in force for the current reporting period**.

the entity should be select **accounting policy** and make **retrospective adjustments**. All adjustments are **recognized directly in retrain earning** or in **OCE**, if appropriate.

The adjustment will be between the amounts **reported in previous periods** under local standards and the equivalent **amounts reported as comparatives** in the current period under IFRSs.

*Steps at the transition process:*

1. the entity should select the accounting policies and applied consistently.

2. Derecognize asset and liabilities that do not qualify under IFRSs.

3. Recognize assets and liabilities that qualify under IFRSs.

4. Reclassify assets and liabilities that classification under IFRSs

5. Measurement assets and liabilities that have other classification under IFRSs.

# IFRS 2- share based payment

## Share option- equity settlement

For equity-settled arrangements, the transaction should be measured based on the **fair value of the goods or services received**.

Where the third party is an employee, 'fair value' should be based on the fair value of the **equity instruments granted**, measured at the **grant date**.

IFRS 2- share-based payment, requires that the **share option** should be measured based on its fair value at the grant date (this value is not adjusted).

The **estimated cost** should be charged in P/L as an **operating cost** and **credited to equity** as OCE**.**

**total estimated cost** of share options should be recognized **over the vesting period** based on the **number of options expected to vest**, based on the estimation on the reporting date.

**Total equity** (cumulative estimated cost) at the end of each period should be **a proportion of the total estimated cost**. The proportion based on the **period passed** compared with **total vesting period.** (The change in cumulative cost would be recognized in SOPL.)

### Modification

the modification to the terms will be an **additional cost** which will be **recognized over the remaining vesting period**. This additional cost will be based on **the increase in the fair value of the option.**

## Share appreciation right- cash settlement

IFRS 2 requires that **share appreciation right** should be measured based at its fair value at the vesting date or reporting date.

**The estimated cost** should be charged in P/L as an **expense** and credited to **liability**.

**The liability** should be built up **over the vesting period** based on the **number of rights expected to vest**, based on the estimation on the reporting date.

**The cumulative estimated cost** at the end of each period will be **the proportion of total estimated cost**, this proportion based on **the period passed** compared with **the total vesting period**. (The change in cumulative cost would be recognized in SOPL.)

## Vesting consitions

**All vesting conditions** is taken into account by reflecting it in the calculation of the number of options or rights expected to vest

- in the case of **equity-settled** arrangements **market conditions** aren't taken into account.

## Share-based Payment With a Choice of Settlement

a share-based payment transaction with a cash alternative is treated **partly as an equity settled** share-based payment transaction and **partly a cash settled** one.

The fair value of the **equity settled element** at the grant date is computed by deducting the fair value of the cash alternative at the grant date from the overall fair value of the offer of the shares with the cash alternative.

- (**Equity component** = FV of shares alternative at grant date -FV of cash alternative at grant date)
- This is because the executives (counterparty) and not the entity have the choice as to whether to take the shares or cash.

**The equity settled part** of the arrangement is recognised as **expense** over the vesting period based on its FV at the grant date and the number of shares which are actually expected to vest.

- The corresponding credit entry in the statement of financial position is to Equity and **will not be re-measured.**

The expense associated with the **liability component** of the arrangement is also recognised over the vesting period and based on the number of shares which are actually expected to be issued on vesting. However, the expense is measured based on the fair value of the liability component at the reporting date.

# IFRS 3- Business combination

Under the principles of IFRS 3 – Business Combinations – the goodwill on acquisition of subsidiary is the sum of the purchase consideration plus the non-controlling interest less the fair value of the net assets at the date of acquisition.

the cost of subsidiary to Parent will be its fair value at the date of acquisition.

IFRS 3 Business Combinations allows us to make adjustments to the provisional valuations within 12 months of the acquisition date.

All costs associated with an acquisition must be **expensed** (commissions, Due diligence), except costs of issuing debt or equity instruments (**deduct form share premium** account - OCE).

# IFRS 5- Noncurrent asset held for sell

Entity should classify a non-current asset as held for sale When its carrying amount will be **recovered through a sale rather than continuing use**.

an asset would be classified as non-current asset held for sell when it becomes **available for immediate sale in its current condition**, is being **marketed at a reasonable price**, and the **sell is expected to occur within one year**.

