INTERNATIONAL ACCOUNTING STANDARDS
POCKET GUIDE

SEPTEMBER 1999

This pocket guide provides a summary of International Accounting Standards and Interpretations, as well as proposals announced by the International Accounting Standards Committee and its Standing Interpretations Committee.

To assist the user, the information in the guide is arranged into six sections:

- Financial reporting format and disclosure
- Groups
- Income statement
- Balance sheet
- Financial instruments
- Specialised financial statements

PRICEWATERHOUSECOOPERS

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Index by Standard

Key

IAS	International Accounting Standard
IASC	International Accounting Standards Committee
SIC	Standing Interpretations Committee
E	Exposure Draft
D	Draft Interpretation

FINANCIAL REPORTING FORMAT AND DISCLOSURE

Presentation of financial statements (IAS 1(revised))

IAS 1(revised) deals with the presentation of financial statements. It pulls together and also expands upon the requirements of the three standards that it superseded - IAS 1, IAS 5 and IAS 13.

Concepts

Going concern, consistency and accrual accounting are the three fundamental accounting assumptions underlying the preparation of financial statements. Management must assess the enterprise's ability to continue as a going concern over the foreseeable future (which would normally be at least twelve months from the balance sheet date). Disclosure should be made of any material uncertainties related to events or conditions which may affect the enterprise's ability to continue as a going concern.

Accounting policies

IAS 1(revised) requires that management should select an enterprise's accounting policies so that the financial statements comply with all the requirements of applicable standards and the interpretations of the SIC. Where these contain no specific requirements, the standard requires that the selection and application of accounting policies should be governed by: relevance, representational faithfulness, substance over form, neutrality, prudence and materiality.

Some standards provide a choice of accounting policy but do not clarify how that choice should be exercised. Draft Interpretation SIC-D18 proposes that an enterprise should choose and apply consistently one of the available accounting policies. For example, all changes in accounting policy reported under IAS 8 should be reported either as adjustments to opening retained earnings or included within the net income for the period.

Components and currency of financial statements

The financial statements should comprise a balance sheet, income statement, statement of changes in equity or statement of non-owner changes in equity, cash flow statement, accounting policies and explanatory notes. IAS 1(revised) does not prescribe a standard format for the financial statements, although examples are given in an appendix to the standard. It does, however, set minimum disclosures to be made on the face of the financial statements as well as in the notes, for example, an analysis of income and expenses using a classification based either on their nature or function within the enterprise. The standard also requires that comparatives be included for all items, unless a particular standard specifically permits or requires otherwise.

The reporting currency for the financial statements is generally the local currency of the country in which the enterprise is domiciled. If a different reporting currency is used, or a change of reporting currency is made, the reasons must be disclosed under IAS 21.

Compliance with IAS

Compliance with the requirements of IASs and SIC Interpretations is considered in virtually all circumstances to produce financial statements which provide a fair presentation. A statement that the financial statements comply with International Accounting Standards is required.

In its *Insight* newsletter of June 1998 the IASC staff emphasised that enterprises are no longer permitted, as has sometimes occurred in the past, to describe their financial statements as complying with International Accounting Standards with certain specified exceptions. IAS 1 (revised) states that financial statements should not be described as complying with International Accounting Standards unless they comply with all the requirements of each applicable standard and each applicable interpretation of the SIC.

In extremely rare circumstances, when management concludes that compliance with a requirement of a standard would be misleading, and departure from it is necessary to achieve a fair presentation, the enterprise must fully disclose the nature, reason for and financial effect of the departure.

First time adoption of IAS

Interpretation SIC-8 requires that when an enterprise adopts IAS for the first time, the financial statements (including comparatives) should be prepared and presented as if they had always been prepared in accordance with those standards and SIC interpretations that are effective in the period in which IAS is first applied. Transitional provisions set out in the specific standards and interpretations can only be applied for the actual periods prescribed in those pronouncements.

Financial review

IAS 1 (revised) encourages management to include, outside the financial statements, a review of the financial performance and position of the enterprise and principal uncertainties it faces. Such a review would be similar in content to the Management Discussion and Analysis (MD&A) and Operating and Financial Review (OFR) already required for listed enterprises in the United States and the United Kingdom respectively. This review could include such issues as the main factors influencing performance, changes in the operating environment of the enterprise, dividend policy and funding and risk management policies.

The International Organisation of Securities Commissions (IOSCO) is also encouraging "internationalisation" of narrative reporting. In September 1998 IOSCO issued "International Disclosure Standards for Cross-Border Offerings and Initial Listings by Foreign Issuers". Although these disclosures principally apply to prospectuses, they could also be applied to annual reports. It comprises recommended disclosure standards including an operating and financial review and discussion of future prospects. These non-financial statement disclosures are intended to enhance comparability of information, to ensure a high level of investor protection and to produce qualitative information to assist investors' decision-making.

Cash flow statements (IAS 7)

All enterprises presenting financial statements under IAS must provide a cash flow statement using either the direct or the indirect method. Cash flows should be classified into operating, investing and financing activities, and separate disclosure should be made of movements in cash equivalents and details of significant non-cash transactions. An enterprise should report separately gross cash receipts and gross cash payments arising from investing and financing activities.

The aggregate cash flows arising from acquisitions and from disposals of subsidiaries should be presented separately and classified as investing activities. IAS 7 requires detailed disclosure, in respect of both acquisitions and disposals, of: the total purchase or disposal consideration and the portion of it discharged by means of cash and cash equivalents; and the amount of assets, liabilities, and cash and cash equivalents in the subsidiary acquired or disposed of.

Segment reporting (IAS 14(revised))

IAS 14 (revised) is only mandatory for enterprises with listed securities or which are in the process of obtaining a listing. It introduces a "two tier" approach to segment reporting, requiring an enterprise to determine its primary and secondary segment reporting formats (ie business or geographical) based on the dominant source of the enterprise's business risks and returns.

Reportable segments are determined by identifying separate profiles of risks and returns, and then using a materiality threshold test: the majority of the segment revenue must be earned from external customers and the segment must account for 10% or more of either total revenue, total profit or loss, or total assets. Additional segments must be reported (even if they do not meet the threshold test) until at least 75% of consolidated revenue is included in reportable segments.

The disclosures concentrate mainly on the segments in the primary reporting format, with only limited information being presented on the secondary segment. Disclosures for reportable segments in the primary reporting format include segment revenue, result, assets, liabilities, capital expenditure, depreciation and amortisation and the total amount of significant non-cash expenses. IAS 36 (Impairment of Assets) also requires an analysis of impairment losses by primary segment. Disclosures of segment cash flows as well as any exceptional items within segment revenue and expense are encouraged. Disclosures for reportable segments in the secondary segment include segment revenue, assets and capital expenditure; segment result is not required to be shown for secondary segments.

A reconciliation should be provided between the information disclosed for reportable segments and the totals shown in the financial statements.

Related party disclosures (IAS 24)

Related parties include holding companies, subsidiaries and associates, major shareholders and key management personnel but exclude, for example, finance providers and governments in the course of their normal dealings with the enterprise. Where there have been related party transactions, disclosure should be made of the nature of the relationship, the types of transactions and the elements thereof necessary for an understanding of the financial statements (eg volume and amounts of transactions, amounts outstanding and pricing policies). Items of a similar nature may be disclosed in aggregate (for example, total directors emoluments) except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the reporting enterprise.

IAS 24 also requires the disclosure of all related party relationships where control exists (ie the name of the controlling shareholder and controlled entity), irrespective of whether there have been transactions between these related parties.

The effects of changes in foreign exchange rates (IAS 21)

A transaction in a foreign currency is recorded in the reporting currency using the exchange rate at the date of the transaction. At the balance sheet date, foreign currency monetary balances are reported using the closing exchange rate. Non-monetary balance denominated in a foreign currency and carried at historical cost must be reported using the historical exchange rate at the date of the transaction. Non-monetary items denominated in a foreign currency and carried at fair value must be reported using the exchange rates when the fair values were determined.

Exchange differences are recognised as income or expense for the period except for those differences arising on a monetary item that forms part of an enterprise's net investment in a foreign entity (eg a long-term loan receivable), or on a foreign currency liability (eg borrowings) accounted for as a hedge of an enterprise's net investment in a foreign entity. Such exchange differences are classified separately in equity until the disposal of the net investment, at which time they are included in the income statement as part of the gain or loss on disposal.

In very rare situations exchange losses resulting from a severe devaluation or depreciation of a currency can be included in the carrying amount of the related asset (ie capitalised). Interpretation SIC-11 clarifies that this treatment cannot be used where the foreign currency liability could have been settled, or if it was practically feasible to hedge the foreign currency exposure before the severe devaluation or depreciation occurred.

Interpretation SIC-7 clarifies that the introduction of the Euro does not alter the treatment of exchange differences under IAS 21, nor does it justify a change to the enterprise's accounting policy for anticipatory hedges.

The financial statements of a foreign operation that is integral to the operations of the reporting enterprise should be translated in the same manner as for foreign currency transactions described above, as if the transactions of that foreign operation had been those of the reporting entity itself.

In preparing a group consolidation, the assets and liabilities of a foreign entity (a foreign operation whose activities are not an integral part of the reporting enterprise) are translated at the closing rate and all income statement items are translated either at the transaction date exchange rates or at an average rate that approximates actual rates. Translation differences are classified separately in group equity until the disposal of the foreign entity when they must be included in the income statement as part of the gain or loss on disposal.

Required disclosures include exchange differences recognised in the income statement and a reconciliation of the movements in the translation differences reserve in shareholders' equity.

