

SUBSIDIARY LEGISLATION 281.05

ACCOUNTANCY PROFESSION (GENERAL ACCOUNTING PRINCIPLES FOR SMALL AND MEDIUM-SIZED ENTITIES) REGULATIONS

28th August, 2015

LEGAL NOTICE 289 of 2015, as amended by Legal Notice 41 of 2024.

1. The title of these regulations is the Accountancy Profession (General Accounting Principles for Small and Medium-Sized Entities) Regulations.

Citation.

2. The objective of these regulations is to prescribe the general accounting principles that shall be adhered to by small and medium-sized entities complying with all the criteria set out in regulation 4.

Objective.

3. (1) In these regulations, unless the context otherwise requires:

Interpretation.
*Amended by:
L.N. 41 of 2024.*

"the Act" means the Accountancy Profession Act;

Cap. 281.

"balance sheet date" means the date on which the balance sheet of an entity is drawn up;

"company" shall have the meaning assigned to it in the Companies Act;

Cap. 386.

"entity" or "reporting entity" means a commercial partnership as defined in the Companies Act and any other body, corporate or unincorporate, which carries on a trade or business and which is required to prepare financial statements in terms of the laws of Malta;

Cap. 386.

"financial reporting period" means the period ending on the entity's balance sheet date for which financial statements are prepared;

"financial statements" means the statements prepared by an entity comprising the following documents:

- (a) a balance sheet;
- (b) an income statement; and
- (c) notes to the financial statements:

Provided that for medium-sized entities the financial statements shall also comprise the following documents:

- (a) a statement of changes in equity; and
- (b) a statement of cash flows;

"public company" shall have the meaning assigned to it in the Companies Act;

Cap. 386.

"public interest entity" shall have the meaning assigned to it in the Accountancy Profession Act;

Cap. 281.

Cap. 386. "regulated market" shall have the meaning assigned to it in the Companies Act;

Cap. 386. "security" shall have the meaning assigned to it in the Companies Act;

"the Schedule" means the Schedule to these regulations and forming an integral part hereof.

(2) References to an "entity" or "reporting entity" in these regulations shall, in the case of an entity or reporting entity preparing consolidated financial statements in terms of section 22 of the Schedule, be construed as referring to the group of entities in respect of which consolidated financial statements are presented for as a single economic entity.

(3) Unless the context otherwise requires, terms used in these regulations and which are not defined herein shall have the meaning assigned to them in the Act.

Scope.
Amended by:
L.N. 41 of 2024.

4. An entity shall, for financial reporting periods commencing on or after 1st January 2016, prepare financial statements in accordance with the general accounting principles for small and medium-sized entities set out in the Schedules unless the Board of Directors of a company or, in the case of an entity other than a company, its governing body, has resolved to prepare financial statements in accordance with IFRS as adopted by the EU for that financial reporting period; or the entity does not satisfy the requirements set out in regulation 5 for the applicability of the Schedule:

Provided that for financial reporting periods beginning on or before 1st January 2015, the regulations as were in force prior to the coming into force of these regulations shall continue to apply *mutatis mutandis* to such entities.

Applicability of
schedules.
Amended by:
L.N. 41 of 2024.

5. (1) This regulation shall apply to small and medium-sized entities:

(a) "small entities" means entities which on their balance sheet dates do not exceed the limits of at least two of the three following criteria:

- (i) balance sheet total: € 4,000,000;
- (ii) revenue: € 8,000,000;
- (iii) average number of employees during the financial year: 50

(b) "medium-sized entities" means entities which are not small entities and which on their balance sheet dates do not exceed the limits of at least two of the three following criteria:

- (i) balance sheet total: € 20,000,000;
- (ii) revenue: € 40,000,000;
- (iii) average number of employees during the financial year: 250.

(2) For the purposes of sub-regulation (1):

- (a) "balance sheet total" shall consist of the total value of assets held by an entity, including those that are current and non-current, as defined in the Schedule;
- (b) "revenue" means the amounts derived from the sale of products and the provision of services after deducting sales rebates and value added tax and other taxes directly linked to revenue; and
- (c) the "average number of employees" shall be determined as follows:
 - (i) in relation to whole-time employees, the aggregate number of full weeks worked by all the whole-time employees of the entity during the financial reporting period, divided by the number of full weeks comprised in that financial reporting period, rounded off to the nearest number; and
 - (ii) in relation to part-time employees, the aggregate number of hours worked by all the part-time employees of the entity during the financial reporting period, divided by the number of full weeks comprised in that financial reporting period and again divided by forty, rounded off to the nearest number.

(3) For the purposes of calculating the thresholds in sub-regulation (1), entities for which revenue is not relevant shall be required to include income from other sources.

(4) In relation to a subsequent financial year, where, on its balance sheet date, an entity exceeds or ceases to exceed the limits of two of the three criteria set out in sub-regulation (1)(a) and (b), as applicable, that fact shall affect the application of this regulation only if it occurs in two consecutive financial years:

- (a) where an entity exceeds the criteria in sub-regulation (1)(a) it shall apply the provisions applicable to medium-sized entities insofar as it does not exceed the criteria in sub-regulation (1)(b);
- (b) where an entity exceeds the criteria in sub-regulation (1)(b) it shall stop applying the Principles set out in the Schedule.

(5) In determining whether an entity qualifies as small or medium-sized under sub-regulation (1)(a) or (b) (qualification in relation to subsequent financial year by reference to circumstances in preceding financial years) in relation to a financial year in respect of which the amendments made by these regulations have effect, the entity is to be treated as having qualified as small or medium-sized (as the case may be) in any previous year in which it would have so qualified if amendments to the same effect as the amendments made by these regulations had had effect in relation to that previous year.

(6) In the case of the first financial reporting period of an entity, the entity shall determine whether the criteria have been

exceeded by computing the assets comprising the balance sheet total, total revenue and the average number of employees for the first financial reporting period in accordance with the Schedule such that it shall be deemed to have exceeded the criteria if as at the end of the first financial reporting period two of the balance sheet total, total revenue and average number of employees for the relevant financial reporting period exceeded the limits established in sub-paragraphs (i), (ii) and (iii) of sub-regulation (1)(a) or (1)(b).

(7) For the purposes of this regulation, where a financial reporting period is shorter or longer than one calendar year, the total revenue generated during that financial reporting period shall be deemed to be the amount arrived at by dividing the total revenue figure generated in that financial reporting period by the number of months in that financial reporting period, and multiplying that number by twelve.

(8) The Schedule shall not apply to public interest entities.

Amended by:
L.N. 41 of 2024.

SCHEDULE
(Regulation 4)

General Accounting Principles for Small and Medium Entities

Section 1: Citation and objective

1.1 The title of this schedule is the General Accounting Principles for Small and Medium Entities (GAPSME).

1.2 The objective of GAPSME is to ensure that reporting entities or groups falling within its scope provide in their financial statements information about the financial position and financial performance and (where applicable, that is for medium-sized entities) cash flows of the entity or group that is useful to users in assessing the stewardship of management and for making economic decisions, recognising that the balance between users' needs in respect of stewardship and economic decision-making for entities or groups falling within its scope is different from that for other reporting entities or groups.

Section 2: Interpretation

2.1 The terms "GAPSME", "these Principles", "this Schedule" and "General Accounting Principles for Small and Medium Entities" all refer to the general accounting principles for small and medium entities set out in the Schedule to these regulations and forming an integral part hereof.

2.2 Most terms used in these Principles are defined in regulation 3 of these regulations and in various relevant Sections of this Schedule. Nevertheless terms that are not so defined shall have the following meaning, unless the context otherwise requires:

- (a) "Amortisation" means the systematic allocation of the depreciable amount of an asset over its useful life.
- (b) "Carrying amount" refers to the amount at which an asset or liability is recognised in the balance sheet.
- (c) "Cash flows" means inflows and outflows of cash and cash equivalents.
- (d) "Class of assets" means a grouping of assets of a similar nature and use in an entity's operations.
- (e) "Closing rate of exchange" is the spot exchange rate between two currencies at the balance sheet date.
- (f) "Depreciable amount" is the cost of an asset, or other amount substituted for cost (in the financial statements), less its residual value.
- (g) "Depreciation" means the systematic allocation of the depreciable amount of an asset over its useful life.
- (h) "Derecognition" is the removal of a previously recognised asset or liability from an entity's balance sheet.
- (i) "Economic life" is either
 - (i) the period over which an asset is expected to be economically useable by one or more users; or
 - (ii) the number of production or similar units expected to be obtained from the asset by one or more users.

- (j) "Employee benefits" refers to all forms of consideration given by an entity in exchange for service rendered by employees.
- (k) "Fair value" is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
- (l) "Fellow subsidiary" is an entity which is under common control with the reporting entity.
- (m) "Finance costs" means interest and other costs incurred by an entity in connection with the borrowing of funds.
- (n) "Goodwill" means future economic benefits arising from assets that are not capable of being individually identified and separately recognised.
- (o) "Group" means a parent and all its subsidiaries and the term group entities shall be construed accordingly.
- (p) "Impracticable": applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.
- (q) "Measurement" is the process of determining the monetary amounts at which the elements of the financial statements are to be recognised and carried in the balance sheet and income statement.
- (r) "Minority interest" refers to that portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent.
- (s) "Present value" is a current estimate of the present discounted value of the future net cash flows in the normal course of business.
- (t) "Probable" means more likely than not.
- (u) "Profit" is the residual amount that remains after expenses have been deducted from income.
- (v) "Reporting date" (sometimes also referred to as "balance sheet date") is the end of the latest financial reporting period covered by financial statements.
- (w) "Reporting period" (sometimes also referred to as "financial reporting period") refers to a period, ending on the entity's reporting date, for which financial statements have been prepared.
- (x) "Residual value" (of an asset) is the estimated amount that an entity would currently obtain from disposal of an asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.
- (y) "Useful life" (Section 14) means the estimated remaining period, from the commencement of the lease term, without limitation by the lease term, over which the economic benefits embodied in the asset are expected to be consumed by the entity.
- (z) "Useful life" (Sections 7, 11, 12 and 21) means either:
 - (i) the period over which an asset is expected to be available for use by the entity; or
 - (ii) the number of production or similar units expected to be obtained from the asset by the entity.

Section 3: Concepts and pervasive principles

3.1 The scope of this Section is to deal with:

- (a) the objective of financial statements and the underlying assumptions;
- (b) the qualitative characteristics that determine the usefulness of information in financial statements; and
- (c) the definition and recognition of the elements of financial statements.

Objective of financial statements and underlying assumptions

3.2 The objective of financial statements prepared under GAPSME is to provide information about an entity's:

- (a) financial position,
- (b) financial performance, and
- (c) the ability to generate cash and cash equivalents, as regards medium-sized entities only

that is useful to a wide range of users in assessing the stewardship of management and for economic decision-making.

3.3 In order to meet their objective, financial statements (with the exception of cash flow information presented for medium-sized entities) shall be prepared on the accrual basis of accounting. Under this basis, the effects of transactions and other events giving rise to assets, liabilities, equity, income or expenses are recognised when they occur, rather than when cash or its equivalent is received or paid, and hence they are recorded in the accounting records and reported in the financial statements of the financial reporting periods to which they relate.

3.4 The entity shall be presumed to be carrying on business as a going concern. The financial statements shall be prepared on this basis unless management either intends to liquidate the entity or to cease trading, or it has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties shall be disclosed. When financial statements are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern. The period considered by management in making its assessment of the entity's ability to continue as a going concern shall not be less than twelve months from the balance sheet date. The financial statements shall not be prepared on a going concern basis if management determines after the balance sheet date either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.

3.5 The uncertainties that inevitably surround many events and circumstances are acknowledged by the disclosure of their nature and extent and by the exercise of prudence in the preparation of the financial statements. Prudence is the inclusion of a degree of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty, in particular:

- (a) only profits made by the balance sheet date may be recognised,
- (b) all liabilities arising in the course of the financial year concerned or in the course of a previous financial year shall be recognised, even if such liabilities become apparent only between the balance sheet date and the date on which the balance sheet is drawn up, and
- (c) all negative value adjustments shall be recognised, whether the result of

the financial year is a profit or a loss.

However, the exercise of prudence does not allow the deliberate understatement of assets or income, or the deliberate overstatement of liabilities or expenses. In short, prudence does not permit bias.

3.6 The requirements set out in these Principles regarding recognition, measurement, presentation, disclosure and consolidation need not be complied with when the effect of complying with them is immaterial. Information is material if its omission or misstatement could influence the economic decisions of users made on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. However, it is inappropriate to make, or leave uncorrected, immaterial departures from GAPSME to achieve a particular presentation of an entity's financial position, financial performance or cash flows.

Qualitative characteristics of information in financial statements

3.7 Qualitative characteristics are the attributes that make the information provided in financial statements useful to users.

3.8 *Understandability* - The information provided in financial statements should be presented in a way that makes it comprehensible by users who have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence. However, the need for understandability does not allow relevant information to be omitted on the grounds that it may be too difficult for some users to understand.

3.9 *Relevance* - The information provided in financial statements must be relevant to the decision-making needs of users. Information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations.

3.10 *Reliability* - The information provided in financial statements must be reliable. Information is reliable when it is free from material error and bias and represents faithfully that which it either purports to represent or could reasonably be expected to represent. Financial statements are not free from bias if, by the selection or presentation of information, they are intended to influence the making of a decision or judgement in order to achieve a predetermined result or outcome.

3.11 *Substance over form* - Transactions and other events and conditions shall be accounted for and presented in accordance with their substance and economic reality and not merely their legal form. This enhances the reliability of financial statements.

3.12 *Completeness* - To be reliable, the information in financial statements must be complete within the bounds of materiality and cost. An omission can cause information to be false or misleading and thus unreliable and deficient in terms of its relevance.

3.13 *Comparability* - Users must be able to compare the financial statements of an entity through time in order to identify trends in its financial position and performance. Users must also be able to compare the financial statements of different entities in order to evaluate their relative financial position, performance and cash flows. Hence, the measurement and display of the financial effect of like transactions and other events and conditions must be carried out in a consistent way throughout an entity and over time for that entity and in a consistent way for different entities. In addition, users must be informed of the accounting policies

employed in the preparation of the financial statements, and of any changes in those policies and the effects of such changes.

3.14 *Timeliness* - To be relevant, financial information must be able to influence the economic decisions of users. Timeliness involves providing the information within the decision time frame. If there is undue delay in the reporting of information it may lose its relevance. Management may need to balance the relative merits of timely reporting and the provision of reliable information. In achieving a balance between relevance and reliability, the overriding consideration is how best to satisfy the needs of users in making economic decisions.