- If the criteria are met **after the reporting date** but **before the authorization** of the financial statements, then the asset **must not** be classified as held for sale as at the reporting date (non-adjusted event)

Under IFRS 5, the **segment** would be classified as a **discontinued operation**, when it is a **sperate major line of business** or **geographical area of operation** which has been **disposed of** in the period or is **classified as held for sale.**

## Measurement

The **carrying amount should be calculated immediately** prior to the classification as held for sale, therefore any impairment or depreciation on assets or the disposal group should be accounted for prior to the classification.

When asset classified as held-for-sale, it is measured at the **lower of its current carrying amount and its fair value less cost to sale**. (Finance cost and taxes are not included in cost of sale).

**write down of the asset** due to remeasure of the asset should be **regarded as impairment loss** and treated under IAS 36- impairment of assets.

- Subsequent **increases in fair value** cannot be recognized in SOPL **in excess of the cumulative impairment losses**.

Held-for-sell asset is **not depreciated**.

A non-current asset that is **no longer classified as held for sale** is **measured at the lower of (carrying amount before the assets was classified as held for sale, adjusted for any depreciation or revaluation that would have been recognized if the asset has not been classified as held for sale) or (its recoverable amount at the date of the decision not to sell).**

## Presentation

An asset held for sell and discontinued operations are presented **separately from other assets** in the SOFP.

The liability of the disposal group classified as held for sale should be presented **separately from other liabilities** in SOFP. They should not be offset against the assets of the disposal group.

The **post-tax profit or loss** of assets held-for-sell, will be **presented as a single amount below profit after tax from continuing operations** and described as **profit or loss from discontinuing operation** in SOPL&OCI.

# IFRS 6- Mineral resources

**Exploration for and evaluation of mineral resources:** is the search for mineral resources after the entity has **obtained legal rights to exploration** in a specific area, as well as, the **determination of the technical feasibility and commercial viability** of extracting the mineral resource.

IFRS 6 allows entities to **determine a policy** specifying which expenditures are recognized as exploration and evaluation assets and **apply the policy consistently**.

entities would determine their accounting policies for exploration and evaluation expenditures in accordance with the general requirements of IAS 8– Accounting Policies, Changes in Accounting Estimates and Errors.

When recognizing exploration and evaluation assets, entities should classify them as tangible or intangible according to their nature.

Subsequent to initial recognition, entities should apply the cost model or the revaluation model to exploration and evaluation assets. it should be applied according to IAS 16 (for tangible assets) or IAS 38 (for intangible assets).

Where circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount, such assets should be reviewed for impairment. Any impairment loss should be measured, presented and disclosed in accordance with IAS 36 – Impairment of Assets.

# IFRS 8- Operation segments

the definition of operating segments depends on the **business model** of the entity, which could be different from entity to entity, and the disclosures focus on the information which management believes is important

**An operating segment:** is a **business component** Which

- **earn revenue and incur expenses**,
- **discrete financial information is available** and
- **operating results are reviewed by** the **chief operating decision maker**.

**A chief operating decision maker:** is a person who **assess performance** and **allocates resources** of the operating segments.

The entity can assess performance and allocate resources based on **the geographical area** or **product type**.

The reportable segment is an operating segment which meet one of the following criteria:

- **Reported revenue is 10%** or more form the total revenue from all operating segments.
- **The absolute amount of profit or loss** of segment reported **is 10%** or more from the total **combined** profit or loss of all segments.
- **Total assets are 10%** or more of total asset of all operating segments.

Two or more operating segments that have **similar economic characteristics** can be **combined** into single operating segment for reporting purpose.

Even if an operating segment does not meet any of the quantitative **thresholds**, it can be **considered reportable** if management believes that information would be useful.

the total external revenue of reportable segments should be **at least 75% of total entity revenue**. If this is not achieved, additional reportable segments should be added until this threshold is achieved.

# IFRS 9-Financial instruments

## Financial asset

### Investment in debt

measurement basis for financial assets under IFRS 9 depends on the **business model** for managing the financial asset and the **contractual cash flow characteristics** of the financial asset.