Financial reporting in hyperinflationary economies (IAS 29)

Under IAS 29, where the enterprise reports in the currency of a hyperinflationary economy, the financial statements must be restated to take account of inflation. All non-monetary assets and liabilities are restated to their current value at the balance sheet date using an appropriate price index, details of which must be disclosed. Monetary assets and liabilities are not affected given that they are already expressed in terms of the monetary unit current at the balance sheet date (although comparative amounts are restated). The net gain or loss arising from holding such assets and liabilities is disclosed in arriving at profit before tax.

Draft Interpretation SIC–D19 clarifies that, although an enterprise that is domiciled in a hyperinflationary economy normally reports using the currency of the country in which it is domiciled, it may choose to report in a different currency. However, where an enterprise (eg a subsidiary or investee) issues IAS financial statements it should not change its reporting currency for the purpose of inclusion in another enterprise's IAS financial statements by consolidation, proportionate consolidation, or equity method accounting.

Information reflecting the effects of changing prices (IAS 15)

Compliance with this standard is not required for financial statements to conform with IAS, although presentation of inflation accounting information is encouraged. The two methods of accounting for inflation described in IAS 15 are the general purchasing power method (restatement of all items for changes in the general price level) and the current cost method (use of replacement cost).

GROUPS

Consolidated financial statements and accounting for investments in subsidiaries (IAS 27)

IAS 27 defines a subsidiary as an enterprise that is controlled by the parent. Control is the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. An enterprise with one or more subsidiaries should present consolidated financial statements unless it is itself a wholly (or virtually wholly) owned subsidiary and the approval of the minority shareholders has been obtained for the presentation of solus financial statements (see page 41).

Consolidation of a subsidiary takes place from the date of acquisition, which is the date on which control of the net assets and operations of the acquiree is effectively transferred to the acquirer. From that date the acquirer should incorporate into the consolidated income statement the results of operations of the acquiree and recognise in the consolidated balance sheet the assets and liabilities of the acquiree, and any goodwill or negative goodwill arising on the acquisition.

All subsidiaries should be consolidated unless control is intended to be temporary because the subsidiary has been acquired and held exclusively with a view to its subsequent disposal in the near future, or the subsidiary operates under severe long-term restrictions which significantly impair its ability to remit funds to the parent. In such circumstances, the subsidiary is accounted for as an investment in accordance with IAS 25 or, when IAS 39 (Financial instruments) becomes effective, as an available-for-sale financial asset.

Interpretation SIC-12, effective for annual financial periods beginning on or after 1 July 1999, addresses Special Purpose Entities (SPEs). An SPE is an entity created to accomplish a narrow, well defined objective (eg to conduct research and development); it may operate in a predetermined way so that no enterprise has explicit decision-making authority over its activities after formation. Virtually all rights, obligations, and aspects of activities that could be controlled are predefined and limited by contractual provisions specified or scheduled at inception.

SPEs should be consolidated when the substance of the relationship between the enterprise and the SPE indicates that the SPE is controlled by the enterprise. Control may arise through the predetermination of the activities of the SPE or otherwise. An enterprise has control over an SPE and obtains the benefits if it is exposed to the significant risks and rewards incident to its activities. An appendix to SIC-12 provides examples of factors that should be considered when deciding whether, in substance, an SPE is controlled by an enterprise.

An enterprise should disclose, for each significant subsidiary, the name, the country of incorporation or residence, the proportion of ownership interest and of voting power held. When a parent does not own, directly or indirectly, more than one half of the voting power of a subsidiary, the nature of the relationship between the parent and that subsidiary should be disclosed. An enterprise should state the name of an enterprise in which more than one half of the voting power is owned but which, because of the absence of control, is not a subsidiary. Disclosures should also be made of the effect of the acquisition and disposal of subsidiaries on the financial position at the balance sheet date, the results of the reporting period and on the corresponding amounts for the preceding period.

Accounting for investments in associates (IAS 28)

IAS 28 defines an associate as an enterprise in which the investor has significant influence, but which is neither a subsidiary nor a joint venture of the investor. Significant influence is defined as the power to participate in the financial and operating policy decisions of the investee but is not control over those policies. It is presumed to exist when the investor holds at least 20% of the investee's voting power but not to exist when less than 20% is held; both of these presumptions may be rebutted if there is clear evidence to the contrary.

In consolidated financial statements, associates should be accounted for using the equity method, unless the investment is acquired and held exclusively for disposal in the near future, in which case it should be carried at cost. Interpretation SIC-3 requires that where an associate is accounted for using the equity method, unrealised profits and losses on both "upstream" and "downstream" transactions between the investor (and its consolidated subsidiaries) and associates should be eliminated to the extent of the investor's interest in the associate.

Under IAS 28, investments in associates should be classified as long-term assets and disclosed as a separate item in the balance sheet. If there is an indication that an investment in an associate may be impaired, the enterprise must apply IAS 36 on impairment of assets. The investor's share of the profits or losses, extraordinary items and prior period items of the investee, if any, should be separately shown. Separate detailed disclosures of the associates' profit and loss account and balance sheet are not required by IAS 28 but provide useful information where the associates are significant to the group.

Draft Interpretation SIC-D20 proposes that, for purposes of recognising losses of an associate under the equity method, the investment includes only the carrying amounts of shares that provide unlimited rights of participation in earnings and losses and a residual equity interest in the associate, and obligations of the investor to satisfy obligations of the associate, whether funded by the investor or not. The investor recognises its share of losses of the associate only to the extent of the carrying amount of its investment. However, continuing losses of an associate should be considered objective evidence that a financial interest may be impaired, and the impairment tests under IAS 39 and other standards are therefore applied to the other financial interests in the associate.

Financial reporting of interests in joint ventures (IAS 31)

IAS 31 defines a joint venture as a contractual agreement whereby two or more parties (the venturers) undertake an economic activity which is subject to joint control. Joint control is defined as the contractually agreed sharing of control of an economic activity. A venturer should account for its investment based on the type of joint venture; jointly controlled operations, jointly controlled assets or jointly controlled entities.

In practice, the most common type of joint venture is a jointly controlled entity. For such entities, the venturer in its consolidated financial statements reports its interest using either proportional consolidation (benchmark) or the equity method (allowed alternative). Proportional consolidation is a method whereby a venturer's share of each of the assets, liabilities, income and expenses of a jointly controlled entity is combined on a line-by-line basis with similar items in the venturer's financial statements, or reported as separate line items.

On the formation of a joint venture, Interpretation SIC-13 clarifies that the venturer should measure the value of its interest based on the fair values of non-monetary assets contributed: gains and losses should be recognised except when the significant risks and rewards of ownership of the contributed asset have not been transferred to the joint venture or the gain or loss cannot be reliably measured. No gain or loss should be recognised when the asset contributed is similar to assets contributed by other venturers (ie similar in nature, use and fair value). If the venturer receives additional consideration in the form of cash or dissimilar non-monetary assets then the appropriate portion of the gain on the transaction should be recognised by the venturer as income. Unrealised gains or losses from contributions of non-monetary assets should be netted against the related assets in the venturer's consolidated balance sheet.

A listing and description of interests in significant joint ventures and the proportion of ownership interest in jointly controlled entities should be given. Where interests in jointly controlled entities are reported using proportionate consolidation or the equity method, disclosure is required of the aggregate amounts of current assets, long-term assets, current liabilities, long-term liabilities and income and expenses related to its interests in those joint ventures. IAS 31 also requires that contingencies and capital commitments relating to all joint ventures be shown.

Business combinations (IAS 22 (revised))

IAS 22 requires a business combination to be accounted for using the purchase (acquisition) method unless it is deemed to be an uniting of interests in which case the pooling of interests (merger) method must be used.

Purchase method

Under the purchase method an acquisition should be accounted for at its cost, being the amount of cash paid or the fair value, at the date of exchange, of non-cash consideration given including any directly attributable costs.

The purchase method requires the acquirer's interest in the identifiable assets and liabilities of the acquiree to be measured at their fair values at the date of acquisition. There is a one year hindsight period for confirming the fair values that were determined at the acquisition date. IAS 22 makes clear that only the acquiree's assets and liabilities should be considered in the fair value exercise; however it also allows the acquirer to recognise certain liabilities relating to the acquiree's business that came into existence at the date of acquisition as a direct consequence of the acquisition, for example employee redundancy benefits. For this to happen, a detailed formal plan must exist by the earlier of three months after the date of acquisition and the date when the annual financial statements are approved. Further, the plan must meet the conditions in IAS 37 (Provisions, contingent liabilities and contingent assets) for recognising a restructuring provision.

Minority interest is recorded at its proportion either of the pre-acquisition carrying amounts of the net assets of the subsidiary or of the fair values of such net assets. In either case, no goodwill is attributed to the minority interest.

Goodwill (the excess of the cost of acquisition over the acquirer's interest in the fair value of the identifiable assets and liabilities acquired) must be recognised as an intangible asset and amortised to zero over its useful life. There is a rebuttable presumption that the useful life of goodwill does not exceed 20 years (the previous standard limited the useful life to an absolute maximum of 20 years). In those rare cases where a useful life of more than 20 years is demonstrated, the reasons why the presumption is rebutted must be disclosed and the goodwill is then subject to annual impairment test in accordance with IAS 36 (Impairment of Assets).

IAS 22 also addresses negative goodwill. To the extent that negative goodwill relates to expectations of identifiable future losses and expenses which can be measured reliably but are not liabilities at the acquisition date, that portion should be deferred and recognised in the income statement as those future losses or expenses occur. Otherwise the amount not exceeding the fair value of identifiable non-monetary assets acquired should be recognised in the income statement on a systematic basis over the useful life of those assets. Any amount exceeding the fair value of such assets should be recognised in the income statement immediately. These requirements replace the treatments in the previous standard.