3.15 *Balance between benefit and cost* - The benefits derived from information should exceed the cost of providing it. The evaluation of benefits and costs is substantially a judgemental process. Furthermore, the costs are not necessarily borne by those users who enjoy the benefits. In applying a costs and benefits test, an entity should understand that the benefits of the information may also be enjoyed by a broad range of external users.

True and fair view

3.16 Preparation of financial statements in accordance with these Principles is presumed to result in financial statements which give a true and fair view of the financial position, financial performance and cash flows of an entity.

3.17 The annual financial statements shall give a true and fair view of the entity's assets, liabilities, financial position and profit or loss. Where the application of these Principles would not be sufficient to give a true and fair view of the entity's assets, liabilities, financial position and profit or loss, such additional information as is necessary to comply with that requirement shall be given in the notes to the financial statements.

3.18 Transactions and other events and conditions shall be accounted for and presented within items in the income statement and balance sheet in accordance with their substance and economic reality and not merely their legal form. To determine the substance of a transaction it is necessary to identify whether the transaction has given rise to new assets or liabilities for the reporting entity and whether it has changed the entity's existing assets or liabilities.

3.19 The application of the qualitative characteristics and appropriate Sections within these Principles normally results in financial statements that convey a true and fair view. However, if in exceptional cases an entity's management concludes that compliance with any of the requirements of these Principles is inconsistent with the requirement to give a true and fair view, an entity shall depart from that requirement to the extent necessary to give a true and fair view. Particulars of the departure, the reasons for it and its effect must be given in a note to the financial statements as follows:

- (a) a statement that there has been a departure from the requirements of GAPSME and that the departure is necessary to give a true and fair view;
- (b) an explanation of the nature and the reasons for the departure;
- (c) its effect on the entity's assets, liabilities, financial position and profit or loss.

3.20 Where a departure continues in subsequent financial statements, the disclosures shall be made in all subsequent financial statements and shall include comparative amounts for the previous financial reporting period.

The elements of financial statements

3.21 Financial statements portray the financial effects of transactions and other events by grouping them into broad classes according to their economic characteristics. These broad classes are termed the elements of financial statements, which term includes assets, liabilities, equity, income and expenses. Paragraphs 3.22 - 3.30 define these elements.

3.22 The elements directly related to the measurement of financial position are assets, liabilities and equity.

3.23 An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity. The future economic benefit embodied in an asset is the potential to contribute, directly or indirectly, to the flow of cash and cash equivalents to the entity, for example through use in the entity's operating activities, or through convertibility to cash and cash equivalents, or through its capability to reduce cash outflows.

3.24 A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits. An essential characteristic of a liability is that the entity has a present, rather than a future, obligation. A present obligation therefore arises from past transactions or other past events. Moreover, the settlement of the present obligation usually involves the entity giving up resources embodying economic benefits, such as the payment of cash, transfer of other assets, provision of services, replacement of that obligation with another obligation, or conversion of that obligation to equity.

3.25 Equity is the residual interest in the assets of the entity after deducting all its liabilities. However it may be sub-classified in the balance sheet, for example in funds contributed by shareholders, retained earnings and other reserves.

3.26 Profit is frequently used as a measure of an entity's performance. The elements directly related to the measurement of profit are income and expenses.

3.27 Income is increases in economic benefits during the financial reporting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.

3.28 The definition of income encompasses both revenue and gains. Revenue arises in the course of the ordinary activities of an entity and is referred to by a variety of different names including sales, fees, interest, dividends, royalties and rent. Gains represent other items that meet the definition of income in paragraph 3.27 and may, or may not, arise in the course of the ordinary activities of an entity. Gains include, for example, those arising on the disposal of non-current assets or from increases in their carrying amounts.

3.29 Expenses are decreases in economic benefits during the financial reporting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

3.30 The definition of expenses encompasses losses as well as those expenses that arise in the course of the ordinary activities of the entity. The latter include, for example, cost of sales, wages and depreciation. They usually take the form of an outflow or depletion of assets such as cash and cash equivalents, inventory, property, plant and equipment. Losses represent other items that meet the definition of expenses in paragraph 3.29 and may, or may not, arise in the course of the ordinary activities of the entity. Losses include, for example, those resulting from disasters such as fire and flood, those arising on the disposal of non-current assets, and those

unrealised losses arising from the effects of increases in the rate of exchange for a foreign currency in respect of the borrowing of an entity in that currency.

Recognition of the elements of financial statements

3.31 Recognition is the process of incorporating in the balance sheet or income statement an item that meets the definition of an element and satisfies the following criteria:

- (a) it is probable that any future economic benefit associated with the item will flow to or from the entity;
- (b) the item has a cost or value that can be measured reliably.

3.32 An asset is recognised in the balance sheet when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably. An asset is not recognised in the balance sheet when expenditure has been incurred for which it is considered improbable that economic benefits will flow to the entity beyond the current financial reporting period. Such a transaction would therefore be recognised as an expense in the income statement.

3.33 A liability is recognised in the balance sheet when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will occur can be measured reliably.

3.34 Income is recognised in the income statement when an increase in future economic benefits related to an increase in an asset or a decrease of a liability has arisen that can be measured reliably. This means, in effect, that recognition of income occurs simultaneously with the recognition of increases in assets or decreases in liabilities.

3.35 Expenses are recognised in the income statement when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. This means, in effect, that recognition of expenses occurs simultaneously with the recognition of an increase in liabilities or a decrease in assets. Expenditure incurred on assets that generate economic benefits over several financial reporting periods is normally recognised as an expense in the income statement on the basis of systematic and rational allocation procedures. This is often necessary in recognising the expenses associated with the using up of assets such as property, plant and equipment, patents and trademarks; in such cases the expense is referred to as depreciation or amortisation. An expense is also recognised immediately in the income statement when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the balance sheet as an asset. An expense is also recognised in the income statement in those cases when a liability is incurred without the recognition of an asset.

3.36 The requirements for recognising and measuring assets, liabilities, income and expenses in these Principles are based on pervasive principles that are identified in paragraphs 3.21 - 3.35 of this Section. In the absence of a requirement in GAPSME that applies specifically to a transaction or other event or condition, paragraph 5.5 establishes a hierarchy for an entity to follow in deciding on the appropriate accounting policy in the circumstances. The second level of that hierarchy (paragraph 5.5(b)) requires an entity to consider the pervasive recognition and measurement principles set out in paragraphs 3.21 - 3.35 and paragraph 3.39 of this Section.

Derecognition of the elements of financial statements

3.37 After an asset or liability is recognised on the balance sheet, it shall be derecognised if, and to the extent that, it is no longer probable that any future economic benefits associated with the item will flow to or from the entity.

Measurement of the elements of financial statements

3.38 Measurement is the process of determining the monetary amounts at which assets, liabilities, income and expenses are to be recognised and carried in the balance sheet and income statement. Measurement involves the selection of a basis of measurement. These Principles specify which measurement basis an entity shall use for many types of assets, liabilities, income and expenses. In the absence of a requirement in GAPSME that applies specifically to a transaction or other event or condition, an entity shall have regard to measurement bases for similar assets, liabilities, income and expenses when determining monetary amounts at which such transactions, other events or conditions are to be initially and subsequently measured.

3.39 Items recognised in the financial statements shall be measured by reference to their cost unless these Principles allow an alternative measurement basis.

3.40 The components of asset and liability items shall be valued separately.

Section 4: Presentation of financial statements

4.1 A complete set of financial statements comprises:

- (a) a balance sheet;
- (b) an income statement; and
- (c) notes to the financial statements:

Provided that medium-sized entities shall prepare additional statements as provided for in paragraphs 4.30 and 4.33 of these Principles:

Provided further that in respect of the statements referred to in paragraphs 4.1(a) and (b), 4.30 and 4.33, an entity may use titles for the statements other than those used in these Principles.

The annual financial statements shall constitute a composite whole. They shall be drawn up in accordance with the provisions of these Principles.

4.2 The financial statements shall be identified clearly and distinguished from other information in the same published document and each component of the financial statements shall be identified clearly. In addition, the following information shall be displayed prominently, and repeated when it is necessary for a proper understanding of the information presented:

- (a) the name of the reporting entity and any change in its name since the end of the preceding financial reporting period;
- (b) the information necessary to identify the register with which the entity is registered, together with the number of the company in the register, the legal form of the company, the location of the registered office, and where appropriate, the fact that the company is being wound up;
- (c) whether the financial statements cover the individual entity or a group of entities;
- (d) the date of the end of the financial reporting period or the period covered by the financial statements, whichever is appropriate to that component of the financial statements;

- (e) the presentation currency, as defined in Section 18 of these Principles; and
- (f) the level of rounding, if any, used in presenting amounts in the financial statements.

4.3 An entity that is permitted to apply GAPSME in accordance with regulation 5, and that opts to apply these Principles, shall present a complete set of financial statements (including comparative information) at least annually. When the end of an entity's financial reporting period changes and the annual financial statements (including comparatives) are presented for a period longer or shorter than one year, the entity shall disclose:

- (a) that fact;
- (b) the reason for using a longer or shorter period; and
- (c) the fact that comparative amounts for the income statement, statement of changes in equity (if applicable), statement of cash flows (if applicable) and related notes are not entirely comparable.

4.4 An entity shall retain the presentation and classification of items in the financial statements from one financial reporting period to the next unless:

- (a) it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies; or
- (b) these Principles require a change in presentation.

4.5 When the presentation or classification of items in the financial statements is changed, an entity shall reclassify comparative amounts unless the quantification of that reclassification is impracticable. When comparative amounts are reclassified, an entity shall disclose:

- (a) the nature of the reclassification;
- (b) the amount of each item or class of items that is reclassified; and
- (c) the reason for the reclassification.

4.6 When it is impracticable to quantify the amount of the reclassification, an entity shall disclose:

- (a) the reason for not reclassifying the amounts; and
- (b) the nature of the adjustments that would be required, had the amounts been able to be determined and reclassified.

4.7 Comparative amounts for the previous financial reporting period shall be shown for every item presented in the financial statements and notes thereto. Comparative information shall be included for narrative and descriptive information when it is relevant to an understanding of the current financial reporting period's financial statements. Where there is no amount to be shown for an item for the current financial reporting period but a comparative amount can be shown for the previous period, the comparative amount shall be shown. Where a comparative amount is not comparable with that for the current financial reporting period for the reason contemplated in paragraphs 5.7 - 5.9 of these Principles, it shall be adjusted and particulars of the adjustment and the reasons for it shall be disclosed in a note to the financial statements.

4.8 Comparative amounts are not required to be disclosed in relation to any amounts stated in the notes to the financial statements for the items listed below:

- (a) a reconciliation of the carrying amount of property, plant and equipment and investment property at the beginning and end of the financial reporting period as required by sub-paragraph (f) of paragraph 7.27, and paragraph 8.14 (by virtue of a reference to the requirements of paragraph 7.27), respectively of these Principles;
- (b) a reconciliation of the carrying amount of intangible assets at the beginning and end of the financial reporting period as required by sub-paragraph (b) of paragraph 11.20 of these Principles;
- (c) a reconciliation of the carrying amount of goodwill at the beginning and end of the financial reporting period as required by paragraph 21.22 of these Principles;
- (d) a reconciliation of the carrying amount of each category of investments classified as non-current assets at the beginning and end of the financial reporting period as required by sub-paragraph (b) of paragraph 9.39 of these Principles;
- (e) a reconciliation of the carrying amount of non-current investments in subsidiaries, associates and jointly controlled entities at the beginning and end of the financial reporting period as required by sub-paragraph (b) of paragraph 10.29 of these Principles; and
- (f) a reconciliation of the carrying amount of each class of provisions at the beginning and the end of the financial reporting period as required by sub-paragraph (c) of paragraph 17.17 of these Principles.

4.9 An entity shall present separately each material class of similar items. An entity shall present separately items of a dissimilar nature or function unless they are immaterial. Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

4.10 An entity shall not offset assets and liabilities, or income and expenses, unless required or permitted by these Principles, in which case the amounts which are set off shall be specified as gross amounts in the notes to the financial statements.

4.11 An entity's financial statements shall comply with the requirements set out in this Section as to their form and content.

Balance Sheet

4.12 The balance sheet presents an entity's assets, liabilities and equity at a point in time. The opening balance sheet for each financial year shall correspond to the closing balance sheet for the preceding financial year.

4.13 An entity may adopt one of the layouts set out in this Section. The following items shall be shown separately on the face of the balance sheet, in the order indicated, and under the headings and sub-headings listed below. Items preceded by Arabic numerals may be combined under their respective sub-heading when they are immaterial for the purposes of the financial statements giving a true and fair view, or such combination makes for greater clarity, in which latter case the items combined shall be dealt with separately in the notes. The layout, nomenclature and terminology of items in the balance sheet that are preceded by Arabic numerals may be amended according to the nature of the entity and its transactions to provide information that is relevant to an understanding of the entity's financial position.

In respect of each item an entity also needs to show the corresponding amount for the preceding financial reporting period. Unless there is a corresponding item that needs to be shown, an entity shall not show any item listed below for which there is no amount for the current period.