In order for the financial asset to be measured at **amortised cost**, the contractual terms should lead to **cash flows on specified dates** which are **solely payments of principal and interest** on the amounts outstanding.

and business model for managing the financial asset, is to hold the financial asset in order to **collect the contractual cash flows.**

A financial asset is measured at **FVTOCI** where the '**contractual cash flow test'** is passed and the asset is held under a business model whose objective is achieved both by **collecting the contractual cash flows** and by **selling the financial asset.**

**Interest income** will be recognized in SOPL under all method of measurement

**Transaction costs** are charged on financial assets which measured at **FVTOCI** and **amortized cost** on initial recognition.

### Investment in Equity

**Equity investment** must be measured at **fair value** because the **contractual terms** associated with the investment **do not entitle the holder to specific payment of interest and principles**.

IFRS 9 would normally require equity to be measured at **FVTPL** and any gain or loss on remeasurement each year will be recognized in SOPL.

- Where the financial assets are measured at **FVTPL**, the **transaction costs** are recognized in **PL**.

If an equity investment is **not held for trading**, it is possible to make an irrevocable election on initial recognition to measure the investment at **FVTOCI**, this election has been made when the financial assets are held for long-term and there is no intention to sell.

- **Transaction costs** are charged on financial assets which measured at **FVTOCI** and **amortized cost** on initial recognition.

The key difference between measure the financial asset at FVTPL or FVTOCI, that in FVTPL case the gain or loss affects EPS**.**

**Interest income** will be recognized in SOPL under all method of measurement /

# Expected credit loss

IFRS 9 requires the **impairment assessment** to be made at the **reporting date**.

A financial asset is impaired when its carrying amount cannot be reasonably expected to be recovered through future generation of income or sale proceeds.

IFRS 9 classifies financial assets into three types. One of these types is **FVTPL**. Where financial assets are measured on this basis, any impairment of the asset is automatically reflected in the remeasurement so no further action is required.

the general rule is that we should recognize a **loss allowance** for **expected credit losses**.

The **loss allowance** should be recognized in **P/L** and deducted from carrying amount of financial asset in SOFP.

**A credit loss:** is the difference between the cash received under the term of the contract and the cash expected to be received based on current condition, discounted to present value.

If credit risk has **not** increased significantly since initial recognition, the **loss allowance** should be based on **expected credit losses in the next 12 months.**

if the credit risk has increased significantly since initial recognition, the **loss allowance** should be based on **lifetime expected credit losses**.

IFRS 9 allows the **loss allowance** related to **trade receivables** to always be measured based on the **lifetime expected credit losses.**

# Derivatives

Derivative is a financial instrument **its value depends on the value of underlying variable**, and it requires a **small initial investment**, and it is **settled at a future** date.

derivatives are measured initially and subsequently using **FV** and the **gain or loss** and **transaction cost** are recognized in **P/L**.

## Combined instrument

If host is financial asset within the scope of IFRS 9, Then the whole hybrid contract shall be measured as one and **not separated.**

If the scope is financial liability, then they should be **separated** when the conditions are met (embedded derivative + host contract).

The hybrid (Combined) instrument is **not** measured at fair value with changes in fair value recognised in the profit or loss.

# Convertible loans- Combined instrument

Under IFRS 9- Financial instruments, convertible loans need to be split into their liability and equity elements by computing the liability element and driving the equity element as the balancing figure.

The liability element is computed by discounting the future amount payable assuming the loan is repaid using discount rate equivalent to the return which would be required by a lender without any conversion option- the market rate.

therefore, the liability is $$ (PV of future payment + PV of the loan) (using market rate) therefore the equity element is $$$ (loan – liability element)

The issue costs are deducted from the equity and liability elements in their proportion.

Therefore, the amount deducted from the liability element is $$(issue cost* liability element / loan), and the amount deducted from the equity element is $$ (loan – amount deducted from the loan)

- The resulting equity element will be unchanged and will be presented in SOFP in the equity section as other component of equity

The carrying amount of the loan element after the deduct of the issue cost will be $$(PV of liability – amount deducted from the liability)

The finance cost for the year ended will be $$(effective interest rate IRR or market interest rate if there is no issue costs* carrying amount of liability at the beginning of the year), and the liability at the year-end $$(liability at the begging of the year + finance cost – payment).