Disclosures

In the financial statements for the period during which the business combination has taken place, the following disclosures should be made: the names and descriptions of the combining enterprises; the method of accounting for the combination; the effective date of the combination; and any operations from the business combination which the enterprise has decided to dispose of. Further, IAS 22 requires an enterprise to disclose, for a business combination which is an acquisition, the percentage of voting rights acquired, the cost of acquisition, and a description of the purchase consideration paid or contingently payable.

For goodwill, the financial statement should disclose; the amortisation period adopted; if goodwill is amortised over more than 20 years, the reasons why the useful life is expected to exceed 20 years; and the factors that played a significant role in determining the useful life. If goodwill is not amortised on a straight-line basis, the basis used and the reasons why that basis is more appropriate should be given. The financial statements should disclose the line item of the income statement in which the amortisation of goodwill is included. For negative goodwill that relates to expected future losses, financial statements should disclose: the amount and the timing of those losses; the line item of the income statement in which negative goodwill is recognised as income; and the period over which it is recognised as income. A reconciliation of the movement on positive and negative goodwill during the period should also be given.

Uniting of interests method

An uniting of interests occurs when the shareholders of two or more combining enterprises combine control over the whole, or effectively the whole, of their net assets and operations such that neither party can be identified as the acquirer. The criteria in IAS 22 for establishing an uniting of interests are extremely onerous and focus on aspects beyond solely the exchange of shares (eg fair values of the two businesses are similar, non-dilution of relative voting rights of shareholders) such that there is a mutual sharing in the risks and benefits attaching to the combined entity.

Interpretation SIC-9 notes that unless all the criteria set out in IAS 22 for uniting of interests are met, a business combination is always to be classified as an acquisition. Even if all the criteria are met, an enterprise has to demonstrate that no acquirer can be identified in order to classify a transaction as an uniting of interests; if an acquirer can be identified in a business combination then the purchase method and not uniting of interests accounting should be used.

Under the uniting of interests method, the combined assets, liabilities and reserves are recorded at their existing carrying amounts after having made any adjustments necessary to conform to any new or different accounting policies adopted for the merged entity. No goodwill is recognised; any difference between the share capital issued (together with any other consideration) and the share capital acquired is adjusted against equity. The financial statements of the combined enterprise include the results of operations and the assets and liabilities of the enterprises as if they had been combined from the beginning of the earliest year presented.

Transactions among enterprises under common control

IAS 22 does not deal with transactions among enterprises under common control. Most transactions among enterprises under common control are matters of form rather than substance since there is no change in the beneficial ownership of net assets or in the substance of the group that is the economic entity. If a parent company transfers the shares of a wholly-owned subsidiary to a second wholly-owned subsidiary, the transaction may have economic consequences for the group, such as tax benefits or increased efficiency, but it does not change the composition of the group and it is not a business combination. Such transactions are normally accounted for in a manner similar to an uniting of interests; no adjustment is made to reflect fair values at the time of the transfer.

INCOME STATEMENT

Revenue (IAS 18)

IAS 18 is a general revenue recognition standard which states that revenue should be measured at the fair value of the consideration received or receivable. This is usually the amount of cash or cash equivalents received or receivable.

The conditions in IAS 18 for recognising revenue arising from the sale of goods emphasise the transfer of the significant risks and rewards of ownership, loss of control over the goods, reliable measurement and probability that economic benefits will flow to the enterprise as a result of the transaction. Revenue from the rendering of services should be recognised by reference to the state of completion of the transaction at the balance sheet date using rules similar to those in IAS 11 (ie percentage of completion). The Appendix to IAS 18 gives some examples that illustrate the application of the standard in a number of practical situations.

IAS 18 requires an enterprise to disclose 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. Further, an enterprise should disclose the amount of each significant category of revenue recognised during the period, including revenue arising from sale of goods, services, interest, royalties, dividends. The standard also calls for disclosure of the amount of revenue arising from exchange of goods or services (such as for barter).

Construction contracts (IAS 11)

IAS 11 requires that revenue and expenses on construction contracts be recognised using the percentage of completion method. When the outcome of the contract can be estimated reliably, revenue and costs should be recognised by reference to the stage of completion of the contract activity at the balance sheet date.

When the outcome of the contract cannot be estimated reliably, revenue should be recognised only to the extent of costs incurred that it is probable will be recoverable; contract costs should be recognised as an expense as incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognised as an expense immediately.

IAS 11 requires extensive disclosures about construction contracts, including costs incurred and recognised profits, advances received, retentions and year-end balances with customers; examples are given in the appendix to the standard.

Net profit or loss for the period, fundamental errors and changes in accounting policies (IAS 8)

Profit from ordinary activities

IAS 8 requires all items of income and expense to be included in the determination of net profit or loss for the period, unless another standard permits otherwise. In practice, most items of income and expense are included “above the line” as part of profit or loss from operations, the notable exceptions being finance costs, share of profit or loss of associates, and extraordinary items.

The standard requires the separate disclosure, within profit or loss from ordinary activities, of items of income and expense that are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period. IAS 8 does not use the term “exceptional item”, but gives examples of items included in operating profit which may warrant separate disclosure (usually in the notes), including restructuring costs, write-downs of inventories to net realisable value, and gains or losses on disposals of fixed assets and investments.

Extraordinary items

IAS 8 emphasises that virtually all items of income and expense arise in the course of the ordinary activities of the enterprise and that extraordinary items are expected to be rare. Extraordinary items must be clearly distinct from the ordinary activities of the enterprise and not expected to recur frequently or regularly. IAS 8 includes only two examples of events that might give rise to extraordinary items: the expropriation of assets, and losses arising from an earthquake or other natural disaster.

Fundamental errors and changes in accounting policies

On the rare occasions where fundamental errors occur, IAS 8 requires that an enterprise should adjust opening retained earnings and the related comparatives (benchmark) or include the cumulative change in net profit for the current period (allowed alternative treatment).

Changes in accounting policies made on adoption of a new IAS should be accounted for in accordance with the transitional provisions contained within that standard. If transitional provisions do not exist, an enterprise should either adopt a policy of adjusting opening retained earnings and restate the comparatives unless this is impracticable, or a policy of including the cumulative change in net profit for the current period and provide pro forma comparatives, unless impracticable. As noted on page one Draft Interpretation SIC-D18 proposes that an enterprise should choose and apply consistently one of these two policies.

International Accounting Standards are normally published well in advance of a required implementation date. In the intervening period IAS 8 encourages the disclosure of the nature of future changes in accounting policy and an estimate of their likely effect on net profit or loss and financial position. IAS 1(revised) also requires that where an IAS is applied before its effective date that fact should be disclosed.

Discontinuing operations (IAS 35)

IAS 35 addresses presentation and disclosures relating to discontinuing operations. A discontinuing operation is a component of an enterprise which represents a separate major line of business or geographical area, which can be distinguished operationally and financially and which the enterprise is disposing of or terminating.

The standard defines an “initial disclosure event”as a trigger point for disclosures in the financial statements regarding the discontinuing operation. This event is the earlier of either entering into a binding sale agreement, or the approval and announcement by the governing body of the enterprise of a detailed plan for the discontinuance.

Disclosures

Disclosures required in financial statements prepared after the “initial disclosure event” include: a description of the discontinuing operation; its business or geographical segment; date and nature of the initial disclosure event; expected completion date of the discontinuance; carrying amounts of total assets and liabilities to be disposed of; revenues, expenses, pre-tax profit or loss from the ordinary activities attributable to the discontinuing operation and related income tax expense; net cash flow from operating, investing and financing activities; amount and expected timing of receipt of net selling price for any assets to be disposed of piecemeal basis; and the carrying amount of those assets. These disclosures also apply where an initial disclosure event occurs after the balance date but before the financial statements have been approved.

Additional disclosure is also required where an enterprise disposes of assets or settles liabilities of a discontinuing operation, or enters into binding sale agreements to that effect. These include, as applicable, the pre-tax gain or loss on the discontinuance and related income tax expense, the net selling price (or range of prices) of the net assets, the expected timing of the related cash flows and the carrying amount of the net assets concerned.

The required disclosures may be made either on the face of the financial statements or in the notes, except for the pre-tax gain or loss on disposal which must be shown on the face of the income statement. Income or expenses relating to a discontinuing operation should not be presented as an extraordinary item. The detailed disclosures required by IAS 35 should be presented separately for each discontinuing operation. These disclosures should be continued and updated for any significant changes in subsequent periods until the discontinuance is completed or abandoned.

Accounting for government grants and disclosure of government assistance (IAS 20)

Government grants should be recognised when there is reasonable assurance that the enterprise will comply with the conditions attaching to them and that the grants will be received. Grants should be recognised in the income statement on a systematic and rational basis over the periods necessary to match them with the related costs which they are intended to compensate. The timing of such recognition in the income statement will depend on the fulfilment of any conditions or obligations attaching to the grant.

Grants related to assets should either be offset against the carrying amount of the relevant asset or presented as deferred income in the balance sheet. If offset against the carrying amount of the relevant asset, the grant is effectively recognised as income over the life of the depreciable asset by way of a reduced depreciation charge. If recorded as deferred income in the balance sheet, the amount of deferred income should be recognised in income systematically over the useful life of the relevant asset. The accounting policies and amounts of government grants should be disclosed.

Interpretation SIC-10 confirms that government assistance meets the definition of government grants under IAS 20, even if there are no conditions specifically relating to the operating activities of the enterprise, other than the requirement to operate in certain regions or industry sectors. Such assistance should be accounted for in accordance with IAS 20.