Horizontal layout of the balance sheet

ASSETS

Non-current assets

- I. Intangible assets*
 - 1. Development costs
 - 2. Concessions, patents, licences, trade marks and similar rights and assets, if they were acquired for valuable consideration
 - 3. Goodwill
 - 4. Payments on account
- II. Property, plant and equipment*
 - 1. Land and buildings
 - 2. Plant and machinery
 - 3. Other fixtures and fittings, tools and equipment
 - 4. Payments on account and tangible assets in the course of construction
- III. Investment property*
- IV. Financial investments*
 - 1. Shares in subsidiaries
 - 2. Loans to subsidiaries
 - 3. Shares in associates and jointly controlled entities
 - 4. Loans to associates and jointly controlled entities
 - 5. Other non-current investments (other than loans)
 - 6. Other loans
- V. Trade and other receivables*
 - 1. Trade receivables
 - 2. Amounts owed by group entities
 - 3. Amounts owed by associates and jointly controlled entities
 - 4. Other receivables
 - 5. Subscribed capital called but not paid
 - 6. Prepayments and accrued income
- VI. Deferred tax assets*

Current assets

- I. Inventories*
 - 1. Raw materials and consumables
 - 2. Work in progress
 - 3. Finished goods and goods for resale

4. Payments on account

II. Trade and other receivables

Trade receivables

1. Amounts owed by group entities

2. Amounts owed by associates and jointly controlled entities

3. Other receivables

4. Subscribed capital called but not paid

5. Prepayments and accrued income

III. Current tax assets

IV. Financial investments

1. Shares in subsidiaries

2. Loans to subsidiaries

3. Shares in associates and jointly controlled entities

4. Loans to associates and jointly controlled entities

5. Other current investments

V. Cash and cash equivalents

EQUITY AND LIABILITIES

Equity

I. Share capital

II. Share premium account

III. Revaluation reserve

IV. Other reserves

V. Retained earnings

VI. Minority interest

Liabilities

Non-current liabilities

I. Borrowings

1. Bank loans

2. Other borrowings

II. Trade and other payables

1. Payments received on account of orders

2. Trade payables

3. Bills of exchange payable

4. Amounts owed to group entities

5. Amounts owed to associates and jointly controlled entities

6. Other creditors (including indirect tax and social security)

7. Accruals and deferred income

III. Deferred tax liabilities

IV. Provisions

1. Provisions for employee benefits and similar obligations
2. Other provisions

Current liabilities

I. Borrowings

1. Bank loans
2. Other borrowings

II. Trade and other payables

1. Payments received on account of orders
2. Trade payables
3. Bills of exchange payable
4. Amounts owed to group entities
5. Amounts owed to associates and jointly controlled entities
6. Other creditors (including indirect tax and social security)
7. Accruals and deferred income

III. Current tax liabilities

IV. Provisions

1. Provisions for employee benefits and similar obligations
2. Other provisions

Vertical layout of the balance sheet

ASSETS

Non-current assets

I. Intangible assets

1. Development costs
2. Concessions, patents, licences, trade marks and similar rights and assets, if they were acquired for valuable consideration
3. Goodwill
4. Payments on account

II. Property, plant and equipment

1. Land and buildings
2. Plant and machinery
3. Other fixtures and fittings, tools and equipment
4. Payments on account and tangible assets in the course of construction

III. Investment property

IV. Financial investments

1. Shares in subsidiaries
2. Loans to subsidiaries

3. Shares in associates and jointly controlled entities
4. Loans to associates and jointly controlled entities
5. Other non-current investments (other than loans)
6. Other loans
- V. *Trade and other receivables*
1. Trade receivables
2. Amounts owed by group entities
3. Amounts owed by associates and jointly controlled entities
4. Other receivables
5. Subscribed capital called but not paid
6. Prepayments and accrued income
- VI. *Deferred tax assets*

Current assets

- I. *Inventories*
1. Raw materials and consumables
2. Work in progress
3. Finished goods and goods for resale
4. Payments on account
- II. *Trade and other receivables*
1. Trade receivables
2. Amounts owed by group entities
3. Amounts owed by associates and jointly controlled entities
4. Other receivables
5. Subscribed capital called but not paid
6. Prepayments and accrued income
- III. *Current tax assets*
- IV. *Financial investments*
1. Shares in subsidiaries
2. Loans to subsidiaries
3. Shares in associates and jointly controlled entities
4. Loans to associates and jointly controlled entities
5. Other current investments
- V. *Cash and cash equivalents*

Current liabilities

- I. *Borrowings*
1. Bank loans
2. Other borrowings

II. Creditors: amounts becoming due and payable within one year

1. Payments received on account of orders
2. Trade payables
3. Bills of exchange payable
4. Amounts owed to group entities
5. Amounts owed to associates and jointly controlled entities
6. Other creditors (including indirect tax and social security)
7. Accruals and deferred income

III. Current tax liabilities

IV. Provisions

1. Provisions for employee benefits and similar obligations
2. Other provisions

Net current assets/liabilities

Total assets less current liabilities

Non-current liabilities

I. Borrowings

1. Bank loans
2. Other borrowings

II. Creditors: amounts becoming due and payable after more than one year

1. Payments received on account of orders
2. Trade payables
3. Bills of exchange payable
4. Amounts owed to group entities
5. Amounts owed to associates and jointly controlled entities
6. Other creditors (including indirect tax and social security)
7. Accruals and deferred income

III. Deferred tax liabilities

IV. Provisions

1. Provisions for employee benefits and similar obligations
2. Other provisions

Equity

I. Share capital

II. Share premium account

III. Revaluation reserve

IV. Other reserves

V. Retained earnings

VI. Minority interest

4.14 The face of the balance sheet shall also include line items that present the following amounts (if applicable):

- (a) the total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with Section 23 of these Principles; and
- (b) liabilities included in disposal groups classified as held for sale in accordance with Section 23.

4.15 An entity shall present additional line items, headings and subtotals on the face of the balance sheet when such presentation is relevant to an understanding of the entity's financial position. Additional line items are also included when the size, nature or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of the entity's financial position. The judgment on whether additional items are presented separately is based on an assessment of:

- (a) the nature and liquidity of assets;
- (b) the function of assets within the entity; and
- (c) the amounts, nature and timing of liabilities.

4.16 An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its balance sheet in accordance with paragraphs 4.17 and 4.18, except when a presentation based on liquidity provides information that is reliable and more relevant. When this applies, all assets and liabilities shall be presented in order of approximate liquidity.

4.17 An entity shall classify an asset as current when:

- (a) it expects to realise the asset, or intends to sell or consume it, in the entity's normal operating cycle;
- (b) it holds the asset primarily for the purpose of trading;
- (c) it expects to realise the asset within twelve months after the end of the reporting period; or
- (d) the asset is cash or a cash equivalent, unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the end of the reporting period.

An entity shall classify all other assets as non-current. When the entity's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months.

4.18 An entity shall classify a liability as current when:

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

An entity shall classify all other liabilities as non-current.

4.19 Where an asset or liability relates to more than one layout item, its relationship to other items shall be disclosed either under the item where it appears or in the notes to the financial statements.

Income statement

4.20 All items of income and expense recognised in the financial statements for the period shall be included in the income statement, unless these are specifically permitted or required to be taken directly to reserves.

These Principles provide different treatment for the following, amongst others:

- (a) the effects of corrections of errors and changes in accounting policies are presented as adjustments of prior periods in accordance with Section 5 rather than as part of profit or loss in the period in which they arise; and
- (b) revaluation surpluses (see Section 7) and some gains and losses arising on translating the financial statements of a foreign operation (see Section 18) are reported directly in equity, rather than as part of profit or loss, when they arise.

4.21 In relation to the income statement, an entity may adopt one of the layouts set out in this Section. The items prescribed in paragraph 4.22 shall be shown separately on the face of the income statement, in the order indicated. Items preceded by Arabic numerals may be combined when they are immaterial for the purposes of the financial statements giving a true and fair view, or such combination makes for greater clarity, in which latter case the items combined are dealt with separately in the notes. The layout, nomenclature and terminology of items in the income statement that are preceded by Arabic numerals may be amended according to the nature of the entity and its transactions to provide information that is relevant to an understanding of the entity's financial performance.

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

The 'function of expense' method classifies expenses according to their function as part of cost of sales or, for example, the costs of distribution or administrative activities. An entity that adopts a classification using the 'function of expense' method presents the following items (which may be combined or amended as appropriate in accordance with paragraph 4.21 of these Principles):

1. Revenue
2. Cost of sales (after taking into account any necessary provisions for depreciation, amortisation and impairment of assets)
3. Gross profit or loss
4. Distribution costs (after taking into account any necessary provisions for depreciation, amortisation and impairment of assets)
5. Administrative expenses (after taking into account any necessary provisions for depreciation, amortisation and impairment of assets)
6. Other operating income
7. Income from shares in subsidiaries, associates and jointly controlled entities accounted for under the cost method and recognised in accordance with paragraph 10.13 (with a separate indication of that derived from subsidiaries)
8. Share of profit or loss of subsidiaries, associates and jointly controlled entities accounted for under the equity method and recognised in accordance with paragraph 10.17 (with a separate indication of that derived from subsidiaries)

9. Income from other investments (with as separate indication of that derived from subsidiaries)
10. Other interest receivable and similar income (with a separate indication of that derived from subsidiaries)
11. Adjustments to the carrying amounts of other investments held as current assets
12. Interest payable and similar charges (with a separate indication of the amount payable to the subsidiaries);
13. Profit or loss before tax for the period and, or year;
14. Tax on profit or loss before tax;
15. Profit or loss after tax for the period and, or year

The 'nature of expense' method aggregates expenses in the income statement according to their nature (for example, depreciation, purchases of materials, transport costs, employee benefits and advertising costs), and are not reallocated among various functions within the entity. An entity that adopts a classification using the 'nature of expense' method presents the following items (which may be combined or amended as appropriate in accordance with paragraph 4.21 of these Principles):

1. Revenue
2. Changes in inventories of finished goods and work in progress
3. Work performed by the entity for its own purposes and capitalised.
4. (a) Raw materials and consumables used
- 4 (b) Other external expenses
5. Staff costs
 - (a) wages and salaries;
 - (b) social security costs, with a separate indication of those relating to pensions.
6. Depreciation, amortisation and impairment
7. Other operating expenses
8. Other operating income
9. Income from shares in subsidiaries, associates and jointly controlled entities accounted for under the cost method and recognised in accordance with paragraph 10.13 (with a separate indication of that derived from subsidiaries)
10. Share of profit or loss of subsidiaries, associates and jointly controlled entities accounted for under the equity method and recognised in accordance with paragraph 10.17 (with a separate indication of that derived from subsidiaries)
11. Income from other investments (with as separate indication of that derived from subsidiaries)
12. Other interest receivable and similar income (with a separate indication of that derived from subsidiaries)
13. Adjustments to the carrying amounts of other investments held as current assets
14. Interest payable and similar charges (with a separate indication of the

amount payable to subsidiaries)

15. Tax on profit or loss before tax
16. Profit or loss after tax
17. Profit or loss for the period / year

4.23 If an entity prepares consolidated financial statements, it shall disclose separately the following items on the face of the income statement as allocations of profit or loss for the period:

- (a) profit or loss attributable to minority interest; and
- (b) profit or loss attributable to equity holders of the parent.

4.24 An entity shall present additional line items, headings and subtotals on the face of the income statement when such presentation is relevant to an understanding of the entity's financial performance.

4.25 An entity shall disclose separately, either on the face of the income statement or in the notes, the amount and nature of individual items of income or expenditure which are of exceptional size or incidence, such as:

- (a) write-downs of inventories to net realisable value, and the reversal of such write-downs;
- (b) write-downs of property, plant and equipment to recoverable amount, and the reversal of such write-downs;
- (c) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;
- (d) disposals of items of property, plant and equipment;
- (e) disposals of investment property;
- (f) disposals of investments;
- (g) litigation settlements; and
- (h) the reversal of other provisions:

Provided that if an entity elects not to deliver to the Registrar its profit and loss account in terms of the first proviso of sub-article (2) of article 183 of the Companies Act, this disclosure shall be made at least in the notes.

4.26 An entity shall disclose the average number of employees during the financial year (as determined in accordance with paragraph (c) of sub-regulation (2) of regulation 5 of these regulations).

Income statement - Additional disclosures for medium-sized entities

4.27 Medium-sized entities classifying expenses by function shall disclose the amounts of depreciation and amortisation expense (if not disclosed elsewhere), and employee benefits expense (analysed into wages and salaries, social security costs and pension costs), recognised in the income statement for the period.

4.28 In addition to the disclosure required in paragraph 4.26, medium-sized entities shall also disclose the average number of employees during the financial year broken down by categories.

4.29 Medium-sized entities shall disclose the remuneration of the entity's auditors, including sums paid in respect of expenses, in a note to the financial statements.

Statement of changes in equity

4.30 In addition to the statements required in paragraph 4.1, medium-sized entities shall prepare a statement of changes in equity.

4.31 The statement of changes in equity presents a medium-sized entity's profit or loss for a period, items of income and expense recognised directly in equity for the period, the effects of changes in accounting policies and corrections of errors recognised in the period, and the amounts of investments by, and dividends and other distributions to, equity holders during the period.

4.32 A medium-sized entity presenting a statement of changes in equity shall show on the face of the statement:

- (a) the profit or loss for the period;
- (b) each item of income or expense for the period that, as required by these Principles, is credited or charged directly in equity, and the total of these items;
- (c) total income and expense for the period (calculated as the sum of (a) and (b)), showing separately the total amounts attributable to equity holders of the parent and to minority interest;
- (d) for each component of equity, the effects of changes in accounting policies and corrections of prior period errors;
- (e) the amounts of investments by, and dividends and other distributions to, equity holders;
- (f) the balance of retained earnings at the beginning of the period and at the end of the reporting period, and the changes during the period; and
- (g) a reconciliation between the carrying amount of each class of contributed equity and each reserve at the beginning and the end of the period.

Statement of cash flows

4.33 In addition to the statements required in paragraph 4.1, medium-sized entities shall prepare a statement of cash flows.

4.34 The statement of cash flows provides information about the historical changes in cash and cash equivalents of an entity, showing separately changes during the period from operating, investing and financing activities. Cash is taken as "cash held at call with banks and in hand". Cash equivalents are held to meet short-term cash commitments rather than for investment or other purposes. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Bank overdrafts are normally considered financing activities similar to borrowings. However, if they are repayable on demand and form an integral part of an entity's cash management, bank overdrafts are a component of cash and cash equivalents.

4.35 A medium-sized entity shall present a statement of cash flows that reports cash flows for a period classified by operating activities, investing activities and financing activities.

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

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

4.37 Under the direct method, information about major classes of gross cash receipts and gross cash payments may be obtained either:

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

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

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

4.39 Cash flows arising from investing activities represent expenditures made for resources intended to generate future income and cash flows related to the acquisition and disposal of non-current assets and other investments not included in cash equivalents.

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

4.41 An entity shall report separately major classes of 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 or other business units shall be presented separately and classified as investing activities.

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

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

4.44 A medium-sized entity shall disclose the components of cash and cash equivalents and shall present a reconciliation of the amounts reported in the statement of cash flows to the equivalent items reported in the balance sheet.

4.45 A medium-sized entity shall exclude from the statement of cash flows, investing and financing transactions that do not require the use of cash or cash equivalents. An entity shall disclose such transactions elsewhere in the financial

statements in a way that provides all the relevant information about these investing and financing activities.

Notes to the financial statements

4.46 The notes, which form an integral part of the financial statements, shall:

- (a) present information about the basis of preparation of the financial statements and the specific accounting policies used;
- (b) disclose:
 - (i) the information required by these Principles that is not presented on the face of the balance sheet, income statement, statement of changes in equity (if applicable), or statement of cash flows (if applicable); and
 - (ii) all the disclosures required by the respective Sections of these Principles; and
- (c) provide additional information that is not presented on the face of the balance sheet, income statement, statement of changes in equity (if applicable) or statement of cash flows (if applicable) but is relevant to an understanding of any of them.

4.47 Notes shall, as far as practicable and applicable, be presented in a systematic manner. Each item on the face of the balance sheet, income statement, statement of changes in equity (if applicable) and statement of cash flows (if applicable) shall be cross-referenced to any related information in the notes.