The finance cost of $ will be presented in SOPL and the liability will be presented as a noncurrent in SOFP

# Hedge

Under the principles of IFRS 9 – financial instruments – the forward exchange contract is a derivative financial instrument and so would be classified as FVTPL.

This would normally mean that gains or losses on remeasurement to fair value would be recognized in profit or loss.

Since the hedging documentation indicates that **the hedged item is the changes in the expected cash flows**, **then cash flow hedge accounting is used**.

Therefore, the entity will compare between the **change in value of the derivative** (the recognized hedging instrument) and the (unrecognized) **change in the value of the expected cash flows.**

When the **change in the value of the derivative is *less than or equal to*** the **change in the value of the expected cash flows** (**effective portion** of the hedge), then **the change in value of the**

**derivatives is recognized in OCI** rather than **P/L.** They will be presented as gains which may subsequently be **reclassified to PL or capitalized on the related asset.**

However, **any over-hedging** (**ineffective portion** of the hedge) **is recognized in P/L**.

# IFRS 10- Consolidation FS

under the principles of IFRS 10 – Consolidated Financial Statements, all group entities should be reflected in the consolidated financial statements by applying uniform accounting policies.

If individual group entities prepare their financial statements using accounting policies which differ from those of the parent, then appropriate adjustments should be made when reflecting their assets, liabilities, profits and losses in the consolidated financial statements.

Under the provisions of IFRS 10 – *Consolidated FS* – the general rule is that the financial statements of all group members should have the same reporting date.

Where the reporting period of a subsidiary is different from the reporting period of the parent, that subsidiary should prepare, for consolidation purposes, additional financial information as of the same date as the financial statements of the parent.

Where it is 'impracticable' to prepare additional financial information, then the parent is permitted to consolidate the financial information of the subsidiary using the most recent financial information of the subsidiary 'adjusted for the effects of significant transactions or events in the intervening period.

For the above to be possible, the intervening period should be no longer than three months, so in this case additional interim financial information will have to be prepared.

# IFRS 11- Joint arrangement

The arrangement is regarded as **a joint arrangement** when two or more parties have **joint control** under a **contractual arrangement.**

The **joint arrangement** is classified as a **joint operation** When both entities **have equal rights to the Joint assets and joint obligations for the liabilities** relating to the arrangement and **no specific entity has been established**.

When accounting for a joint operation, each operator includes its share of the assets, liabilities, revenues and expenses of the operation.

# IFRS 13 – Fair value

Under the principles of IFRS 13, the fair value of an asset is the price which would be received to sell the asset in an orderly transaction between market participants.

Under IFRS 13, the fair value of a non-financial asset is based on the **highest and best use for a potential purchaser**, irrespective of the use to which the asset is being put by the user.

Where more than one market exists for the asset, attempts should be made to identify the principal market for the asset. Where the principal market is identified, this market price should be used to establish fair value.

Where it is not possible to identify a **principal market** for the sale of an asset, then the entity should use **the most advantageous market** as a means of identifying fair value.

The most advantageous market is the one in which the expected net proceeds (after deducting selling costs) are the higher.

**The principal market:** is the market with **the greatest level of activity** for the asset or liability.

**Most advantageous market:** is the market **that maximizes the amount that would be receive to sell the asset or minimizes the amount that would be paid to transfer the liability** after **taking into account transaction costs and transport costs**. (FV is **not** adjusted for the **transaction costs)**

# IFRS 15- Revenue

In order to determine the amount and timing of the revenue to be recognised, Delta needs to identify the contract with the customer and to identify the performance obligations for Delta contained in the contract. In this case, the contract, and the performance obligation, is to supply the items to the customer.

IFRS 15 Revenue from contract with customer states that Revenue can be recognized when the entity **satisfies its performance obligation** to the customer by **transferring the control** of the promised goods and services to the customer. The satisfaction is happened at a **point of time** or **over time**.

the company must take the **variable element** and **Time value of money** (significant finance component) in account.

IFRS 15 states that the revenue should be based upon the estimated amount receivable from the customer in exchange for the promised goods.