Research and development costs (IAS 9)

Research costs are recognised as an expense in the period incurred. Development costs can only be recognised as an asset if strict criteria are met (clearly defined product or process, reliable measurement, technical feasibility, intention to produce and market or use, existence of market or demonstrably useful internally, adequate resources to complete the product or process). Once expensed, development costs should not subsequently be recognised as an asset, unless due to the reversal of an impairment loss previously recognised. Capitalised development costs should be amortised on a systematic basis, reflecting the pattern in which the related future economic benefits are recognised; a maximum period of five years is recommended. Required disclosures under IAS 9 include R&D costs expensed in the period and a reconciliation of the movements on the net carrying amount of net development costs included in the balance sheet.

IAS 9 only remains in force for annual periods beginning before 30 June 1999, after which it will be superseded by IAS 38 (Intangible Assets) – see page 22. Development costs must then meet the IAS 38 criteria before being capitalised, and amortised over their estimated useful life (with a rebuttable presumption of a maximum of 20 years). Impairment review should be applied in accordance with IAS 36 (Impairment assets).

Borrowing costs (IAS 23)

Borrowing costs are interest and other costs incurred in connection with the borrowing of funds and may include amortisation of discounts relating to borrowings. Borrowing costs should be recognised as an expense in the period incurred or capitalised where they are directly attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Interpretation SIC-2 requires that the enterprise's accounting policy for borrowing costs must be followed consistently for all qualifying assets. Therefore it is not acceptable to capitalise borrowing costs in relation to some qualifying assets, and expense them in relation to others.

Under IAS 23 both specific and general borrowing costs are capable of being capitalised, subject to amounts capitalised in any period not exceeding the amount of borrowing costs incurred during the period and the resultant carrying amount of the qualifying asset not exceeding its recoverable amount. Capitalisation commences when expenditures and borrowings are being incurred for the asset and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation should be suspended during extended periods when development of the asset is interrupted, and ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

IAS 23 requires disclosure of the policy, amount of borrowing costs capitalised and the capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation.

Earnings per share (IAS 33)

IAS 33 requires all enterprises with listed ordinary shares, or potential listed ordinary shares (eg convertible debt, preference shares) to disclose with equal prominence on the face of the income statement both basic and diluted earnings per share (EPS).

Basic EPS is calculated by dividing the net profit or loss for the period by the weighted average number of ordinary shares outstanding (including adjustments for bonus and rights issues). For diluted EPS, the weighted average number of ordinary shares takes into account the conversion of any dilutive potential ordinary shares, for example convertible debt and share options.

Comparative EPS figures (both basic and diluted) should be adjusted retrospectively for the effect of capitalisations, bonus issues or share splits. Current and prior period EPS calculations should also take account of any capitalisations, bonus issues or share splits occurring subsequent to year end but before issue of the financial statements which affect the number of ordinary or potential ordinary shares outstanding.

Disclosure is required of the numerators used to calculate the EPS amounts (reconciled to net profit or loss for the period) and the weighted average number of ordinary shares used as denominators for the basic and diluted EPS calculations (reconciled to one another). IAS 33 also permits an enterprise to disclose supplementary basic and diluted EPS for various components of net profit (eg a "headline" profit), provided there is a reconciliation between the component used and a line item reported in the income statement.

Property, plant and equipment (IAS 16)

Recognition and initial measurement

IAS 16 requires an item of property, plant and equipment (PPE) to be recognised as an asset when it is probable that future economic benefits associated with the asset will flow to the enterprise and the cost of the asset to the enterprise can be measured reliably.

The cost of an item of PPE comprises its purchase price (net of discounts and rebates), including import duties and taxes, and any directly attributable cost of bringing the asset to working conditions. The standard considers as directly attributable costs the cost of site preparation, delivery, installation costs, relevant professional fees, and (under a revision made to IAS 16 in 1998 and in force for periods beginning on or after 1 July 1999) the estimated cost of dismantling and removing the asset and restoring the site, to the extent that such a cost is recognised as a provision under IAS 37 (Provisions, Contingent Liabilities and Contingent Assets).

Subsequent measurement

Subsequent to initial recognition, classes of fixed asset should be carried at historical cost less accumulated depreciation and any accumulated impairment losses or at a revalued amount (see page 20) less any accumulated depreciation and subsequent accumulated impairment losses. The depreciable amount of PPE (being the gross carrying value less the estimated residual value) should be depreciated on a systematic basis over its useful life. To determine whether an item of PPE is impaired an enterprise should also apply IAS 36 (Impairment of assets).

Subsequent expenditure relating to an item of PPE should be added to the carrying amount of the asset when it is probable that future economic benefits (exceeding the original standard of performance) will flow to the enterprise. This is the case, for example, when the expenditure leads to an extension of the useful life, a substantial improvement in the quality of the output, or a reduction in previously assessed operating costs.

Interpretation SIC-14, effective for annual financial periods beginning on or after 1 July 1999, considers the situation where an enterprise receives compensation from a third party for the impairment or loss of property, plant and equipment (eg a claim paid by an insurance company). The compensation should be accounted for separately, therefore it should be credited in the income statement when recognised, and not deferred or deducted from the carrying amount of any replacement assets.

Revaluation

Under the revision made to IAS 16 in 1998, the fair value of PPE is its market value whereas the previous standard referred to market value on an existing use basis. The other requirements in IAS 16 in this area are unchanged. When there is no evidence of market value because of the specialised nature of the plant and equipment, PPE is valued at its depreciated replacement cost, being the depreciated current acquisition cost of a similar asset. When an item of PPE is revalued, its entire class should be revalued, and the revaluations should be kept up to date such that the carrying amount does not differ from fair value. IAS 16 suggests that asset values be updated either annually or every three to five years depending on the frequency of movements in the value of the assets being revalued.

The increase of the carrying amount of an asset as a result of a revaluation should be credited directly to equity (under the heading revaluation surplus), unless it reverses a revaluation decrease previously recognised as an expense. Revaluation increases and decreases should only be offset where they relate to the same asset. A revaluation decrease should be charged directly against any related revaluation surplus, with any excess being recognised as an expense. A portion of the revaluation surplus may be viewed as "realised" over the life of the asset; in such a case, the amount of the surplus realised each year is the difference between the depreciation based on the revalued carrying amount and the depreciation based on the asset's original cost. This annual transfer from revaluation surplus to retained earnings is not made through the income statement.

On disposal of an asset, the profit or loss is determined as the difference between the net disposal proceeds and the carrying amount of the asset. On disposal of a revalued asset, the revaluation surplus in shareholders' equity is transferred directly to retained earnings.

Disclosures

IAS 16 requires, for each class of PPE, disclosure of: the measurement bases used; depreciation methods; useful lives or depreciation rates; gross carrying amount and accumulated depreciation including accumulated impairment at beginning and end of period; reconciliation of opening and closing carrying amount (including additions, disposals, revaluations, impairment writedowns and writebacks, depreciation and exchange differences). Disclosure should also be made of: restrictions on title; PPE pledged as security; accounting policy for the estimated costs of restoring the site of the PPE; expenditure on PPE under construction; and capital expenditure commitments.

Additional disclosures are also required for PPE stated at revalued amounts: the basis of revaluation; effective date of revaluation; whether an independent valuer was used; nature of any indices used to determine replacement costs; the carrying amount of revalued assets had they been included at cost less accumulated depreciation and any accumulated impairment losses; and the amount of, and movements in, revaluation surplus and any restrictions on its distribution to shareholders.

Investment property (E64)

Investment property is currently either treated as property under IAS 16 (Property, plant and equipment) or accounted for as a long-term investment under IAS 25 (Accounting for investment).

Properties held for use in the production or supply of goods or service, or for administrative purposes are accounted for under IAS 16 (Property, plant and equipment); properties held for sale in the ordinary course of business are accounted for under IAS 2 (Inventories).

In July 1999 the IASC published E64 Investment property. E64 defines investment property quite precisely and removes the previous accounting choices. E64 recommends that investment properties should be measured at fair value and changes in fair value should be recognised in the income statement. It has a proposed effective date of periods beginning on or after 1 January 2001.

Under E64 an investment property (land or building or even part of a building) held to earn rentals, for capital appreciation, or both, which when acquired or constructed the enterprise expects to be able to determine its fair value reliably on a continuing basis. If the fair value of the property will not be able to be reliably measured on a continuing basis (because comparable market transaction are infrequent and alternative estimates of fair value are not available) then it will not meet the definition of investment property and the enterprise would apply the rules in IAS 16. However, if the property qualified as an investment property when acquired or constructed, the property should continue to be accounted for under E64 even if comparable market transactions become less frequent or market prices become less readily available.

Intangible assets (IAS 38)

Recognition and measurement

IAS 38 is effective for periods beginning on or after 1 July 1999. It requires that an intangible asset should be recognised if, and only if, it is probable that future economic benefits attributable to the asset will flow to the enterprise and the cost of the asset can be measured reliably. Classes of intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses (benchmark) or at revalued amount, being fair value at the date of revaluation less any subsequent accumulated amortisation and impairment losses (allowed alternative). However, the alternative treatment can only be used when the value can be determined by reference to an active market in that type of intangible asset.

Subsequent expenditure on an intangible asset should be recognised as an expense when it is incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance, and this expenditure can be measured and attributed to the asset reliably.

Internally generated intangible assets can be recognised in the balance sheet provided they meet the designated recognition criteria. In particular, no intangible asset arising from the research phase of an internal project should be recognised. However, an intangible asset arising from the development phase of an internal project should be recognised if the enterprise can demonstrate the technical feasibility and the intention to complete the intangible assets. Further, an enterprise should be able to demonstrate how the intangible asset will generate probable future economic benefits (eg the existence of a market for the output of the intangible asset or the intangible asset itself), the availability of resources to complete the development, and its ability to measure the attributable expenditure reliably. The strict nature of the recognition criteria in IAS 38 means that most costs relating to internally generated intangible items will not be capable of capitalisation, and should therefore be expensed as incurred. Examples of such costs include research costs, start-up costs and advertising costs. Expenditure on internally generated brands, mastheads, customer lists, publishing titles and goodwill, should not be recognised as assets under any circumstances.