4.48 Notes are normally presented in the following order:

- (a) a statement that the financial statements have been prepared in compliance with these Principles;
- (b) a summary of significant accounting policies applied;
- (c) supporting information for items presented on the face of the balance sheet, income statement, statement of changes in equity (if applicable) and statement of cash flows (if applicable), in the order in which each statement and each line item is presented; and
- (d) other disclosures as required by these Principles.

Section 5: Accounting policies, estimates and errors

5.1 Accounting policies are those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements through recognising, selecting measurement bases for, and presenting assets, liabilities, income, expenses and changes to equity. Accounting policies define the process whereby transactions and other events are reflected in the financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an asset or an expense is to be recognised; the basis on which it is to be measured; and where in the income statement or balance sheet it is to be presented.

5.2 A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors. Examples of estimates include those required of:

- (a) bad debts;

- (b) inventory obsolescence;
- (c) the useful lives of, or expected pattern of consumption (depreciation method) of the future economic benefits embodied in, depreciable assets.

5.3 Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that was available when the financial statements for those periods were authorised for issue, and that information could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements. Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Accounting policies

5.4 When a Section of these Principles specifically applies to a transaction, event or condition, the accounting policy or policies applied to that item shall be determined by applying the relevant Section. In the absence of a Section in these Principles that specifically applies to a transaction, event or condition, management shall use its judgement in developing and applying an accounting policy that results in information that is:

- (a) relevant to the economic decision-making needs of users; and
- (b) reliable, in that the financial statements:
 - (i) represent faithfully the financial position, financial performance and cash flows of the entity;
 - (ii) reflect the economic substance of the transactions, other events and conditions, and not merely their legal form;
 - (iii) are neutral, i.e. free from bias;
 - (iv) are prudent; and
 - (v) are complete in all material respects.

5.5 In making the judgement described in the preceding paragraph, management shall refer to, and consider the applicability of, the following sources in descending order:

- (a) the requirements and guidance in these Principles dealing with similar and related issues;
- (b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in paragraphs 3.21 – 3.35 and paragraph 3.39 of Section 3 of these Principles; and
- (c) the requirements and guidance in generally accepted accounting principles and practice dealing with similar and related issues.

If additional guidance is needed to make the judgement described in the preceding paragraph, management may also consider the most recent pronouncements of standard-setting bodies that use a conceptual framework to develop accounting standards that is similar to that used in the development of generally accepted accounting principles and practice, other accounting literature and accepted industry practices, to the extent that these do not conflict with the requirements and guidance in these Principles.

5.6 An entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions. Where GAPSME permits a choice of accounting policy for categories of transactions, events and conditions, an entity

shall select the policy that is most appropriate to its particular circumstances for the purpose of giving a true and fair view, taking account of the objectives of relevance, reliability, comparability and understandability, and shall apply that policy consistently to each such category of transactions, events and conditions.

5.7 An entity shall change an accounting policy only if the change:

- (a) is required by these Principles; or
- (b) results in the financial statements providing reliable and more relevant information about the effects of transactions, events or conditions on the entity's financial position, financial performance or cash flows.

5.8 The initial application of a policy to revalue assets in accordance with Section 7 and Section 8, is a change in an accounting policy to be dealt with in accordance with the requirements of the relevant Section, rather than in accordance with this Section.

5.9 An entity shall account for all changes in accounting policy retrospectively. When a change in accounting policy is applied retrospectively, the entity adjusts the opening balance of each affected component of equity for the earliest prior period presented, and the other comparative amounts disclosed for each prior period presented, as if the new accounting policy had always been applied. When it is impracticable to determine the period-specific effects of changing an accounting policy on comparative information for one or more prior periods presented, the entity shall apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable, which may be the current period, and shall make a corresponding adjustment to the opening balance of each affected component of equity for that period.

5.10 In addition to the disclosures on accounting policies required by Section 4 of these Principles, an entity shall also disclose the following information:

- (a) the measurement basis (or bases) used in preparing the financial statements;
- (b) the accounting policy the entity has chosen whenever GAPSME allows an accounting policy choice for a category of transaction, event or condition;
- (c) the other accounting policies used that are relevant to an understanding of the financial statements; and
- (d) whenever there has been a change in accounting policy that has an effect on the current period or any prior period, or might have an effect on future periods, the entity shall also disclose the following information:
 - (i) the nature of the change in accounting policy and, if applicable, the title of the Section of these Principles that requires the change in accounting policy;
 - (ii) unless the change in accounting policy is required by these Principles, the reasons why applying the new accounting policy provides reliable and more relevant information;
 - (iii) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;
 - (iv) the amount of the adjustment relating to periods before those

- presented, to the extent practicable; and
- (v) an explanation if it is impracticable to determine the amounts to be disclosed in (iii) or (iv) above.

Financial statements of subsequent periods need not repeat these disclosures.

Changes in accounting estimates

5.11 An entity shall recognise the effect of a change in an accounting estimate prospectively by including it in profit or loss in:

- (a) the period of the change, if the change affects that period only; or
- (b) the period of the change and future periods, if the change affects both.

5.12 To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of equity, it shall be recognised by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.

5.13 An entity shall disclose the nature and amount of a change in an accounting estimate that has a significant effect in the current period or is expected to have a significant effect in future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect.

Correction of prior period errors

5.14 To the extent practicable, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after its discovery by:

- (a) restating the comparative amounts for the prior period presented in which the error occurred; or
- (b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

5.15 An entity shall disclose the following about prior period errors:

- (a) the nature of the prior period error;
- (b) for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;
- (c) in the circumstances described in paragraph 5.14(b), the amount of the correction at the beginning of the earliest prior period presented; and
- (d) if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

Financial statements of subsequent periods need not repeat these disclosures.

Section 6: Revenue and construction contracts

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

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

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

For avoidance of doubt, this provision is deemed to compliment and not modify the definition of "revenue" set out in regulation 5(2)(b).

6.2 This Section shall also be applied in accounting for construction contracts in the financial statements of contractors. A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use. Because of the nature of the activity undertaken in construction contracts, the date at which the contract activity is entered into and the date when the activity is completed usually fall into different accounting periods. This Section lays down principles for determining when contract revenue and contract costs should be recognised as revenue and expenses in the income statement.

Measurement of revenue

6.3 An entity shall measure revenue at the fair value of the consideration received or receivable. The fair value of the consideration received or receivable excludes the amount of any trade discounts and volume rebates allowed by the entity.

6.4 An entity shall include in revenue only the gross inflows of economic benefits received and receivable by the entity on its own account. An entity shall therefore exclude from revenue all amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes. Similarly, in an agency relationship, the gross inflows of economic benefits exclude amounts collected on behalf of the principal and which do not result in increases in equity for the entity. The amounts collected on behalf of the principal are not revenue. Instead, revenue is the amount of commission.

6.5 In most cases, the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. However, when the inflow of cash or cash equivalents is deferred, and the arrangement constitutes in substance a financing transaction, the fair value of the consideration is the present value of all future receipts determined using an imputed rate of interest. An entity shall recognise the difference between the present value of all future receipts and the nominal amount of the consideration as interest revenue.

Sale of goods

6.6 An entity shall recognise revenue from the sale of goods when all the following conditions are satisfied:

- (a) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods;
- (b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- (c) the amount of revenue can be measured reliably;
- (d) it is probable that the economic benefits associated with the transaction will flow to the entity; and

- (e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

6.7 When the outcome of a transaction involving the rendering of services can be estimated reliably, an entity shall recognise revenue associated with the transaction by reference to the stage of completion of the transaction at the end of the reporting period (sometimes referred to as the percentage of completion method) and paragraph 6.13 of these Principles shall apply in that regard. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

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

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

Interest, royalties, rent and dividends

6.9 An entity shall recognise revenue arising from the use by others of entity assets yielding interest, royalties, rent and dividends on the bases set out in paragraph 6.10 when:

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

6.10 An entity shall recognise revenue on the following bases:

- (a) interest shall be recognised on an accrual or time proportion basis;
- (b) royalties shall be recognised on an accrual basis in accordance with the substance of the relevant agreement;
- (c) dividends shall be recognised when the shareholder's right to receive payment is established; and
- (d) taking into account the provisions of Section 14 of these Principles, rent shall be recognised on an accrual basis in accordance with the substance of the relevant agreement.

Construction contracts

6.11 When the outcome of a construction contract can be estimated reliably, an entity shall recognise contract revenue and contract costs associated with the construction contract as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of the reporting period (often referred to as the percentage of completion method). Reliable estimation of the outcome requires reliable estimates of the stage of completion, future costs and collectability of billings.

6.12 An entity shall review and, when necessary, revise the estimates of revenue and costs as the service transaction or construction contract progresses.

6.13 An entity shall determine the stage of completion of a transaction or

contract using the method that measures most reliably the work performed. Possible methods include:

- (a) the proportion that costs incurred for work performed to date bear to the estimated total costs. Costs incurred for work performed to date do not include:
 - (i) costs relating to future activity on the contract, such as costs of material that have been delivered to a contract site or set aside for use in a contract but not yet installed, used or applied during contract performance, unless the materials have been made specially for the contract; and
 - (ii) prepayments, such as payments made to subcontractors in advance of work performed under the subcontract;
- (b) surveys of work performed; or
- (c) completion of a physical proportion of the service transaction or contract work.

Progress payments and advances received from customers often do not reflect the work performed.

6.14 An entity shall recognise costs that relate to future activity on the transaction or contract, such as for materials or prepayments, as an asset if it is probable that the costs will be recovered. Such costs represent an amount due from the customer and are classified as work in progress.

6.15 An entity shall recognise as an expense immediately any costs that are not probable of being recovered.

6.16 When the outcome of a construction contract cannot be estimated reliably:

- (a) an entity shall recognise revenue only to the extent of contract costs incurred that it is probable will be recoverable; and
- (b) the entity shall recognise contract costs as an expense in the period in which they are incurred.

6.17 When it is probable that total contract costs will exceed total contract revenue on a construction contract, the expected loss shall be recognised as an expense immediately.

6.18 If the collectability of an amount already recognised as contract revenue is no longer probable, the entity shall recognise the uncollectible amount as an expense rather than as an adjustment of the amount of contract revenue.

6.19 An entity shall present:

- (a) the gross amount due from customers for contract work as an asset; and
- (b) the gross amount due to customers for contract work as a liability.

6.20 The gross amount due from customers for contract work is the net amount of (i) costs incurred plus recognised profits, less (ii) the sum of recognised losses and progress billings for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings.

6.21 The gross amount due to customers for contract work is the net amount of (i) costs incurred plus recognised profits, less (ii) the sum of recognised losses and progress billings for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

Revenue - disclosures

6.22 An entity shall disclose the accounting policies adopted for the recognition of revenue, including the methods adopted to determine:

- (a) the stage of completion of transactions involving the rendering of services;
- (b) the contract revenue recognised in the period; and
- (c) the stage of completion of contracts in progress.

Revenue - Additional disclosures for medium-sized entities

6.23 In addition to the disclosure in paragraph 6.22, a medium-sized entity shall also disclose the amount of each category of revenue recognised during the period, including revenue arising from:

- (a) the sale of goods;
- (b) the rendering of services;
- (c) interest;
- (d) royalties;
- (e) rent; and
- (f) dividends.

Construction contracts - Additional disclosures for medium-sized entities

6.24 In addition to the disclosures required in paragraph 6.23, a medium-sized entity shall also disclose the amount of contract revenue recognised as revenue in the period.

6.25 A medium-sized entity shall disclose each of the following for contracts in progress at the balance sheet date:

- (a) the aggregate amount of costs incurred and recognised profits (less recognised losses) to date;
- (b) the amount of advances received; and
- (c) the amount of retentions.

6.26 Retentions are amounts of progress billings that are not paid until the satisfaction of conditions specified in the contract for the payment of such amounts or until defects have been rectified. Progress billings are amounts billed for work performed on a contract whether or not they have been paid by the customer. Advances are amounts received by the contractor before the related work is performed.

Section 7: Property, plant and equipment

7.1 Property, plant and equipment are tangible assets that:

- (a) are held for use in the production or supply of goods or services, for rental to others (unless they meet the definition of investment property in paragraph 8.1), or for administrative purposes; and
- (b) are expected to be used during more than one period.

Recognition

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

- (a) it is probable that future economic benefits associated with the item will flow to the entity; and

- (b) the cost of the item can be measured reliably.

Measurement at recognition

7.3 An entity shall measure an item of property, plant and equipment at initial recognition at its cost.

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

- (a) its purchase price, including legal and brokerage fees, import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- (b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. These can include staff costs arising directly from the construction or acquisition of the item of property, plant and equipment, the costs of site preparation, initial delivery and handling, installation and assembly, and testing of functionality; and
- (c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

The cost of a self-constructed asset is determined using the same principles as for an acquired asset.

7.5 Subsequent expenditure shall be capitalised as part of the cost of property, plant and equipment only if:

- (a) it enhances the economic benefits of an asset in excess of the previously assessed standard of performance (i.e. if it is an 'improvement'); or
- (b) it replaces or restores a component that has been separately depreciated over its useful life.

Otherwise it shall be recognised in the income statement as it is incurred.

7.6 An entity may adopt an accounting policy of capitalising finance costs (such as interest). Where such a policy is adopted, only those finance costs that are directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalised as part of the cost of that asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use. The total amount of finance costs capitalised during a period shall not exceed the total amount of finance costs incurred during that period.

7.7 Capitalisation of directly attributable costs, including finance costs, shall be suspended during extended periods in which active development is interrupted. Recognition of such costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management, even if the asset has not yet been brought into use.

Measurement after recognition

7.8 A class of property, plant and equipment is a grouping of assets of a similar nature and use in an entity's operations.

7.9 An entity shall account for all items in the same class of property, plant and equipment (i.e. having a similar nature, function or use in the business) after initial recognition using either:

- (a) the cost model in paragraph 7.10; or
- (b) the revaluation model in paragraphs 7.11 - 7.19.

7.10 Under the cost model, an entity shall measure an item of property, plant and equipment at cost less any accumulated depreciation and any accumulated impairment losses.

7.11 Under the revaluation model, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

7.12 Where an item of property, plant and equipment is revalued all items in the same class shall be revalued, but a policy of revaluation need not be applied to all classes of property, plant and equipment.

7.13 The fair value of land and buildings is usually determined from market-based evidence by appraisal that is normally undertaken by professionally qualified valuers. The fair value of items of plant and equipment is usually their market value determined by appraisal.