- The variable element is taken into account only when it is **measured reliably**.
- **The variable element** should be included in *the* transaction price based on the **probability of its occurrence.**

# Sale of Asset with a call option

In the case of sale with call option, the customer does not obtain control over the Asset, because the call option means that that the customer's ability to use and obtain benefit from the Asset is limited.

As control has not been transferred, the company cannot recognize the revenue and will keep the asset in its books.

- When the exercise price is above the original selling price, the entity must account for the transaction as a financing arrangement. The entity will continue recognize the asset in its book and recognize the cash received as a **financial liability.** The difference between original price and exercise price is recognized as a **finance cost**.
- When the exercise price is less than original price, the entity will regard this transaction as an operating lease in accordance with IFRS 16 and will keep the asset in its books, and the difference between the repurchase price and the original price will be recognized as **payment received under lease**.

If the option lapses unexercised, the customer will then obtain control of the Asset. In this case, Company will derecognize the Asset and recognize revenue.

# Separate performance obligations (Sale of goods and services)

The **transaction price** should be allocated between **performance obligations** in proportion to their **stand-alone selling prices**.

# Performance obligation satisfied over time (Long term contract)

IFRS 15 requires revenue to be recognized as **control over the asset is transferred** to the customer. In this case (long term contract), the control is passed to the customer over time as the contract progresses.

If the company received the total transaction price, the entity will recognize **contract liability related to the unsatisfied obligation** which will be satisfied over the period. (The contract liability will be separated to current and noncurrent)

- When the entity uses the **input method**, Revenue will be recognized based on contract **costs incurred** to date as a proportion of total costs.
- When the entity uses the **output method**, revenue will be recognized based on **percentage of work carried out** (which will be equal to the amount of performance obligation).

**Trade receivable**: A trade receivable is recognised in respect of **amounts invoiced** but not yet received.

**Contract asset**: A contact asset is recognized for revenue recognized to date but **not yet invoiced.**

## Right of return

When the customer has the **right to return** products, the transaction price contains a **variable element**. When this element can be **reliably measured**, it is taken into account in measuring the revenue.

**The variable element** should be included in *the* transaction price based on the **probability of its occurrence.**

The entity will not recognize revenue related to goods **expected to be returned** and will recognize a **refund liability** for this amount as a current liability.

The entity will derecognize goods from inventory, recognize a cost of goods sold, and recognize a **right to recover the asset** in accordance with the amount **expected to be returned**.

When the right to return is unexercised, the entity will derecognize the right to recover the asset and transfer this amount to cost of goods sold. Additionally, it will derecognize the refund liability and transfer it to revenue.

## Contract cost

The costs of obtaining a contract are recognized as an asset if the entity expects to recover those costs.

IFRS 15 states that costs which were **not originally expected** when the contract was planned, and are **caused by inefficiencies** or similar issues, should be **charged to profit or loss** as incurred rather than being included as a 'contract cost'. The same applies to any general or administrative overheads.

Costs recognized as assets are amortised on a systematic basis consistent with the transfer to the customer of the goods or services to which the asset relates.

# IFRS 16- leases

## Accounting for lessee

IFRS 16 requires lessee to recognise a **ROU asset** and **lease liability**, unless the lease term is less than one year or the value of the asset is low.

Lessee can treat **short-term lease** or the **lease of low value asset** by recognizing the lease rentals as **exepenses** over the lease term instead of recongnize ROU and lease liabilities.

This election can be made on a **lease by lease basis**.

The initial measurement of the right of use asset and the lease liability will be the present value of the minimum lease payments.

- The discount rate used to measure the present value of the minimum lease payments is the rate of interest implicit in the lease – essentially the rate of return earned by the lessor on the leased asset. [NB: If this rate is not available to the lessee, then a commercial rate of interest can be used instead.]

**ROU** =PV of lease liability **+**direct costs **+**dismantling cost **+**intial payment **-** insentive received

The **ROU** is included as a **separate component of PPE** and **depreciated over the less term** in accordence with IAS 16.

The lease liability is treated as a financial liability which is measured at amortised cost, using the rate of interest implicit in the lease as the effective interest rate.