Where an intangible item is acquired in a business combination and does not meet the recognition criteria as an intangible asset, it should form part of the amount attributed to goodwill or negative goodwill under IAS 22 (Business combinations).

Amortisation of intangible assets is mandatory and the residual value of such assets at the end of their useful lives must be assumed to be zero unless there is either a commitment by a third party to purchase the asset at the end of its useful life or there is, and will remain, an active market in that type of asset. The period of amortisation must comprise the best estimate of the asset's useful life, with a rebuttable presumption that the useful life will not exceed twenty years. In rare cases where the presumption is rebutted, the enterprise must disclose its justification and review the carrying amount for impairment on an annual basis in accordance with IAS 36 (Impairment of assets).

Disclosures

The accounting policy for intangibles must be disclosed, and then for each class of intangibles (distinguishing between internally generated and acquired intangibles): the amortisation methods and useful lives or amortisation rates used; gross carrying amount and accumulated amortisation including accumulated impairment at the beginning and end of the period; and a reconciliation of carrying amount at the beginning and end of the period, showing detailed movements. Further disclosures cover intangibles with useful lives of more than 20 years, individually significant intangible items, intangibles with restrictions on title or pledged as security and commitments for acquisitions of intangibles. Additional disclosures are also required for intangibles which are carried at revalued amounts (eg revaluation dates, the revalued carrying amounts, their carrying amounts if they had been carried at cost and related revaluation surplus and changes during the period). Total research and development recognised as an expense during the period should also be disclosed.

Depreciation accounting (IAS 4)

As IAS 38 now deals with amortisation of intangibles, IAS 16 with depreciation of property, plant and equipment and IAS 22 with goodwill amortisation, IAS 4 now only remains in effect for any long-lived assets not covered by those standards. The standard requires the depreciable amount of such an asset to be allocated over its estimated useful life.

Impairment of assets (IAS 36)

IAS 36, effective for periods beginning on or after 1 July 1999, covers all assets except inventories, construction contract assets, deferred tax assets, financial assets and employee benefit assets – all of which are covered by other standards. It sets out factors to be considered at each balance date which may indicate that the carrying amount of an asset is impaired (ie the carrying amount may be below its recoverable amount). IAS 36 identifies external and internal sources of information which may indicate impairment. External indications are, for example, a decline in an asset's market value, significant adverse changes in the technological, market, economic or legal environment, increases in market interest rates, or the enterprise net asset value is above its market capitalisation. Internal indications may be evidence of obsolescence or physical damage of an asset, changes in the way an asset is used (ie due to restructuring or discontinuing an operation), or evidence from internal reporting that the economic performance of an asset is, or will be, worse than expected.

If an indicator of impairment is present, the enterprise should estimate the recoverable amount of the asset and if necessary recognise an impairment loss, being the amount by which the carrying amount of an asset is reduced to its recoverable amount.

Recoverable amount is the higher of the asset's net selling price (NSP) and its value in use (VIU). Value in use requires estimations to be made of the future cash flows to be derived from the particular asset, and discounting them using a pre-tax market determined rate that reflects current assessments of the time value of money and the risks specific to the asset. Cash flow projections should cover a maximum period of five years (unless a longer period can be justified), should include cash outflows incurred to generate the cash inflow from continuing use of the asset, and should be based on the current condition of the asset (excluding future restructuring and capital expenditure).

Where cash flows are not readily identifiable as being specific to a particular asset, the smallest group of related assets (the "cash generating unit") should be identified. A cash-generating unit (CGU) generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. In many circumstances identification of an asset's cash-generating unit requires judgement, and may include considering how management monitors the enterprise's operations or how it makes decisions regarding allocations of resources.

Any goodwill and corporate (eg head office) assets that can be allocated to the CGU on a reasonable and consistent basis must be taken into consideration. IAS 36 requires an enterprise to perform a bottom-up test, ie to identify whether the carrying amount of goodwill can be allocated on a reasonable basis to the cash-generating unit under review and then compare its recoverable amount to its carrying amount. If the goodwill cannot be allocated to the CGU under review, an enterprise should in addition perform a top-down test. An enterprise should identify the smallest CGU that includes the CGU under review and to which the goodwill can be allocated on a reasonable basis, and compare the recoverable amount of the larger CGU to its carrying amount.

Before the adoption of IAS 36, various International Accounting Standards included requirements broadly similar to those included in IAS 36 for the recognition and reversal of impairment losses. However, changes may arise from previous assessments because IAS 36 details how to measure recoverable amount and how to consider an asset's cash generating unit. In many situations it would be difficult to determine retrospectively what the estimate of recoverable amount would have been. Therefore, on adoption of IAS 36, an enterprise does not apply the benchmark or the allowed alternative for changes in accounting policies in IAS 8 but applies IAS 36 on a prospective basis only.

Disclosures

IAS 36 requires a number of detailed disclosures, including for each class of asset: impairment losses, and reversals of impairment losses recognised in the income statement during the period, and the line items in which they are included; impairment losses, and reversals of impairment losses, recognised directly in equity during the period. Enterprises applying IAS 14 (Segment reporting) are required to make the above disclosures for each reportable segment in the primary reporting format.

If an impairment loss or reversal for an individual asset or cash generating unit is material to the financial statements as a whole, additional disclosures are required: the events and circumstances that led to the recognition or reversal of the impairment loss and the amount of the impairment loss recognised or reversed. For individual assets the nature of the asset and the reportable segment to which the asset belongs, based on the primary reporting format (if IAS 14 is applicable), must also be disclosed. Disclosures for cash generating units include a description of the cash generating unit, the amount of the impairment loss recognised or reversed by class of assets and by reportable primary segment, any changes in aggregation of assets for identifying the cash generating unit since the previous estimate of recoverable amount for the unit, and reasons for those changes. Disclosure is also required as to whether NSP or VIU has been used to determine the asset's recoverable amount. If recoverable amount is VIU, the discount rate used in the current estimate and previous estimate (if any) of VIU must be disclosed. If recoverable amount is NSP, the basis used to determine NSP should be disclosed.

If aggregate impairment losses or reversals during the period are material to the financial statements as a whole, then a brief description should be made of the main classes of assets affected and the main events and circumstance which led to their recognition, if this information has not already been provided as required above for individually material items.

Inventories (IAS 2)

Inventories should be valued at the lower of historical cost and net realisable value (NRV). IAS 2 establishes a benchmark costing formula which is either FIFO or weighted average cost. LIFO is permitted as an allowed alternative. Interpretation SIC-1 states that an enterprise should use the same cost formula for all inventories having a similar nature and use to the enterprise. Therefore where inventories have a different nature or use, different cost formulas may be justified. The cost formula used should then be applied on a consistent basis from period to period.

IAS 2 requires several disclosures such as: the accounting policies adopted; the carrying amount of inventories by type; inventories carried at net realisable value; and either the cost of inventories expensed in the period or the operating costs (eg raw materials, labour costs etc) expensed in the period.

Where an enterprise values inventory using LIFO, it must quantify and disclose the difference between that method and either the lower of: the benchmark treatment and NRV; or the lower of current cost at the balance sheet date and NRV.

Accounting for investments (IAS 25)

Long-term investments within the scope of IAS 25 should be carried at either cost or revalued amounts. Marketable equity securities may alternatively be carried at the lower of cost and market value determined on a portfolio basis. Reductions in carrying value (determined on an individual investment basis) should be made to recognise a permanent decline in the values of long-term investments. Increases in the carrying amount of investments arising from a revaluation should be credited to shareholders' equity. IAS 25 specifies rules for dealing with subsequent revaluations of the same asset.

Investments classified as current assets should be carried at either market value or the lower of cost and market value, determined either on an aggregate portfolio basis (in total or by category of investment) or on an individual investment basis. Where current asset investments are carried at market value, any changes in market value should either be included in the income statement or taken to shareholders' equity as a revaluation adjustment.

On disposal of an investment the difference between net disposal proceeds and the carrying amount should be recognised as income or expense. For current investments carried on a portfolio basis at the lower of cost or market, the profit or loss on sale should be based on cost. If the investment had been revalued or carried at market value and any increase in carrying amount taken to revaluation surplus, the enterprise should adopt a consistent policy of either crediting any remaining related revaluation surplus to income or transferring it to retained earnings.

The above requirements in IAS 25 will be replaced by IAS 39 (Financial Instruments: Recognition and Measurement).

Leases (IAS 17)

Under IAS 17 a lease is classified as a finance lease if it transfers to the lessee most of the risks and rewards incidental to ownership; otherwise, it is classified as an operating lease. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the legal form of the contract. The guidance in IAS 17 contains examples of situations in which a lease would normally be classified as a finance lease: transfer of ownership by the end of the lease term; bargain purchase option; lease term is a major part of the useful life; present value of lease payments is substantially equal to the fair value of the leased asset; or (in a revision to IAS 17 in force for periods beginning on or after 1 January 1999) the leased assets are of a specialised nature such that only the lessee can use them without major modifications being made. IAS 17 also addresses sale and leaseback transactions and requires that where these result in a finance lease, any gain is deferred and amortised over the lease term; separate rules apply where the transaction results in an operating lease.

The lessee

For finance leases a lessee records an asset and a liability in its financial statements and depreciates this asset in accordance with the lessee's normal depreciation policy for similar assets. For operating leases the lessee expenses the rental payments 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.

The lessor

For a lessor, an asset leased under a finance lease is recorded as a receivable at an amount equal to the net investment in the lease, the latter being the aggregate of the lease payments (including any unguaranteed residual value accruing to the lessor) less unearned finance income. Finance income is recognised based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease. (Prior to 1999 either the net investment method or the net cash investment method could be used by the lessor).