7.14 If there is no market-based evidence of fair value because of the specialised nature of the item of property, plant and equipment and the item is rarely sold, except as part of a continuing business, an entity may need to estimate fair value using an income or a depreciated replacement cost approach.

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

7.16 Gains and losses arising on the revaluation of assets shall be recognised in an equity reserve, net of any attributable taxation element.

7.17 If an asset's carrying amount is increased as a result of a revaluation, the increase shall be credited directly to an equity reserve. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss in accordance with paragraph 7.18.

7.18 If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall be debited directly to an equity reserve to the extent of any credit balance existing in that reserve in respect of that asset.

7.19 The revaluation surplus included in an equity reserve in respect of an item of property, plant and equipment may be transferred directly to retained earnings (not through profit or loss) when the asset is derecognised. This may involve transferring the whole of the surplus when the asset is retired or disposed of. However, some of the surplus may be transferred as the asset is used by an entity. In

such a case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Depreciation

7.20 The cost (or revalued amount) less estimated residual value of an item of property, plant and equipment shall be depreciated on a systematic basis over the asset's useful life. An entity shall select a depreciation method that reflects the pattern in which it expects to consume the asset's future economic benefits. The possible depreciation methods include the straight-line method.

7.21 Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) and the date that the asset is derecognised. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

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

7.23 Where an item of property, plant and equipment comprises two or more major components with substantially different useful lives, each component shall be accounted for separately for depreciation purposes and depreciated over its individual useful life. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. With certain exceptions, such as sites used for extractive purposes or landfill, land has an unlimited life and therefore is not depreciated.

7.24 The useful lives and residual values of property, plant and equipment shall be reviewed regularly and, when necessary, revised. On revision, the carrying amount of the item of property, plant and equipment at the date of revision, less the revised residual value, shall be depreciated over the revised remaining useful life. Such a change shall be accounted for as a change in an accounting estimate in accordance with Section 5 of these Principles.

7.25 An entity shall review the depreciation method regularly. If there has been a significant change in the pattern in which the entity expects to consume the asset's future economic benefits, the entity shall change the method to reflect the new pattern. A change from one method of providing depreciation to another is permissible only on the grounds that the new method will give a fairer presentation of the results and of the financial position. Such a change does not, however, constitute a change of accounting policy; the carrying amount of the item of property, plant and equipment is depreciated using the revised method over the remaining useful life, beginning in the period in which the change is made. A change in the depreciation method shall be accounted for as a change in an accounting estimate in accordance with Section 5 of these Principles.

Impairment

7.26 To determine whether an item of property, plant and equipment is impaired, an entity applies Section 12 of these Principles. That Section explains how an entity reviews the carrying amount of its assets, how it determines the recoverable amount of an asset, and when it recognises, or reverses the recognition of, an impairment loss.

Disclosure

7.27 An entity shall disclose, for each class of property, plant and equipment:

- (a) the measurement bases used for determining the gross carrying amount;
- (b) the depreciation methods used;
- (c) the useful lives or the depreciation rates used;
- (d) where material, the financial effect of a change during the period in either the estimate of useful lives or the estimate of residual values;
- (e) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and
- (f) having regard to paragraph 4.8(a) of these Principles, for each class of property, plant and equipment, a reconciliation of the carrying amount at the beginning and end of the period showing:
 - (i) additions (reflecting additions resulting from business combinations);
 - (ii) disposals;
 - (iii) transfers (reflecting transfers to assets classified as held for sale or included in a disposal group classified as held for sale in accordance with section 23 of the Principles);
 - (iv) revaluation gains and losses;
 - (v) impairment losses recognised or reversed in profit or loss in accordance with Section 12 of these Principles;
 - (vi) depreciation;
 - (vii) accumulated depreciation and impairment losses released on disposal and transfers;
 - (viii) the net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency (see Section 18 of these Principles); and
 - (ix) other changes.

7.28 Where there has been a change in the depreciation method used, the effect, if material, shall be disclosed in the period of change. The reason for the change shall also be disclosed.

7.29 Where applicable, the notes shall disclose (i) the fact that finance costs are incurred in determining the cost of the assets, and (ii) the amount of finance costs so capitalised.

7.30 Where property, plant and equipment have been revalued an entity shall disclose:

- (a) a table in the notes showing movements in the revaluation reserve in the financial year, with an explanation of the tax treatment of items therein, with disclosure of the treatment for taxation purposes of amounts debited or credited to equity;
- (b) the comparable amounts determined under the cost model (i.e. the aggregate historical cost amount, less accumulated depreciation, that would have been included had the assets not been revalued, reflecting any write-downs to recoverable amount that would have been necessary);
- (c) the bases of the valuation, including the significant assumptions underlying the valuation models and techniques.

7.31 Entities shall disclose:

- (a) the amount of property, plant and equipment pledged as security for liabilities; and
- (b) the amount of contractual commitments for the acquisition of property, plant and equipment (however authorised but not contracted commitments should also be reflected).

Additional disclosures for medium-sized entities

7.32 In respect of the reconciliation referred to in paragraph 7.27(f), in addition to the items mentioned therein, and having regard to paragraph 4.8(a) of these Principles, a medium-sized entity shall also disclose:

- (a) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with Section 23 of these Principles; and
- (b) additions resulting from business combinations.

7.33 Where items of property, plant and equipment were revalued, the year in which they were revalued shall be disclosed. When an item of property, plant and equipment was revalued during the financial year to which the financial statements relate, in addition to the disclosures referred to in paragraph 7.30, a medium-sized entity shall also disclose in those financial statements:

- (a) the effect of any revaluation made during the year; and
- (b) whether an independent valuer was involved.

Section 8: Investment property

8.1 Investment property is property (land or a building, or part of a building, or both) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both, rather than for:

- (a) use in the production or supply of goods or services or for administrative purposes (hence covered by the definition of property, plant and equipment under Section 7 of these Principles and accounted for in accordance with the provisions of that Section); or
- (b) sale in the ordinary course of business (hence covered by the definition of inventories under Section 15 of these Principles and accounted for in accordance with the provisions of that Section).

Recognition

8.2 Investment property shall be recognised as an asset when, and only when:

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

Measurement at recognition

8.3 An entity shall measure investment property at its cost at initial recognition. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure such as legal and professional fees, property transfer taxes and other transaction costs. The cost of a self-constructed investment property is its cost at the date when the construction or development is complete. Until that date an entity shall apply the measurement principles in Section 7 of these Principles.

Measurement after recognition

8.4 After initial recognition, an entity shall choose as its accounting policy either the cost model in paragraph 8.5, or the fair value model in paragraphs 8.6 - 8.10, and shall apply that policy to all of its investment property.

8.5 An entity that chooses the cost model shall measure all of its investment property after initial recognition at cost less any accumulated depreciation and any accumulated impairment losses and shall account for all of its investment property by applying the principles for property, plant and equipment measured under the cost model in accordance with the requirements of paragraph 7.10 and paragraphs 7.20 - 7.25 of Section 7 of these Principles. To determine whether an investment property is impaired, an entity applies Section 12 of these Principles. That Section explains how an entity reviews the carrying amount of its assets, how it determines the recoverable amount of an asset, and when it recognises, or reverses the recognition of, an impairment loss.

8.6 An entity that chooses the fair value model shall measure all of its investment property after initial recognition at fair value less any accumulated depreciation.

8.7 The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition and subject to similar lease and other contracts. In the absence of current prices in an active market, an entity considers information from a variety of sources, including:

- (a) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;
- (b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
- (c) discounted cash flow projections based on reliable estimates of future cash flows and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

8.8 If, in exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property following the completion of construction or development, or after a change of use) that the fair value of the investment property is not reliably determinable on a continuing basis, an entity shall measure that investment property using the cost model in paragraph 8.5 and the residual value of that investment property shall be assumed to be zero. The fair value of an investment property is not reliably determinable on a continuing basis when, and only when, comparable market transactions are infrequent and alternative reliable estimates of fair value are not available. An entity may nevertheless measure all its other investment property using the fair value model.

8.9 Paragraphs 7.15 - 7.19 and paragraphs 7.20 - 7.25 of Section 7 of these Principles shall also apply to investment property measured under the fair value model.

8.10 Upon first-time adoption of GAPSME an entity shall transfer any fair value gains on an item of investment property, previously recognised in profit or loss and standing to the credit of retained earnings or another reserve in accordance with another financial reporting framework, to a separate component of equity.

Transfers

8.11 If an item of property, plant and equipment becomes an investment property, and the entity will account for the investment property under the fair value model, any difference between the asset's carrying amount and its fair value at the date when it becomes an investment property shall be treated in the same way as a revaluation in accordance with Section 7 of these Principles.

8.12 If a property held as inventories, or a completed self-constructed property, becomes an investment property, and the entity will account for the investment property under the fair value model, any difference between the asset's previous carrying amount and its fair value at the date when it becomes an investment property shall be recognised in a separate component of equity.

8.13 When an investment property carried at fair value is transferred to property, plant and equipment or inventories, following a change of use, the property's deemed cost for subsequent accounting in accordance with Sections 7 and 15 respectively, shall be its fair value at the date of change of use. The cumulative amount recognised in equity in respect of that investment property may be transferred to retained earnings when, and only when, the asset (property, plant and equipment or inventory) is derecognised.

Disclosure

8.14 Entities shall make the disclosures required by paragraphs 7.27 - 7.31 of Section 7 of these Principles, insofar as applicable.

8.15 Medium-sized entities shall also make the disclosures required by paragraphs 7.32 - 7.33 of Section 7 of these Principles, insofar as applicable.

Section 9: Financial assets, financial liabilities and equity

9.1 This Section does not apply to:

- (a) Investments in subsidiaries, associates and joint ventures as defined in Section 10; and
- (b) Finance leases as defined in Section 14;

9.2 A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

9.3 A financial asset is primarily any asset that is:

- (a) cash;
- (b) an equity instrument of another entity; or
- (c) a contractual right:
 - (i) to receive cash or another financial asset from another entity; or
 - (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

9.4 A financial liability is primarily any liability that is a contractual obligation:

- (a) to deliver cash or another financial asset to another entity; or
- (b) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.

9.5 A derivative is a financial instrument with all three of the following characteristics:

- (a) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract;
- (b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
- (c) it is settled at a future date.

Commodity-based contracts that give either contracting party the right to settle in cash or some other financial instrument shall be considered to be derivative financial instruments, except where such contracts:

- (a) were entered into and continue to meet the entity's expected purchase, sale or usage requirements at the time they were entered into and subsequently;
- (b) were designated as commodity-based contracts at their inception; and
- (c) are expected to be settled by delivery of the commodity.

9.6 An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

9.7 The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

9.8 The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

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

9.10 Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Definitions of categories of financial instruments

9.11 A financial asset or financial liability is classified as held for trading if:

- (a) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- (b) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- (c) it is a derivative (except for a derivative that is a designated and effective hedging instrument).

9.12 Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity other than:

- (a) those that the entity designates as available-for-sale; and
- (b) those that meet the definition of loans and receivables.

An entity shall not classify any financial assets as held to maturity if the entity has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity (more than insignificant in relation to the total amount of held-to-maturity investments) other than sales or reclassifications that:

- (a) are so close to maturity or the financial asset's call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- (b) occur after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
- (c) are attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

9.13 Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- (a) those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading; and
- (b) purchased loans and receivables that the entity upon initial recognition designates as available-for-sale.

9.14 Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as

- (a) loans and receivables;
- (b) held-to-maturity investments; or
- (c) held for trading financial assets.

Recognition

9.15 An entity shall recognise a financial asset or a financial liability in its balance sheet when, and only when, the entity becomes a party to the contractual provisions of the instrument.

Measurement of financial assets and financial liabilities at recognition

9.16 When a financial asset or financial liability is recognised initially, an entity shall measure it at its fair value, in addition to in the case of a financial asset or financial liability not classified as held for trading subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

An arrangement involving a financial asset or a financial liability constitutes, in effect, a financing transaction if payment is deferred beyond normal business terms or is financed at a rate of interest that is not a market rate. If an arrangement constitutes a financing transaction, an entity shall measure the financial asset or financial liability at initial recognition at the present value of future payments discounted at a market rate of

interest for a similar debt instrument. Accordingly, an entity shall measure all of its financial instruments at initial recognition at cost (equivalent to transaction price and fair value), comprising purchase price and for instruments that are not held for trading subsequently measured at fair value, transaction costs that are directly attributable to the acquisition of the instrument. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Measurement of financial assets after recognition

9.17 After initial recognition, an entity may measure a specific category of financial assets (excluding derivatives that are assets) at their fair values, without any deduction for transaction costs it may incur on sale or other disposal, except for the following financial assets:

- (a) loans and receivables, which shall be measured at amortised cost using the effective interest method;
- (b) held-to-maturity investments, which shall be measured at amortised cost using the effective interest method; and
- (c) investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such equity instruments, which shall be measured at cost.

Notwithstanding the above and paragraph 9.29, an entity may, at initial recognition, irrevocably designate any financial asset or any financial liability as measured at fair value through profit or loss ("FVTPL") when doing so results in more relevant information, because either:

- (i) it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- (ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis.

Provided that an entity that prepared its financial statements under the requirements of these regulations for financial years ended on or before 31st December 2022, is allowed to apply the irrevocable designation referred to above solely to financial instruments initially recognised on 1st January 2023 or thereafter.

Provided further that when pursuant to the entity's accounting policy choice, financial assets classified as held for trading and available-for-sale financial assets are not subsequently measured at fair value, each category shall be measured at cost or amortised cost using the effective interest method, whichever is applicable taking cognisance of the debt or equity nature of the instrument. For avoidance of doubt, the application of cost or amortised cost using the effective interest method is not an accounting policy choice.

Financial assets that are designated as hedged items are subject to measurement under the hedge accounting requirements. All financial assets except those classified as held for trading and subsequently measured at fair value are subject to review for impairment (*vide* paragraphs 9.21-9.28). After initial recognition, an entity shall measure derivative instruments that are assets at their fair values. The carrying amount of quoted financial assets that are classified as current assets and are not measured at fair value, shall be the lower of cost and fair value less costs to sell..

9.18 The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, an entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and other models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument or based on any available observable market data.

9.19 A gain or loss arising from a change in the fair value of a financial asset or financial liability shall be recognised, as follows:

- (a) a gain or loss on a financial asset or financial liability classified as held for trading, which is measured at fair value, shall be recognised in profit or loss;
- (b) a gain or loss on an available-for-sale financial asset, which is measured at fair value, shall be recognised directly in equity except for impairment losses and foreign exchange gains and losses until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity shall be recognised in profit or loss. However, interest calculated using the effective interest method is recognised in profit or loss. Dividends on an available-for-sale equity instrument are recognised in profit or loss when the entity's right to receive payment is established. For the purpose of recognising foreign exchange gains and losses under Section 18, a monetary available-for-sale financial asset is treated as if it were carried at amortised cost in the foreign currency. Accordingly, for such a financial asset, exchange differences resulting from changes in amortised cost are recognised in profit or loss and other changes in carrying amount are recognised in equity. For available-for-sale financial assets that are not monetary items under Section 18 (such as, equity instruments), the gain or loss that is recognised in equity includes any related foreign exchange component.