- The **lease liability** is increased by a **finance cost**, this cost is based on the carrying amount of lease liability and the interest rate in the lease.
- The finance cost will be charged as expense in the SOPL.
- The lease liability will be decreased by the payment.

**Current liability** (the case payments in arrears) **= finance cost of the next year – lease payment**

## Sales & lease back

when the sale of the asset satisfies the requirement in IFRS 15, the entity will derecognize the asset and will recognize a right of use asset.

**The right of use asset** is measured as a **proportion of the previous carrying amount** of the asset that relates to the **right of use retained.**

**Right of use asset=** $\boldsymbol{carying\ amoutn\ of\ asset \times \frac{PV\ of\ liability}{FV\ of\ the\ asset}}$

The right of use asset will be **depreciated over the lease term**.

**The gain (loss)** on sale of the asset is recognized in SOPL **in relation to the rights transferred to the buyer**

**Total gain (loss) = FV – Carrying amount**

Gain (loss)= ***total gain (loss)*** $\times \frac{FV\ of\ the\ asset - PV\ of\ liability}{FV\ of\ the\ asset}$

**The PV of the lease liability** will unwind each year, resulting in an increase in the lease liability and the recognition of a finance cost in the SOPL.

The lease liability is **reduced by payment**.

Lease liability will be separated to **current** and **noncurrent**.

**-When** the **fair value** **excesses** the **proceed,** IFRS 16 requires the excess to be treated as a **prepayment** of the lease rentals. Therefore, the excess must be added to the right-of-use asset.

ROU asset = $carying\ amoutn\ of\ asset \times \frac{PV\ of\ liability}{FV\ of\ the\ asset}$ **+ Excess**

**-When** the **fair value less** than the **proceed,** IFRS 16 requires the deference to be treated as an **additional liability**, not as gain

ROU asset = $carying\ amoutn\ of\ asset \times \frac{PV\ of\ liability - additional\ liability}{FV\ of\ the\ asset}$

# Accounting for Lessor

## Finance lease:

Because the lease is a **finance lease**, the entity will recognize a **lease receivable** equal to the net investment in the lease, and will **derecognize the asset**.

**Finance lease** is a lease that **transferees all the risks and rewards** of the underlying asset to the lessee. Evidence of this includes:

- the lease is for the major part of the life of the asset
- the lessee is responsible for repairs and maintenance.
- the lessee has the option to buy the asset
- the leased asset has a special nature
- the lease transfers the ownership of the asset to the lessee at the end of the term
- the PV of lease payments at inception date is substantially all the FV of the asset

During the year ended, the entity will recognize **finance income** from **finance leases** in the **SOPL** based on a periodic rate of return and carrying amount of lease receivable**.**

**Finance income** increases the lease receivable.

Lease receivable = PV of lease payment + ungranted residual value = Net investment
= FV of the asset + initial direct cost

## Operating lease

Operating lease: is any lease other than finance lease.

- Lessor keeps recognizing the leased asset in his statement of financial position

Lease income from operating lease shall be recognized as an income on a straight-line base over the lease term.

# SMEs

The International Accounting Standards Board has developed an IFRS for small and medium sized entities (SMEs) which can be used as an alternative to full IFRS.

Despite the title of the IFRS for SMEs it is not available for all small and medium sized entities. **SMEs can only be used by entities which are not publicly accountable**.

The IFRS for **SMEs is one single standard** which, if adopted, is used instead of all IFRS.

The IFRS for SMEs **omits** completely the requirements of IFRS which are **specifically relevant to listed entities**, for example, **IAS 33- earnings per share** and **IFRS 8- segmental reporting**.

In addition, the subject matter included in the IFRS for SMEs has been **simplified** compared with full IFRS. For example, **research and development costs are always expensed** and **non-current assets are never revalued.**

Entities which are not publicly accountable **have the right, but, not the obligation**, to use the SMEs Standard rather than full IFRS standards.

the disclosure **requirements of the SMEs are less** than for full IFRS standards.

A further benefit is that the IFRS for SMEs is **only updated once every three years**, thus reducing the extent of change to financial reporting practice.

If the entity which are not publicly accountable but part of a group which use full IFRS, can still use SMEs in its individual statements, and **adjustments would be required at consolidation level** to make the statements fully IFRS standard compliant