For operating leases, a lessor records the asset as property, plant and equipment and depreciates it on a basis consistent with the normal depreciation policy for similar owned assets. Rental income should normally be recognised on a straight line basis over the lease term unless another systematic basis is more representative of use of the benefits.

Lease incentives

Interpretation SIC-15 requires that incentives provided by a lessor to a lessee to enter into an operating lease should be recognised as an integral part of the consideration agreed for the use of the leased asset, irrespective of the nature of the incentive or the timing of payments. Such incentives would include cash payments to the lessee, relocation costs of the lessee borne by the lessor and rent-free or reduced rent periods. Lessors recognise the cost of lease incentives as a reduction in rental income over the term of the lease, usually on a straight line basis. Lessees recognise the benefit of the incentives received as a reduction of rental expense over the term of the lease, usually on a straight line basis.

Disclosures

Under the revision to IAS 17 in force from 1999, disclosures by lessees and lessors have been significantly extended. As well as confirming that the IAS 32 disclosures on financial instruments apply to leases, IAS 17 now requires a description of the enterprise's significant leasing arrangements and includes the following disclosures. Lessees: carrying amount of each class of leased asset; total of minimum lease payments and their present values and a maturity analysis; sublease payments; contingent rents; and details of renewal or purchase options. Lessors: total gross investment and present value of minimum lease payments and a maturity analysis; unearned finance income; and for operating leases the movements on each class of asset and the minimum lease payments.

Employee benefits (IAS 19 (revised))

Scope

IAS 19 (revised) is broader in scope than the previous standard and covers all types of employee benefits. Employee benefits are defined as all forms of consideration given by an enterprise in exchange for service rendered by employees. These benefits include salary related benefits (eg wages, salaries, profit sharing, bonuses, long service leave and stock compensation plans), termination benefits (eg severance or redundancy pay) and post-employment benefits (eg defined benefit or defined contribution retirement benefit plans). Many of these benefits are short term in nature, and therefore accounting for them is quite straightforward in terms of expense and liability recognition. However long term benefits, particularly post-employment benefits, have more complicated measurement issues.

Post-employment benefits are provided to employees either as defined contribution plans or defined benefit plans. Post-employment benefits include pensions, termination indemnity, post-employment life insurance and medical care. Whether a post-employment benefit is a defined contribution plan or a defined benefit plan depends on the substance of the transaction rather than the form of the agreement. For example a termination indemnity scheme, whereby employee benefits are payable regardless of the reason for the employee's departure, is accounted for as a defined benefit plan. Multi-employer plans demand special consideration.

Defined contribution plan

Under IAS 19 (revised), the cost of defined contribution plans is the contribution payable by the employer for that accounting period. The amount of this expense should be disclosed in the income statement.

Defined benefit plan

For defined benefit plans, the standard prescribes the use of an accrued benefit valuation method (the projected unit credit method) for calculating defined benefit obligations. This method takes account of employee service rendered to the balance sheet date but incorporates assumptions about future salary increases. Plan assets should be measured at fair value, using discounted cash flows if market prices are not available. The defined benefit obligation should be recorded at present values, using the interest rate on high quality corporate bonds with a maturity consistent with the expected maturity of the obligations. In countries where no market in corporate bonds exists, the interest rate on government bonds should be used.

Actuarial gains and losses should be recognised using a 'corridor' approach. Any actuarial gains and losses (arising from both defined benefit obligations and any related plan assets) which fall outside the higher of 10% of the present value of the defined benefit obligation or 10% of the fair value of plan assets, should be amortised over the remaining service life of the employees. However, an enterprise is permitted to adopt systematic methods which result in faster recognition of such gains and losses (including amortisation or immediate recognition of all actuarial gains and losses).

Transitional rules

On adopting IAS 19 (revised) the enterprise is required to measure the transitional liability (broadly the difference between the present value of the obligation and the fair value of the plan assets) and compare this with the previously recorded liability. Increases in the previous liability will arise particularly where there were unrecognised actuarial losses in the past. The increase in the liability on adopting IAS 19 is either recognised at once using the rules under IAS 8 (Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies) or expensed on a straight-line basis over a maximum of 5 years. Separate and complex rules apply to the recognition of any gains arising on adoption of IAS 19 (revised).

Disclosures

There are a number of disclosures required in relation to defined benefit plans. The accounting policy for recognising actuarial gains and losses, and a general description of the plan must be provided. There should be a comprehensive reconciliation of the status of the plan and the amounts recognised in the balance sheet, disclosure of the current value of the defined benefit obligations and the fair value of the plan assets and a reconciliation of the movements during the period of the net liability (or asset) recognised in the balance sheet. In the income statement the expense recognised for the year should be analysed between current service cost, interest cost, return on plan assets, actuarial gains and losses, past service cost and the effect of curtailment or settlement. Finally, disclosure is required of the principal actuarial assumptions adopted.

Termination benefits

Termination benefits should be recognised as a liability when the enterprise is demonstrably committed to terminating the employment before the normal retirement date. An enterprise is “demonstrably committed” when, and only when, it has a detailed formal plan for the termination without realistic possibility of withdrawal. Where such benefits are long term they should be discounted using the same rate as above for defined benefit obligations.

Equity compensation benefits

Disclosures concerning the accounting policy, nature, number, and terms of employee equity (stock) compensation benefits are required. No measurement rules are, however, provided for such benefits under IAS.

Provisions, contingent liabilities and contingent assets (IAS 37)

IAS 37, effective for annual accounting periods beginning on or after 1 July 1999, requires that a provision should be recognised only when the enterprise has a present obligation to transfer economic benefits as a result of past events, it is probable (more likely than not) that such a transfer will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. The amount recognised as a provision should be the best estimate of the expenditure required to settle the present obligation at the balance sheet date. A present obligation arises from an obligating event and may take the form of either a legal obligation or a constructive obligation. An obligating event leaves the enterprise no realistic alternative to settling the obligation created by the event. If the enterprise can avoid the future expenditure by its future actions, it has no present obligation and no provision is required.

The obligation therefore does not have to take the form of a “legal” obligation before a provision can be recognised. The facts of a particular situation, including actions taken or representations made by management, may result in the enterprise having no realistic alternative but to incur certain expenditures, such that the enterprise is under a “constructive” obligation. The approach taken in the standard does however restrict the circumstances in which a provision can be recognised. For example, an enterprise would not be able to recognise a provision based solely on the intent to incur expenditure at some future date.

The standard generally prohibits provisions for future operating losses. However, if an enterprise has a contract that is onerous (the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it), the present obligation under the contract should be recognised and measured as a provision.

Where the enterprise expects to recover from a third party some or all of the amounts required to settle a provision and has no obligation for that part of the expenditure to be met by the third party, the enterprise should offset the anticipated recovery against the provision and disclose the net amount. In all other cases the provision and any anticipated recovery should be presented separately as a liability and an asset respectively; however an asset can only be recognised if it is virtually certain that settlement of the provision will result in a reimbursement and the amount recognised for the reimbursement should not exceed the amount of the provision. The Standard does however permit net presentation in the income statement.

Interpretation SIC-6 provides specific guidance on the treatment of costs of modifying existing software, and is particularly relevant to Euro related software costs. SIC-6 requires that costs incurred to restore or maintain the future economic benefits expected from the originally assessed standard of performance of the existing software (including to enable them to operate as intended, for example after the year 2000) should be expensed as incurred. A liability should not be recognised until it is probable there will be a reliably measurable outflow of economic benefits in settlement of a present obligation, ie until the required modification work has been performed.

Restructuring provision

In the case of a restructuring, a present obligation only exists when the enterprise is "demonstrably committed". An enterprise is demonstrably committed when there is a binding sale agreement (in the case of the sale of an operation), or in other restructurings when the enterprise has a detailed formal plan for the restructuring and is without realistic possibility of withdrawal by starting to implement the plan or announcing its main features to those affected. However, if there will be a long delay before the restructuring begins, or the restructuring will take an unreasonably long time, it is likely that the plan will raise expectation on those affected because the timeframe allows the enterprise to change its plans. In such a case, no constructive obligations arise and no provision should be accounted for.

A restructuring plan does not create a present obligation at the balance sheet date if it is announced after that date, even if it is announced before the financial statements are approved. The provision should only include incremental costs necessarily entailed by the restructuring and not those associated with the ongoing activities of the enterprise. Any expected gains on the sale of assets should not be taken into account in measuring a provision for restructuring.

Contingent liabilities and contingent assets

IAS 37 also addresses contingent liabilities ie liabilities whose outcome will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the enterprise's control. Contingent liabilities can be recognised provided it is more likely than not that a transfer of economic benefits will result from past events and a reliable estimate can be made. Contingent assets should not be recognised until they are virtually certain. Contingencies which are not capable of meeting the recognition tests should still be disclosed and described in the notes to the financial statements including, where practicable, an estimate of their potential financial effect.

Disclosures

Disclosure is required for each class of provision of the nature, timing and uncertainty of the obligation, a reconciliation of the opening and closing carrying amounts showing detailed movements, whether discounting has been used, and the amount of any anticipated recovery not offset against the provision (stating whether or not such recovery has been recognised as an asset). In the rare situation where a provision is not recognised because a quantification of the obligation cannot be made, a description of the nature of the obligation and factors relevant to determining the amount and timing of the expenditure should be given. Exemption is provided from certain disclosures where disclosure would be seriously prejudicial to the enterprise (for example, in a litigation).