9.20 For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

Impairment of financial assets

9.21 A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

9.22 If there is objective evidence that an impairment loss on financial assets

carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (ie the effective interest rate computed at initial recognition). The amount of the loss shall be recognised in profit or loss.

9.23 If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss shall be reversed. On the date the impairment is reversed, the reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised. The amount of the reversal shall be recognised in profit or loss.

9.24 If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

9.25 When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognised.

9.26 The amount of the cumulative loss that is removed from equity and recognised in profit or loss shall be the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

9.27 Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale shall not be reversed through profit or loss.

9.28 If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

Measurement of financial liabilities after recognition

9.29 After initial recognition, an entity shall measure all financial liabilities at amortised cost using the effective interest method, except for:

- (a) financial liabilities classified as held for trading (excluding derivatives that are liabilities), which may be measured at fair value; and
- (b) derivatives that are liabilities, which shall be measured at fair value.

Financial liabilities that are designated as hedged items are subject to the hedge accounting requirements. For avoidance of doubt, when pursuant to the entity's accounting policy choice, financial liabilities classified as held for trading (excluding derivatives) are not subsequently measured at fair value, these liabilities shall be measured at amortised cost using the effective interest method.

Hedging

9.30 If there is a designated hedging relationship between a hedging instrument and a hedged item, accounting for the gain or loss on the hedging instrument and the

hedged item shall follow the rules below.

9.31 Hedging relationships are of three types:

- (a) fair value hedge: a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss;
- (b) cash flow hedge: a hedge of the exposure to variability in cash flows that (i) is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and (ii) could affect profit or loss;
- (c) hedge of a net investment in a foreign operation.

9.32 A hedging relationship qualifies for hedge accounting if, and only if, all of the following conditions are met:

- (a) At the inception of the hedge there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.
- (b) The hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship.
- (c) For cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss.
- (d) The effectiveness of the hedge can be reliably measured, ie the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured.
- (e) The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

9.33 If a fair value hedge meets the aforesaid conditions during the period, it shall be accounted for as follows:

- (a) the gain or loss from remeasuring the hedging instrument at fair value (for a derivative hedging instrument) shall be recognised in profit or loss; and
- (b) the gain or loss on the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item and be recognised in profit or loss. This applies if the hedged item is otherwise measured at cost. Recognition of the gain or loss attributable to the hedged risk in profit or loss applies if the hedged item is an available-for-sale financial asset which is measured at fair value.

9.34 If a cash flow hedge meets the aforesaid conditions during the period, it shall be accounted for as follows:

- (a) the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognised directly in equity; and
- (b) the ineffective portion of the gain or loss on the hedging instrument shall be recognised in profit or loss.

9.35 Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, shall be accounted for similarly to cash flow hedges:

- (a) the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognised directly in equity; and
- (b) the ineffective portion shall be recognised in profit or loss.

Debt/Equity classification

9.36 A financial instrument, or its component parts, shall be classified as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement rather than its legal form. Some financial instruments take the legal form of equity but are liabilities in substance and others may combine features associated with equity instruments and features associated with financial liabilities. For example a preference share that provides for mandatory redemption by the issuer for a fixed or determinable amount at a fixed or determinable future date, or gives the holder the right to require the issuer to redeem the instrument at or after a particular date for a fixed or determinable amount, is a financial liability. The entity shall assess the terms of the instrument to determine whether it contains both a liability and an equity component. Such components shall be classified separately as financial liabilities, financial assets or equity instruments in accordance with the requirements of this paragraph. The entity shall allocate the initial recognition amount between the liability and equity component by assigning to the equity component the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component in accordance with the requirements of paragraph 9.16.

9.37 Dividends relating to a financial instrument or a component that is a financial liability shall be recognised as expense in profit or loss. Distributions to holders of an equity instrument shall be debited by the entity directly to equity, net of any related income tax benefit. If an entity declares dividends after the balance sheet date, the dividends shall not be recognised as a liability at the balance sheet date.

Disclosure

9.38 For financial instruments measured at fair value an entity shall disclose in the notes, for each category of financial instrument:

- (a) the significant assumptions underlying the valuation models and techniques used, if any, in accordance with paragraph 9.18 of these Principles; and
- (b) the fair value at the balance sheet date and the changes in fair value recognised in the income statement and changes included in fair value reserves during the period in accordance with paragraph 9.39(b)(iii) and (iv).

9.39 An entity shall disclose:

- (a) its accounting policy for each category of financial instrument; and

- (b) having regard to paragraph 4.8(d) of these Principles, a reconciliation of the carrying amount of each category of instrument or investment, classified as non-current assets at the beginning and end of the period showing:
- (i) additions;
 - (ii) disposals;
 - (iii) impairment losses or reversal of impairment losses where applicable;
 - (iv) write-downs to fair value less costs to sell for quoted instruments that are classified as current assets and not measured at fair value;
 - (v) gains and losses resulting from changes in the fair value of instruments measured under the fair value through equity model, distinguishing between those recognised in equity and those recognised in profit or loss;
 - (vi) gains and losses resulting from changes in the fair value of held-for-trading investments measured under the fair value through profit or loss model, recognised in profit or loss;
 - (vii) the net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency (see Section 18 of these Principles); and
 - (viii) other changes.

Unless presented elsewhere in the financial statements, an entity shall disclose a table showing movements in fair value reserves during the financial year.

9.40 For each class of derivative financial instrument, an entity shall disclose in the notes, information about the extent and the nature of the instruments, including significant terms and conditions that may affect the amount, timing and certainty of future cash flows.

9.41 An entity shall disclose:

- (a) amounts owed by the entity becoming due and payable after more than five years; and
- (b) financial liabilities covered by valuable security furnished by the entity, together with an indication of the nature and form of the security given.

Additional disclosures for medium-sized entities

9.42 A medium-sized entity that carries quoted investments at cost or amortised cost shall disclose the market value of those investments if it is materially different from their carrying amount.

9.43 A medium-sized entity that carries unquoted non-current investments at cost or amortised cost, the carrying amount of which is in excess of their fair value, shall disclose the following:

- (a) the book value and the fair value of either the individual assets or appropriate groupings of those individual assets, and
- (b) the reasons for not reducing the book value, including the nature of the evidence underlying the assumption that the book value will be recovered.

9.44 When the fair value of an unquoted equity investment cannot be measured reliably, and that investment is hence measured at cost, an entity shall disclose that fact together with the reason why the fair value of that investment cannot be

measured reliably.

9.45 A medium-sized entity shall disclose the carrying amount of any financial assets that it has pledged as collateral for liabilities or contingent liabilities.

Equity disclosures for medium-sized entities

9.46 An entity with share capital shall disclose the following in the notes:

- (a) for each class of share capital:
 - (i) the number of shares authorised;
 - (ii) the number of shares issued and fully paid, and issued but not fully paid;
 - (iii) the nominal value, or in the absence of a nominal value the accounting par value, of the shares subscribed during the financial year;
 - (iv) a reconciliation of the number of shares outstanding at the beginning and at the end of the period showing the number allotted, their aggregate nominal value, and the consideration received by the entity during the year for the allotment;
 - (v) the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital;
 - (vi) the existence of any participation certificates, convertible debentures, warrants, options or similar securities or rights, with an indication of their number and the rights they confer;
 - (vii) shares in the entity held by the entity itself; and
 - (viii) shares reserved for issue under options and contracts for the sale of shares, including the terms and amounts.
- (b) a description of each reserve within equity; and
- (c) for any part of the allotted share capital that consists of redeemable shares:
 - (i) the earliest and latest dates on which the company has the power to redeem those shares;
 - (ii) whether those shares must be redeemed in any event or are liable to be redeemed at the option of the company or of the shareholder; and
 - (iii) whether any (and, if so, what) premium is payable on redemption.

9.47 The notes shall state:

- (a) the aggregate amounts of dividends paid in the financial year (other than those for which a liability existed at the immediately preceding balance sheet date);
- (b) the aggregate amount of dividends that the company is liable to pay at the balance sheet date; and
- (c) the aggregate amount of dividends that are proposed before the date of approval of the financial statements, and not otherwise disclosed under paragraph (a) or (b) above.

9.48 If any fixed cumulative dividends on the company's shares are in arrears, the amount of the arrears and the period for which each class of dividends is in arrears shall be disclosed.

Section 10: Investments in subsidiaries, associates and joint ventures

10.1 This Section shall be applied by an investor in accounting for its equity investments in subsidiaries, associates and joint ventures in its individual financial statements. Individual financial statements are the financial statements of the investor prepared in accordance with these Principles. Except as provided for in paragraph 22.19 of these Principles, this Section does not apply to consolidated financial statements, which are specifically covered in Section 22 of GAPSME.

10.2 Investments in entities other than subsidiaries, associates and joint ventures shall be accounted for in accordance with the requirements of Section 9 of these Principles.

Definitions

10.3 A subsidiary is an entity, including an unincorporated entity such as a partnership, which is controlled by another entity, known as the parent (also referred to as the 'investor' throughout this Section). Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Control is presumed to exist when the parent has, directly or indirectly through subsidiaries, a majority of the shareholders' voting rights of an entity unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. Control also exists when the parent owns half or less of the voting power of an entity but it:

- (a) has sole control pursuant to an agreement with other shareholders in or members of that entity (a subsidiary entity), a majority of shareholders' or members' voting rights in that entity and is at the same time a shareholder in or member of that entity;
- (b) has the right to exercise a dominant influence over an entity (a subsidiary entity); or
- (c) has the right to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body and is at the same time a shareholder in or a member of that entity.

The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by another entity, are considered when assessing whether an entity has the power to govern the financial and operating policies of another entity.

In any case, an entity is required to draw up consolidated financial statements if that entity has the power to exercise, or actually exercises, dominant influence or control over another entity.

10.4 An associate is an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the associate but is not control or joint control over those policies. If an investor holds, directly or indirectly (e.g. through subsidiaries), 20% or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds, directly or indirectly (e.g. through subsidiaries), less than 20% of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated. A substantial or majority ownership by another investor does not preclude an investor from having significant influence.

The existence of significant influence by an investor is usually evidenced in one or more of the following ways:

- (a) representation on the board of directors or equivalent governing body of the investee;
- (b) participation in policy making processes;
- (c) material transactions between the investor and the investee;
- (d) interchange of managerial personnel; or
- (e) provision of essential technical information.

The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether an entity has significant influence.

10.5 A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. The following characteristics are common to all joint ventures:

- (a) two or more venturers are bound by a contractual arrangement; and
- (b) the contractual arrangement establishes joint control.

Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers). A venturer (also referred to as the ‘investor’ throughout this Section) is a party to a joint venture and has joint control over that joint venture.

10.6 Joint ventures can take the form of jointly controlled operations, jointly controlled assets, or jointly controlled entities.

10.7 The operation of some joint ventures involves the use of the assets and other resources of the venturers rather than the establishment of a corporation, partnership or other entity or of a financial structure that is separate from the venturers themselves. Each venturer uses its own property, plant and equipment and carries its own inventories. It also incurs its own expenses and liabilities and raises its own finance, which represent its own obligations. The joint venture activities may be carried out by the venturer’s employees alongside the venturer’s similar activities. The joint venture agreement usually provides a means by which the revenue from the sale of the joint product and any expenses incurred in common are shared among the venturers. These are referred to as jointly controlled operations.

10.8 Some joint ventures involve the joint control, and often the joint ownership, by the venturers of one or more assets contributed to, or acquired for the purpose of, the joint venture and dedicated to the purposes of the joint venture. These are referred to as jointly controlled assets.

10.9 A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity.

10.10 Investments in subsidiaries, associates and jointly controlled entities are sometimes collectively referred to as “investee” throughout this Section.

Accounting for investments in subsidiaries, associates and jointly controlled entities

10.11 An investor shall initially account for all investments in subsidiaries,

associates and jointly controlled entities at cost, comprising its purchase price and any directly attributable cost.

10.12 Subsequent to initial recognition, an investor shall account for all its investments in subsidiaries, associates and jointly controlled entities, using one of the following:

- (a) the cost method in paragraphs 10.13 and 10.14; or
- (b) the equity method in paragraphs 10.15 - 10.25.

Cost method

10.13 Under the cost method, an investor shall measure all its investments in subsidiaries, associates and jointly controlled entities at cost less any accumulated impairment losses. The investor shall recognise a dividend from a subsidiary, associate or jointly controlled entity in profit or loss in its individual financial statements when its right to receive the dividend is established.

10.14 The investor shall recognise impairment in accordance with Section 12 of these Principles. In assessing whether there is an indication that an investment in a subsidiary, associate or jointly controlled entity (collectively referred to as investee) may be impaired an entity shall consider available evidence that indicates that the dividend from an investee recognised in the current financial reporting period exceeds that investee's profit for the financial reporting period in which the dividend is declared. Where applicable, an entity shall apply the guidance in paragraph 10.24 for the purposes of determining an investment's recoverable amount.

Equity method

10.15 Where an investee draws up consolidated financial statements, the equity method shall be based on the consolidated financial statements of the investee.

10.16 Investments in subsidiaries, associates or jointly controlled entities are accounted for under the equity method from the date on which they fall within the respective definition. Under the equity method, the investment is initially recognised at cost. The difference between that amount and the amount corresponding to the investor's share of the capital and reserves of the investee shall be disclosed separately in the consolidated balance sheet or in the notes to the consolidated financial statements. That difference shall be calculated as at the date on which that method is used for the first time.

10.17 The investor's share of the profit or loss of the investee is recognised in the investor's profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the subsidiary, associate or jointly controlled entity arising from changes in the investee's equity that have not been recognised in their profit or loss. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The investor's share of those changes is recognised directly in equity of the investor.

10.18 When potential voting rights exist, the investor's share of profit or loss of the investee and of changes in the investee's equity is determined on the basis of present ownership interests and does not reflect the possible exercise or conversion of potential voting rights.

10.19 If an investee uses accounting policies other than those of the investor for like transactions and events in similar circumstances, adjustments shall be made to conform the investee's accounting policies to those of the investor when the

investee's financial statements are used by the investor in applying the equity method.

10.20 Appropriate adjustments are made to the investor's share of the profits or losses after acquisition to eliminate the investor's share of the investee's unrealised profits and losses resulting from transactions between an investor and an investee.