Income taxes (IAS 12 (revised))

IAS 12 (revised) requires that deferred tax should be provided in full for all temporary differences using the liability method. The standard adopts the balance sheet approach under which deferred tax is calculated on all temporary differences, which are differences between the tax and accounting bases of assets and liabilities. Temporary differences include differences between the fair values and the tax values of assets and liabilities acquired, and the effect of revaluing assets for accounting purposes.

Current and deferred tax is recognised in the income statement unless the tax arises from a business combination that is an acquisition or a transaction or event that is recognised in equity. Draft Interpretation SIC-D21 proposes that the tax consequences which accompany a change in the tax status of an enterprise or its controlling or significant shareholder should be taken to income, unless those consequences directly relate to changes in the measured amount of equity. Only those tax consequences that directly relate to changes in the measured amount of equity should be charged or credited to equity and not taken to the income statement.

Deferred tax assets and liabilities should be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Discounting of deferred tax assets and liabilities is not permitted.

The measurement of deferred tax liabilities and deferred tax assets should reflect the tax consequences that would follow from the manner in which the enterprise expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities. Draft Interpretation SIC-D21 proposes that when a non-depreciable asset under IAS 16 is revalued, the deferred tax arising from that revaluation is determined based on the tax rate applicable to the recovery of the carrying amount of that asset through sale.

An enterprise should recognise a deferred tax asset for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. The same principles apply to recognition of deferred tax assets for unused tax losses carried forward.

For presentation purposes, current tax assets and liabilities should be offset if, and only if, the enterprise has a legally enforceable right to set off and intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously. An enterprise is able to offset deferred tax assets and liabilities if, and only if, it is able to offset current tax balances and the deferred balances relate to income taxes levied by the same taxation authority.

Disclosures

Tax expense (income) must be shown separately on the face of the income statement, with separate disclosure made of its major components and any tax expense (income) relating to extraordinary items. Tax expense (income) relating to the gain or loss on discontinuance for discontinued operations, and to the profit or loss from the ordinary activities of the discontinued operation for the period, must also be disclosed. An explanation is required of the relationship between tax expense (income) and accounting profit, either by numerical reconciliation between tax expense (income) and accounting profit multiplied by applicable tax rates, and/or a numerical reconciliation between the average effective tax rate and the applicable tax rate. An explanation is required of any changes in the applicable tax rate(s) compared to the previous period.

The aggregate amount of temporary differences for which both deferred tax assets or liabilities have not been recognised (for example, relating to unremitted “reinvested” earnings of subsidiaries) should be disclosed. For each type of temporary difference, and for unused tax losses and credits, disclosure is required of the amount of deferred tax assets and liabilities recognised and the amount of deferred tax income or expense recognised. The amount of any deferred tax asset, and evidence supporting its recognition, must be disclosed when its utilisation is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences, and the enterprise has suffered a loss in the current or previous period in the tax jurisdiction to which the deferred tax asset relates. Finally, separate disclosure is also required of the aggregate current and deferred tax relating to items that are charged or credited to equity.

Events after the balance sheet date (IAS 10(revised))

In May 1999 the IASC published IAS 10 (revised) which replaces, with effect from periods beginning on or after 1 January 2000 those parts of IAS 10 that deal with events after the balance sheet date. The remaining part of IAS 10 dealing with contingencies was replaced by IAS 37 (Provisions, Contingent Liabilities and Contingent Assets).

IAS 10 (revised) distinguishes between adjusting events and non-adjusting events. Adjusting events are events that provide further evidence of conditions that existed at the balance sheet date. Non-adjusting events relate to conditions that arose after the balance sheet date. The carrying amounts of assets and liabilities in the balance sheet should be adjusted only for adjusting events or events that indicate that the going concern assumption in relation to the whole enterprise is not appropriate. Significant non-adjusting post balance sheet events, for example the issue of shares or debentures, should be disclosed.

IAS 10 (revised) states that if dividends are proposed or declared after the balance sheet date, an enterprise should not recognise those dividends as a liability at the balance sheet date. Disclosure of such dividends is, however, required. (Prior to 2000 an enterprise may accrue a proposed dividend.)

The enterprise is required to disclose the date when the financial statements were authorised for issue, and who gave that authorisation. In the rare cases, that the enterprise’s owners or others have the power to amend the financial statements after issuance, the enterprise should disclose that fact.

Financial instruments: disclosure and presentation (IAS 32)

IAS 32 addresses the presentation of certain financial instruments, gives rules about offsetting financial assets and liabilities and requires detailed disclosures about on and off balance sheet financial instruments.

The classification between liabilities and equity depends on whether the issuer has a contractual obligation to deliver cash or another financial asset to the holder of the instrument, regardless of its legal form. Where such an obligation exists, the financial instrument is presented as a liability. IAS 32 concludes, for example, that mandatorily redeemable preference shares should be shown in liabilities. When a financial instrument contains a right to convert to equity (eg convertible debt), the issuer should identify the instrument's component parts and account for them separately, allocating the proceeds between liabilities and shareholders' equity.

Interpretation SIC-5 states that where the manner of settlement of an instrument depends on the outcome of uncertain future events or circumstances that are beyond the control of the issuer, the instrument should be classified as a liability. However, where the possibility of the issuer being required to settle in cash or another financial asset is remote at the time of issuance, the contingent settlement provision should be ignored and the instrument classified as equity.

IAS 32 contains very restrictive rules on off-setting financial assets and liabilities. These can only be netted in those very rare situations where an enterprise has a legally enforceable right to set-off the recognised amounts and it intends to either settle on a net basis or to realise the asset and liability simultaneously.

Equity instruments

Interpretation SIC-16, effective for financial periods beginning on or after 1 July 1999, concerns treasury shares – the enterprise's own equity instruments acquired and legally available for re-issue or re-sale. Treasury shares should be presented in the balance sheet as a deduction from equity. Subsequent re-sale of the shares does not give rise to gain or loss and is therefore not part of net income for the period. The sales consideration should be presented as a change in equity.

Draft Interpretation SIC – D17 considers the costs incurred by the enterprise in issuing or reacquiring its equity instruments. SIC – D17 clarifies that external transaction costs directly attributable to an equity transaction which itself results in a net increase or decrease to equity, are recognised as a deduction from equity. If an enterprise issues a compound instrument that contains both a liability and an equity element, transaction costs should be allocated to the component parts consistent with the allocation of proceeds.

Disclosures

The major part of IAS 32 consists of a series of disclosures required for all on and off balance sheet financial instruments. The disclosures cover: terms and conditions; accounting policies and methods adopted for recognition and measurement; fair values; exposures to interest rate and credit risk; and specific details about hedges of anticipated future transactions including deferred profits or losses. The standard also encourages management to comment (outside the financial statements) on the extent to which financial instruments are used, the associated risks (and how these are controlled or mitigated) and the business purposes served.

Financial instruments: recognition and measurement (IAS 39)

IAS 39 should be applied by all enterprises for accounting periods beginning on or after 1 January 2001. Earlier application is permitted. On initial adoption of IAS 39 retrospective application is not permitted and comparative figures are not restated. Therefore, all accounting adjustments are made from the beginning of the year in which IAS 39 is first applied (and not at the beginning of the earliest period presented, as would normally be the case).

Definitions

A financial instrument is any contract that give rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset from another enterprise, a contractual right to exchange financial instruments with another enterprise under conditions that are potentially favourable, or an equity instrument of another enterprise, A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another enterprise, or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable. An equity instrument is any contract that evidences a residual interest in the assets of an enterprise after deducting all of its liabilities.

IAS 39 recognises four categories of financial assets:

a) “held for trading” - acquired for the purpose of generating a profit from short term fluctuations in price;
b) “held to maturity” - financial assets with fixed or determinable payments and maturity, that an enterprise will hold to maturity (conditions for this category are very tightly defined in IAS 39);
c) “originated by the enterprise” – created by providing goods or services; and
d) “available for sale” – essentially the remainder.

The measurement of a financial asset subsequent to initial recognition depends on which of the above categories it belongs to. Derivatives are always treated as held for trading unless their use qualifies them for hedge accounting. Sometimes, a derivative may be a component of a combined financial instrument, with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative. This is an “embedded derivative”, and should generally be accounted for separately from the host contract.

Recognition and initial measurement

A financial instrument is recognised when the enterprise becomes a party to its contractual provisions. Thus all contractual rights or obligations under derivatives are recognised on the balance sheet as assets or liabilities.

Purchases of financial assets should either be recognised at trade date (ie commitment date) or settlement date (ie delivery date); the chosen policy should be applied consistently for each of the four categories of financial assets. For a sale of financial assets, settlement date should be used. Financial assets and financial liabilities should be initially measured at cost, being the fair value of the consideration given or received, including transaction costs (such as advisers’ and agents’ fees and commissions, duties and levies by regulatory agencies).

Subsequent measurement

Subsequent to initial recognition, loans and receivables originated by the enterprise, investments held to maturity, and investments whose fair value cannot be reliably measured, continue to be accounted for at cost (amortised where relevant). All other financial assets such as trading and "available for sale" financial assets, as well as derivatives that are assets, should be measured at fair value.

All financial liabilities except for liabilities held for trading and derivatives that are liabilities, should be carried at amortised cost. Liabilities held for trading and derivatives that are liabilities should be measured at fair value; however a derivative liability that is linked to and that must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured, should be measured at cost.

Financial assets and financial liabilities that are designated as hedged items are subject to measurement under the hedge accounting rules in IAS 39 (see below).

IAS 39 allows a choice of policy for recognising changes in fair value; an enterprise should make a one-time group-wide choice of policy. The first alternative requires all changes in fair value to be included in the income statement. The other requires changes in fair value relating to trading assets and liabilities to be included in the income statement; changes in fair value of available for sale financial assets are included in equity and recycled to income on disposal of the asset.