10.21 The most recent available financial statements of the subsidiary, associate or jointly controlled entity are used by the investor in applying the equity method. When the reporting dates of the investor and the investee are different, the investee prepares, for the use of the investor, financial statements as of the same date as the financial statements of the investor unless it is impracticable to do so.

10.22 If, under the equity method, an investor's share of losses of a subsidiary, associate or jointly controlled entity equals or exceeds its interest in the investment, the investor discontinues recognising its share of further losses. The investment is reported at nil value. Thereafter, additional losses are provided for, and a liability is recognised, only to the extent that the investor has incurred legal or constructive obligations or made payments on behalf of the investee. If the subsidiary, associate or jointly controlled entity subsequently reports profits, the investor resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

10.23 After application of the equity method, including recognising the associate's losses in accordance with paragraph 10.22 the investor applies the requirements of Section 12 to determine whether it is necessary to recognise any additional impairment loss with respect to the investor's investment.

10.24 For the purposes of determining whether an investment in a subsidiary, associate or jointly controlled entity is impaired in accordance with Section 12 of these Principles, an entity shall compare the investment's recoverable amount (higher of fair value less costs to sell and value in use) with its carrying amount, whenever there is an indication that the investment may be impaired. In determining the value in use of investments in subsidiaries, associates or jointly controlled entities, an entity estimates:

- (a) its share of the present value of the estimated future cash flows expected to be generated by the investee, including the cash flows from the operations of the subsidiary, associate or jointly controlled entity and the proceeds on the ultimate disposal of the investment; or
- (b) the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Under appropriate assumptions, both methods give the same result.

10.25 An investor shall discontinue the use of the equity method from the date it ceases to have:

- (a) control over the subsidiary's financial and operating policies and does not have joint control or significant influence; or
- (b) significant influence in participating in the financial and operating policy decisions of the associate; or
- (c) joint control over a jointly controlled entity and does not have significant influence.

Accordingly the investor shall account for the investment in accordance with Section 9 of these Principles. The carrying amount of the investment at that date shall be recognised as its cost on initial measurement.

Recognition and Measurement - investments in jointly controlled operations and jointly controlled assets

10.26 In respect of its interests in jointly controlled operations, a venturer shall recognise in its financial statements:

- (a) the assets that it controls and the liabilities that it incurs; and
- (b) the expenses that it incurs and its share of the income that it earns from the sale of goods or the rendering of services by the joint venture

and shall measure assets and liabilities recognised in (a) above in accordance with the respective requirements of these Principles.

10.27 In respect of its interests in jointly controlled assets, a venturer shall recognise in its financial statements:

- (a) its share of the jointly controlled assets, classified according to the nature of the assets;
- (b) any liabilities that it has incurred;
- (c) its share of any liabilities incurred jointly with the other venturers in relation to the joint venture;
- (d) any income from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture; and
- (e) any expenses that it has incurred in respect of its interest in the joint venture

and shall measure assets and liabilities recognised in (a), (b) and (c) above in accordance with the respective requirements of these Principles.

Disclosure

10.28 An investor shall disclose its accounting policy for its investments in subsidiaries, associates and jointly controlled entities.

10.29 An entity shall disclose for investments in subsidiaries, associates and jointly controlled entities:

- (a) the gross carrying amount and the accumulated impairment losses at the beginning and end of the period; and
- (b) having regard to paragraph 4.8(a) of these Principles, a reconciliation of the carrying amount at the beginning and end of the period showing:
 - (i) additions;
 - (ii) disposals;
 - (iii) impairment losses recognised or reversed in profit or loss in accordance with Section 12 of these Principles;
 - (iv) its share of the profit or loss on investments in subsidiaries, associates and jointly controlled entities accounted for under the equity method;
 - (v) distributions received from subsidiaries, associates and jointly controlled entities accounted for under the equity method;
 - (vi) the net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency (see Section 18 of these Principles);
 - (vii) accumulated impairment losses released on disposals; and

(viii) transfers.

10.30 For investments in subsidiaries, associates and jointly controlled entities accounted for under the equity method, an investor shall present and disclose its share of the profit or loss of the investees separately on the face of the income statement.

Additional disclosures for medium-sized entities

10.31 For investments in subsidiaries, associates and jointly controlled entities accounted for under the cost method an investor shall disclose:

- (a) income received from distributions out of the investee's accumulated profits, recognised in the investor's profit or loss for the period, unless shown separately on the face of the income statement; and
- (b) the information required by Section 12 of these Principles.

10.32 An investor shall present and disclose for investments in subsidiaries, associates and jointly controlled entities accounted for under the equity method:

- (a) its share of changes recognised directly in the equity of the investee in accordance with paragraph 10.17, unless shown separately on the statement of changes in equity;
- (b) its share of the results attributable to discontinued operations;
- (c) the carrying amount of those investments;
- (d) the difference referred to in paragraph 10.16 shall be disclosed separately in the consolidated balance sheet or in the notes to the consolidated financial statements; and
- (e) the information required by Section 12 of these Principles.

10.33 A medium-sized entity that carries non-current investments in subsidiaries, associates and jointly controlled entities under the cost model, the carrying amount of which is in excess of their fair value, shall disclose the following:

- (a) the book value and the fair value of either the individual assets or appropriate groupings of those individual assets, and
- (b) the reasons for not reducing the book value, including the nature of the evidence underlying the assumption that the book value will be recovered.

10.34 For each significant subsidiary, associate and jointly controlled entity an investor, which is a medium-sized entity, shall disclose:

- (a) the name and registered office or principal place of business (if incorporated) of the entity;
- (b) the legal form of the entity;
- (c) if the entity is incorporated outside Malta, the country in which it is incorporated;
- (d) the identity and proportion of the nominal value of each class of shares held and if different, the proportion of voting power held;
- (e) the amount of capital and reserves and the profit or loss for the latest financial period for which financial statements have been prepared;
- (f) the financial reporting framework under which those financial statements have been prepared (for example International Financial Reporting Standards as adopted by the EU); and
- (g) whether those financial statements have been audited.

10.35 A medium-sized entity shall also disclose:

- (a) for subsidiaries and associates, the nature and extent of any significant restrictions on the ability of the subsidiaries and associates to transfer funds to the investor in the form of cash dividends, or repayment of loans or advances;
- (b) in respect of associates the investor shall disclose:
 - (i) its share of the contingent liabilities of an associate incurred jointly with other investors; and
 - (ii) those contingent liabilities that arise because the investor is severally liable for all or part of the liabilities of the associate.

10.36 A venturer shall disclose the aggregate amount of the following contingent liabilities, unless the probability of loss is remote, separately from the amount of other contingent liabilities:

- (a) any contingent liabilities that the venturer has incurred in relation to its interests in joint ventures and its share in each of the contingent liabilities that have been incurred jointly with other venturers;
- (b) its share of the contingent liabilities of the joint ventures themselves for which it is contingently liable; and
- (c) those contingent liabilities that arise because the venturer is contingently liable for the liabilities of the other venturers of a joint venture.

10.37 A venturer shall disclose the aggregate amount of the following commitments in respect of its interests in joint ventures separately from other commitments:

- (a) any capital commitments of the venturer in relation to its interests in joint ventures and its share in the capital commitments that have been incurred jointly with other venturers; and
- (b) its share of the capital commitments of the joint ventures themselves.

Section 11: Intangible assets other than goodwill

11.1 An intangible asset is an identifiable non-monetary asset without physical substance. Such an asset is identifiable when:

- (a) it is separable, i.e. it is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
- (b) it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations:

Provided that for the purposes of this section, cryptographic assets and tokens shall not be considered as intangible assets.

Acquired intangible assets - Recognition and Measurement at recognition

11.2 An intangible asset shall be recognised if, and only if:

- (a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- (b) the cost of the asset can be measured reliably.

11.3 An intangible asset purchased with a business shall be recognised

separately from the purchased goodwill if its fair value can be measured reliably as required by paragraph 21.7(c) of these Principles. The probability recognition criterion is always considered satisfied for intangible assets that are separately acquired. In a business combination, an acquirer recognises at the acquisition date separately from goodwill an intangible asset of the acquiree if the asset's fair value can be measured reliably, irrespective of whether the asset had been recognised by the acquiree before the business combination. Therefore, the probability recognition criterion is always considered to be satisfied for intangible assets acquired in business combinations because the effect of probability that the future economic benefits embodied in the asset will flow to the entity is reflected in the fair value measurement of the intangible asset.

11.4 An intangible asset shall be measured initially at cost. The cost of a separately acquired intangible asset comprises:

- (a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
- (b) any directly attributable cost of preparing the asset for its intended use.

If an intangible asset is acquired in a business combination, the cost of that intangible asset is its fair value at the acquisition date.

11.5 The nature of intangible assets is such that, in many cases, there are no additions to such an asset or replacements of part of it. Accordingly, most subsequent expenditures are likely to maintain the expected future economic benefits embodied in an existing intangible asset rather than meet the definition of an intangible asset and the recognition criteria in these Principles.

Internally-generated intangible assets - Recognition and Measurement at recognition

11.6 The creation of internally-generated intangible assets involves a research phase and a development phase. Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use. Expenditure on research (or on the research phase of an internal project) shall be recognised as an expense in the period in which it is incurred. An intangible asset arising from development (or from the development phase of an internal project) shall be recognised if, and only if, an entity can demonstrate all the following:

- (a) the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- (b) its intention to complete the intangible asset and use or sell it;
- (c) its ability to use or sell the intangible asset;
- (d) how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- (e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- (f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

11.7 The cost of an internally-generated intangible asset for the purpose of paragraph 11.4 is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria in paragraphs 11.2 and 11.6 of these Principles.

11.8 The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management. Examples of directly attributable costs would typically include costs of materials and services used, staff costs arising from the generation of the intangible asset and fees payable to register a legal right.

Recognition as an expense

11.9 An entity shall recognise expenditure on an intangible item as an expense when it is incurred unless it forms part of the cost of an intangible asset that meets the recognition criteria.

11.10 An entity shall recognise expenditure on the following items as an expense and shall not recognise such expenditure as intangible assets:

- (a) internally generated brands, mastheads, publishing titles, customer lists and items similar in substance;
- (b) expenditure on start-up activities (i.e. start-up costs), unless this expenditure is included in the cost of an item of property, plant and equipment. Start-up costs may consist of establishment costs such as legal and secretarial costs incurred in establishing a legal entity, expenditure to open a new facility or business (i.e. pre-opening costs) or expenditure for starting new operations or launching new products or processes (i.e. pre-operating costs);
- (c) expenditure on training activities;
- (d) expenditure on advertising and promotional activities; and
- (e) expenditure on relocating or reorganising part or all of an entity.

Intangible assets - Measurement after recognition

11.11 After initial recognition, an intangible asset shall be carried at its cost less any accumulated amortisation and any accumulated impairment losses. To determine whether an intangible asset is impaired, an entity applies Section 12. That Section explains when and how an entity reviews the carrying amount of its assets, how it determines the recoverable amount of an asset and when it recognises or reverses an impairment loss.

11.12 The cost less estimated residual value of an intangible asset shall be amortised and allocated on a systematic basis over the asset's useful life. The residual value of an intangible asset shall be assumed to be zero unless there is a commitment by a third party to purchase the asset at the end of its useful life. Amortisation shall begin when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management, and shall cease at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with Section 23 and the date that the asset is derecognised.

11.13 In exceptional cases where the useful life attributable to development costs cannot be reliably estimated, they shall be written off over a maximum period of 10 years.

11.14 The amortisation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. If that pattern

cannot be determined reliably, the straight-line method shall be used. The amortisation charge for each period shall be recognised in profit or loss unless it is included in the carrying amount of another asset.

11.15 An intangible asset's useful life and any residual value shall be reviewed regularly and, when necessary, revised. On revision, the carrying amount of the intangible asset at the date of revision, less the revised residual value, shall be amortised over the revised remaining useful life. Such a change shall be accounted for as a change in an accounting estimate in accordance with Section 5 of these Principles.

11.16 An entity shall review the amortisation method regularly. A change from one amortisation method to another is permissible only on the grounds that the new method will give a fairer presentation of the results and of the financial position. Such a change does not, however, constitute a change of accounting policy; the carrying amount of the intangible asset is amortised using the revised method over the remaining useful life, beginning in the period in which the change is made. A change in the amortisation method shall be accounted for as a change in an accounting estimate in accordance with Section 5 of these Principles.

11.17 Intangible assets shall not be revalued.

Disclosures

11.18 Entities shall disclose the following for each class of intangible assets, distinguishing between internally-generated intangible assets and other intangible assets:

- (a) the useful lives or the amortisation rates used; and
- (b) the amortisation methods used.

11.19 A class of intangible assets is a grouping of assets of a similar nature and use in an entity's operations. Examples of separate classes may include:

- (a) brand names;
- (b) mastheads and publishing titles;
- (c) computer software;
- (d) licences and franchises;
- (e) copyrights, patents and other industrial property rights, service and operating rights;
- (f) recipes, formulae, models, designs and prototypes; and
- (g) intangible assets under development.

The classes mentioned above are disaggregated (aggregated) into smaller (larger) classes if this results in more relevant information for the users of the financial statements.

11.20 An entity shall disclose, for each class of intangible assets:

- (a) the gross carrying amount and the accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the period; and
- (b) having regard to paragraph 4.8(b) of these Principles, a reconciliation of the carrying amount at the beginning and end of the period showing:
 - (i) additions (reflecting those from internal development, those acquired separately, and those acquired through a business combination);

- (ii) transfers (reflecting transfers to assets held for sale);
- (iii) disposals;
- (iv) impairment losses recognised or reversed in profit or loss in accordance with Section 12 of these Principles;
- (v) amortisation;
- (vi) accumulated amortisation and impairment losses released on disposals and transfers;
- (vii) the net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency (see Section 18 of these Principles); and
- (viii) other changes.

11.21. Section 5 of these Principles requires an entity to disclose the nature and amount of a change in an accounting estimate that has a material effect in the current period or is expected to have a material effect in subsequent periods. Such disclosure may arise from changes in:

- (a) the assessment of an intangible asset's useful life;
- (b) the amortisation method; or
- (c) residual values.

11.22 An entity shall disclose:

- (a) the existence and carrying amounts of intangible assets pledged as security for liabilities; and
- (b) the amount of contractual commitments for the acquisition of intangible assets.

Section 12: Impairment of assets

12.1 This Section shall be applied in accounting for the impairment of the following assets:

- (a) property, plant and equipment;
- (b) investment property;
- (c) intangible assets;
- (d) goodwill; and
- (e) investments in subsidiaries, associates and jointly controlled entities.