Hedge accounting may be used only if the hedge relationship meets strict qualifying criteria of documentation and hedge effectiveness. There must be a one on one hedging relationship; hedge accounting may not be used for overall balance sheet positions. Hedging instruments should be carried at fair value. Gains and losses on fair value hedges of an existing asset or liability should be included in net profit or loss. Gains and losses on cash flow hedges should be included in equity and recycled to the income statement when the hedged transaction affects net profit or loss (or used to adjust the carrying amount for an asset or liability acquisition). Hedges of a net investment in a foreign entity should be accounted for similarly to cash flow hedges.

Derecognition

The rules on derecognition focus on whether control over a financial asset or liability has been transferred to another party. A financial asset should be derecognised when the enterprise realises the rights to benefits specified in the contract, the rights expire, or the enterprise loses control of the contractual rights. An enterprise should not derecognise a financial asset when it has the option to buy it back at other than fair value. A financial liability should only be removed from the balance sheet when the obligation specified in the contract is discharged, cancelled, expires, or the primary responsibility for the liability is transferred to another party. If part of a financial asset of liability is sold or extinguished, the carrying amount is split based on relative fair values. If the fair value of the part of the asset that is retained cannot be reliably measured, that asset should be recorded at zero, the entire carrying amount of the asset being attributed to the portion sold.

Disclosures

IAS 39 supplements the disclosure requirements of IAS 32. An enterprise should describe its financial risk management objectives and policies, including its policy for hedging each major type of forecast transaction for which hedge accounting is used. It should also disclose its fair value assumptions, income recognition policy, basis of accounting for financial assets (ie trade date or settlement date) and detailed information for hedges. Further, the enterprise should disclose gains and losses resulting from financial assets and liabilities, whether included in the income statement or in equity.

Financial instruments – the longer term

The IASC and major national standard setters of the world are involved in a "Joint Working Group" project to develop a comprehensive standard on financial instruments. The broad direction of this project is to have all financial assets and financial liabilities measured in the balance sheet at fair value, with fair value adjustments going immediately to income. An exposure draft is expected to be issued during 2000.

SPECIALISED FINANCIAL STATEMENTS

Solus financial statements

The following two paragraphs highlight specific accounting rules that are relevant to the solus (ie non-consolidated) financial statements of a parent company.

Investments in subsidiaries (included in the consolidation) should be accounted for using the equity method (as described in IAS 28), or treated as an investment according to IAS 25. Where the subsidiary was excluded from the consolidation under the rules of IAS 27, it should be treated as an investment according to IAS 25, ie it is not to be equity accounted. When IAS 39 becomes effective, all investments in subsidiaries should be either carried at cost, or accounted for using the equity method or as an available-for-sale financial asset.

Associates should be accounted for either at cost or using the equity method, or treated as an investment according to IAS 25; these rules apply whether or not the investor issued consolidated financial statements. However, there is an additional requirement for cases where the equity method is not used in the solus financial statements, but would have been used if consolidated financial statements had been prepared: the enterprise should disclose the effects that the equity method would have had. When IAS 39 becomes effective, associates should be accounted for either at cost, or using the equity method or as an available-for-sale financial asset. If the investor does not issue consolidated financial statements, there is a further alternative measurement basis: account for the investment in the associate as a financial asset held for trading based on the definitions in IAS 39.

Interim financial reporting (IAS 34)

The IASC is unable to mandate that enterprises publish interim financial reports. However, it encourages publicly traded entities to prepare interim reports at least for the half year and for these to be issued within 60 days of the interim balance date.

An interim financial report prepared in accordance with IAS 34 should include a condensed balance sheet, income statement, cash flow statement, statement of changes in equity and selected note disclosures. The same accounting policies will generally be appropriate for recognising and measuring assets, liabilities, revenues, expenses, gains and losses at interim dates as are used in the annual financial statements, with special measurement rules applying to items such as tax which are computed annually.

Any changes in accounting policy from those used in the previous annual financial statements should be disclosed. Current period and comparative figures should be disclosed as follows: balance sheet - as at the current interim period with comparatives for the immediately preceding year end; income statement - current interim period, cumulatively for the current financial year to date and comparatives for the same interim and year to date periods of the preceding year; statement of changes in equity and cash flow statement - cumulatively for the current financial year to date and comparatives for the same year to date period of the preceding year.

Accounting and reporting by retirement benefit plans (IAS 26)

IAS 26 provides guidance on the accounting and reporting by a retirement benefit plan to its participants. The standard does not require retirement benefit plans to issue reports, however, when such reports are prepared in accordance with IAS, they must comply with the requirements of IAS 26.

For a defined contribution plan, the report must include: a statement of net assets available for benefits; a statement of changes in net assets available for benefits; a summary of significant accounting policies; a description of the plan and the effect of any changes in the plan during the period and a description of the funding policy.

For a defined benefit plan, the report must include: either a statement that shows the net assets available for benefits, the actuarial present value of promised retirement benefits and the resulting excess or deficit, or a reference to this information in an accompanying actuarial report; a statement of changes in net assets available for benefits; a summary of significant accounting policies and a description of the plan and the effect of any changes in the plan during the period. The report should also explain the relationship between the actuarial present value of promised retirement benefits and the net assets available for benefits, and the policy for the funding of promised benefits.

Investments held by all retirement plans (whether defined benefit or defined contribution) should be carried at fair value.

Disclosures in the financial statements of banks and similar financial institutions (IAS 30)

IAS 30 requires banks and similar financial institutions to disclose income, expenses, assets and liabilities by nature. For the income statement, the principal types of income and expenses should be disclosed. For the balance sheet, assets and liabilities should be disclosed in an order which reflects their relative liquidity. Specific items include: the fair values of each class of its financial assets and liabilities, as required by IAS 32 and IAS 39; an analysis of assets and liabilities by relevant maturity groupings; significant concentrations of assets, liabilities and off balance sheet items by geographical areas, customer or industry groups or other concentrations of risk and details of loan losses.

Assets and liabilities should be offset only when a legal right of set-off exists and the intention is to settle such amounts on a net basis. Income and expense items should be offset only when they relate to hedges or to assets and liabilities which have been offset in the balance sheet.

Other disclosures include amounts set aside for general banking risks, for contingencies and commitments, the aggregate amount of secured liabilities and the nature and carrying amount of pledged assets.

IAS 30 suggests that the required disclosures be accompanied by a management commentary which would further address disclosures made in the financial statements.

In July 1999 the IASC added to its agenda a project to consider revising IAS 30, particularly in the light of developments in the banking industry and the issuance of IAS 1 (revised) and IAS 39.

Agriculture (E65)

E65, issued in July 1999, deals with accounting for agricultural activity, which is defined as the managed transformation of biological assets (living animals and plants) into agricultural produce (awaiting further processing, sale, or consumption) or into additional biological assets.

E65 recommends that all biological assets should be measured at fair value, with the change in fair value reported as part of profit or loss from operating activities. Enterprises are encouraged to disclose separately the amount of change in fair value which is attributable to (1) biological transformation and (2) changes in prices. Agricultural produce should be measured at fair value at the point of harvest (thereafter IAS 2 (Inventories) applies). The fair value is the highest price obtainable, net of costs, in any available market and would be deemed to be the cost when subsequently applying IAS 2. Agricultural land would be accounted for according to IAS 16 (Property, plant and equipment).

The two methods of presentation of grants relating to assets, as described in IAS 20, are regarded by E65 as inappropriate in a fair value context, where the full impact of changes in fair value is reflected in measuring net profit or loss. Accordingly, if an enterprise receives a grant in respect of a biological asset or agricultural produce that is measured at fair value, E65 recommends recognising the grant as income when receivable.

Insurance

The project addresses accounting for insurance contracts (or groups of contracts), rather than all aspects of accounting by insurance enterprises. The main area of focus will be insurance liabilities: these will be measured on a discounted basis using current estimates of future cash flows from the current contract; changes in the carrying amount of insurance liabilities would be recognised as they arise. The Steering Committee expects to publish an Issues Paper at the end of 1999.

Extractive industries

The IASC added this project to its agenda in 1998 and the areas to be covered will include accounting for pre-production costs, production and inventories, site restoration, revenue recognition and recognition of revenues. A Discussion Paper is expected to be issued during 2000.

Emerging markets

This project was also added to the IASC's agenda in 1998 and will consider whether there should be different accounting and disclosure standards for enterprises in developing countries and economies in transition. Other aspects will centre on whether the IASC should develop industry specific standards that will be particularly relevant for those countries, in addition to those mentioned above.

OTHER PUBLICATIONS FROM PRICEWATERHOUSECOOPERS

The following publications on International Accounting Standards have been published by PricewaterhouseCoopers and are available from your nearest PricewaterhouseCoopers office:

Understanding IAS	- Analysis and Interpretation of International Accounting Standards
International Accounting Standards	- Illustrative Corporate Financial Statements
International Accounting Standards	- Illustrative Bank Financial Statements
International Accounting Standards	- Disclosure Checklist – 1998/99
International Accounting Standards	- Similarities and Differences: IAS, US GAAP and UK GAAP
International Accounting Standards	- Applying IAS 12 (Income Taxes) in Practice
International Accounting Standards	- Applying IAS 34 (Interim Financial Reporting in Practice)
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This International Accounting Standards Pocket Guide is designed for the information of readers. While every effort has been made to ensure accuracy, information contained in this publication may not be comprehensive or may have been omitted which may be relevant to a particular reader. In particular, this booklet is not intended as a study of all aspects of International Accounting Standards and does not address all the disclosure requirements for each standard. The booklet is not a substitute for reading the Standards when dealing with points of doubt or difficulty. No responsibility for loss to any person acting or refraining from acting as a result of any material in this publication can be accepted by PricewaterhouseCoopers. Recipients should not act on the basis of this publication without seeking professional advice.

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