12.2 This Section does not apply to financial assets within the scope of Section 9, which contains separate provisions that prescribe when and how an impairment loss on investments or financial assets is to be determined, recognised and reversed.

Recognising and measuring an impairment loss on individual assets

12.3 An entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset.

12.4 The recoverable amount of an asset (or a group of assets) is the higher of its fair value less costs to sell and its value in use. Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. Value in use is the present value of the future cash flows expected to be derived from an asset. Estimating the value in use of an asset involves the following steps:

- (a) estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal; and
- (b) applying the appropriate discount rate to those future cash flows.

12.5 In measuring value in use an entity shall:

- (a) base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset;
- (b) base cash flow projections on the most recent financial budgets/forecasts approved by management. Such projections shall cover a maximum period of five years, unless a longer period can be justified.

12.6 To give effect to the principle in paragraph 12.4(a) an entity shall include the following when estimating future cash flows:

- (a) projections of cash inflows from the continuing use of the asset;
- (b) projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- (c) net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

12.7 To give effect to the principle in paragraph 12.4(b) an entity shall apply a pre-tax discount rate that reflects current market assessments of:

- (a) the time value of money; and
- (b) the risks specific to the asset for which the future cash flow estimates have not been adjusted.

12.8 If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss.

12.9 An impairment loss shall be recognised immediately in profit or loss, unless the asset is carried at revalued amount in accordance with another Section of these Principles (for example, in accordance with the revaluation model in Section 7). Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that other Section.

12.10 After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Recognising and measuring an impairment loss on a group of assets and goodwill

12.11 If an entity cannot estimate the recoverable amount for an individual asset, the entity shall measure the recoverable amount for the group of assets to which the asset belongs. For this purpose, recoverable amount shall be estimated for the smallest identifiable group of assets that:

- (a) generates cash inflows from continuing use that are largely independent of the cash flows from other assets or groups of assets;
- (b) includes the asset for which impairment is indicated; and
- (c) the recoverable amount of which can be estimated reliably.

For the purpose of determining the recoverable amount of a group of

assets, the principles in paragraphs 12.4 - 12.7 shall apply and any reference to 'an asset' therein shall be construed as being a reference to 'a group of assets'.

12.12 Goodwill does not generate cash flows to an entity that are independent of the cash flows of other assets. As a consequence the recoverable amount of goodwill must be derived from measurement of the recoverable amount of the larger group of assets of which the goodwill is a part.

12.13 An impairment loss shall be recognised for a group of assets (to which goodwill could have been allocated) if, and only if, the recoverable amount of the group of assets is less than its carrying amount. The impairment loss shall be allocated to reduce the carrying amount of the assets of the group in the following order:

- (a) first, to reduce the carrying amount of any goodwill allocated to the group; and
- (b) then, to the other non-cash assets of the group pro-rata on the basis of the carrying amount of each asset.

These reductions in carrying amounts shall be treated as impairment losses on individual assets and recognised accordingly.

Reversing an impairment loss

12.14 An entity shall assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset or the group of assets to which the asset belongs if an entity cannot estimate the recoverable amount for the individual asset.

12.15 An impairment loss recognised in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset shall, except as described in paragraph 12.16, be increased to its recoverable amount. That increase is a reversal of an impairment loss.

12.16 The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

12.17 A reversal of an impairment loss for an asset other than goodwill shall be recognised immediately in profit or loss, unless the asset is carried at revalued amount in accordance with another section of these Principles (for example, in accordance with the revaluation model in Section 7). Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with that other Section. A reversal of an impairment loss for a group of assets shall be allocated to the non-cash assets of the group, except for goodwill, pro-rata with the carrying amounts of those assets. These increases in carrying amounts shall be treated as reversals of impairment losses for individual assets and recognised accordingly.

12.18 After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

12.19 An impairment loss recognised for goodwill shall not be reversed in a subsequent period.

Disclosures

12.20 A medium-sized entity shall disclose the following for each class of assets:

- (a) the amount of impairment losses recognised in profit or loss during the period and the line item(s) of the income statement in which those impairment losses are included;
- (b) the amount of reversals of impairment losses recognised in profit or loss during the period and the line item(s) of the income statement in which those impairment losses are reversed;
- (c) the amount of impairment losses on revalued assets recognised directly in equity during the period; and
- (d) the amount of reversals of impairment losses on revalued assets recognised directly in equity during the period.

12.21 A medium-sized entity shall disclose the following for each material impairment loss recognised or reversed during the period for an individual asset, including goodwill (insofar as applicable), or a group of assets:

- (a) the events and circumstances that led to the recognition or reversal of the impairment loss;
- (b) the amount of the impairment loss recognised or reversed;
- (c) for an individual asset, the nature of the asset;
- (d) for a group of assets, a description of the group; and
- (e) whether the recoverable amount of the asset (group) is its fair value less costs to sell or its value in use.

12.22 A medium-sized entity shall disclose the following information for the aggregate impairment losses and the aggregate reversals of impairment losses recognised during the period for which no information is disclosed in accordance with paragraph 12.21:

- (a) the main classes of assets affected by impairment losses and the main classes of assets affected by reversals of impairment losses; and
- (b) the main events and circumstances that led to the recognition of these impairment losses and reversals of impairment losses.

12.23 Paragraphs 12.20 - 12.22 shall apply to a small entity when the amount and nature of individual items of income or expenditure emanating from the requirements of this Section are of exceptional size or incidence.

Section 13: Government grants

13.1 Government grants are assistance by government, inter-governmental agencies and similar bodies whether local, national or international, in the form of cash or transfers of assets to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. Loans at nil or low interest rate are a form of government assistance, but the benefit is not quantified by the imputation of interest, hence this benefit shall not be considered as a government grant for the scope of this Section.

Recognition

13.2 Government grants shall not be recognised until there is reasonable assurance that:

- (a) the entity will comply with the conditions attaching to them; and
- (b) the grants will be received.

13.3 Subject to paragraph 13.2, government grants shall be recognised in the income statement so as to match them with the expenditure towards which they are intended to contribute. Any grants relating to future periods shall be recognised as deferred income.

13.4 To the extent that the grant is made as a contribution towards expenditure on a non-current asset, the entity may choose to deduct the grant from the purchase price or production cost of that asset rather than recognise it in the income statement in accordance with paragraph 13.3.

13.5 Potential liabilities to repay grants either in whole or in part in specified circumstances shall be provided for only to the extent that repayment is probable. The repayment of a government grant related to income and recognised as such under paragraph 13.3 shall be accounted for by setting off the repayment against any unamortised deferred income relating to the grant. Any excess shall be charged immediately to the income statement. The repayment of a grant related to a non-current asset and recognised as such under paragraph 13.4 shall be recorded by increasing the carrying amount of the asset. The cumulative additional depreciation that would have been recognised to date as an expense in the absence of the grant shall be recognised immediately as an expense.

Disclosures

13.6 An entity shall disclose the accounting policy adopted for government grants, including an explanation of how the grant is presented in the financial statements.

Disclosures for medium-sized entities

13.7 A medium-sized entity shall disclose the following regardless of which choice it has made under paragraph 13.4:

- (a) the nature and amounts of government grants recognised in the financial statements; and
- (b) where the results of the period are affected materially by the receipt of forms of government assistance other than grants, the nature of that assistance and, to the extent that the effects on the financial statements can be measured, an estimate of those effects.

Section 14: Leases

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

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

- (a) the lease transfers ownership of the asset to the lessee by the end of the lease term;
- (b) the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;

- (c) the lease term is for the major part of the economic life of the asset even if title is not transferred;
- (d) at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- (e) the leased assets are of such a specialised nature that only the lessee can use them without major modifications.

14.3 Lease classification is made at the inception of the lease and is not changed during the term of the lease unless the lessee and the lessor agree to change the provisions of the lease (other than simply by renewing the lease), in which case the lease classification shall be re-evaluated.

14.4 The inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. The commencement of the lease term is the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease (i.e. the recognition of the assets, liabilities, income or expenses resulting from the lease, as appropriate).

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

- (a) for a lessee, any amounts guaranteed by the lessee or by a party related to the lessee; or
- (b) for a lessor, any residual value guaranteed to the lessor by:
 - (i) the lessee;
 - (ii) a party related to the lessee; or
 - (iii) a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.

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

14.7 A hire purchase contract is a contract for the hire of an asset that contains a provision giving the hirer an option to acquire legal title to the asset upon the fulfilment of certain conditions stated in the contract. Those hire purchase contracts which are of a financing nature shall be accounted for on a basis similar to that set out below for finance leases. Conversely, other hire purchase contracts shall be accounted for on a basis similar to that set out below for operating leases.

Accounting by lessees

14.8 At the commencement of the lease term, lessees shall recognise finance leases as assets and liabilities in their balance sheets at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease. The interest rate implicit in the lease is the discount rate that, at the inception of the lease, causes the aggregate present value of (a) the minimum lease payments and (b) the unguaranteed residual value to be equal to the fair value of the leased asset. Leased assets shall be recognised, initially measured and subsequently accounted for in accordance with the applicable Sections of these

Principles.

14.9 A lessee shall apportion minimum lease payments between the finance charge and the reduction of the outstanding liability. The lessee shall allocate the finance charge to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. In allocating the finance charge to periods during the lease term, a lessee may use an approximation to simplify the calculation.

14.10 The rental under an operating lease shall be charged on a straight-line basis over the lease term even if the payments are not made on such a basis, unless another systematic and rational basis is more appropriate.

14.11 Incentives to sign a lease, in whatever form they may take, shall be spread by the lessee on a straight-line basis over the lease term or, if shorter than the full lease term, over the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate.

14.12 A lessee shall depreciate an asset leased under a finance lease in accordance with paragraphs 7.20 - 7.25 of these Principles, which apply to assets held as property, plant and equipment and investment property, and paragraphs 11.12 - 11.16 which apply to intangible assets. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life. However, in the case of a hire purchase contract that has the characteristics of a finance lease the asset shall be depreciated over its useful life.

Accounting by lessors

14.13 Lessors shall recognise assets held under a finance lease in their balance sheets and present them as a receivable at an amount equal to the net investment in the lease.

14.14 Net investment in the lease is the gross investment in the lease discounted at the interest rate implicit in the lease. Gross investment in the lease is the aggregate of:

- (a) the minimum lease payments receivable by the lessor under a finance lease, and
- (b) any unguaranteed residual value accruing to the lessor.

14.15 The recognition of finance income shall be based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease, or a reasonable approximation thereto.

14.16 Unearned finance income is the difference between:

- (a) the gross investment in the lease, and
- (b) the net investment in the lease.

14.17 Rental income from an operating lease shall be recognised on a straight-line basis over the period of the lease, even if the payments are not made on such a basis, unless another systematic and rational basis is more appropriate.

14.18 An asset held for use in operating leases by a lessor shall be recorded and accounted for as property, plant and equipment in accordance with Section 7, or as investment property in accordance with Section 8, or as an intangible asset in accordance with Section 11, of these Principles according to the nature of the asset.

14.19 A manufacturer or dealer lessor shall not recognise a selling profit under an operating lease. The selling profit under a finance lease shall be restricted to the

excess of the fair value of the asset over the manufacturer's or dealer's cost less any grants receivable by the manufacturer or dealer towards the purchase, construction or use of the asset.

Sale and leaseback transactions – accounting by the seller/lessee

14.20 In a sale and leaseback transaction that results in a finance lease, any apparent profit or loss (i.e. the difference between the sale price and the previous carrying value) shall be deferred and amortised in the financial statements of the seller/lessee over the shorter of the lease term and the useful life of the asset.

14.21 In a sale and leaseback transaction that results in an operating lease:

- (a) any profit or loss shall be recognised immediately, provided it is clear that the transaction is established at fair value;
- (b) if the sale price is below fair value any profit or loss shall be recognised immediately, except that if the apparent loss is compensated for by future rentals at below market price it shall to that extent be deferred and amortised over the remainder of the lease term (or, if shorter, the period during which the reduced rentals are chargeable); or
- (c) if the sale price is above fair value, the excess over fair value shall be deferred and amortised over the shorter of the remainder of the lease term and the period to the next rent review (if any).

Sale and leaseback transactions - accounting by the buyer/lessor

14.22 A buyer/lessor shall account for a sale and leaseback in the same way as other leases are accounted for, i.e. using the methods set out in paragraphs 14.13 - 14.19.

Disclosure by lessees

14.23 In respect of operating leases, the lessee shall disclose the total of future minimum lease payments that it is committed to make.

Disclosure by lessees that are medium-sized entities

14.24 Disclosure shall be made of:

- (a) either:
 - (i) for each class of asset, the gross amounts of assets that are held under finance leases together with the related accumulated depreciation; or
 - (ii) alternatively to being shown separately from that in respect of owned assets, the information in (i) above may be integrated with it, such that the totals of gross amount, accumulated depreciation, net carrying amount and depreciation allocated for the period for each class of asset held under finance leases are included with similar amounts for owned assets. Where this alternative treatment is adopted, the net amount of assets held under finance leases and the amount of depreciation allocated for the period in respect of assets under finance leases included in the overall total shall be disclosed separately; and
- (b) the amounts of obligations related to finance leases (net of finance charges allocated to future periods). These shall be disclosed separately from other obligations and liabilities, either on the face of the balance sheet or in the notes.

14.25 In addition to the disclosure required in paragraph 14.23 in respect of

operating leases, a lessee that is a medium-sized entity shall analyse the total of future minimum lease payments that it is committed to make, into those in which the commitment expires within that year, those expiring in the second to fifth years inclusive, and those expiring over five years from the balance sheet date.

Disclosure by lessors that are medium-sized entities

14.26 Disclosure shall be made of:

- (a) the gross amounts of assets held for use in operating leases and the related accumulated depreciation charges;
- (b) the cost of assets acquired, whether by purchase or finance lease, for the purpose of letting under finance leases; and
- (c) the net investment in (i) finance leases and (ii) hire purchase contracts at each balance sheet date.

Section 15: Inventories

15.1 Inventories are assets:

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

Measurement of inventories

15.2 Inventories shall be measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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

15.4 The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase. The cost of a self-constructed inventory item is its cost at the date when the construction or development is complete. Until that date an entity shall apply Section 7 of these Principles.

15.5 The costs of conversion of inventories include costs directly related to the units of production, such as direct labour. They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. An entity shall allocate fixed production overheads to the costs of conversion based on the normal capacity of the production facilities.

15.6 Examples of costs excluded from the cost of inventories and recognised as expenses in the period in which they are incurred are:

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

(d) selling costs.

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

15.8 The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects shall be assigned by using specific identification of their individual costs. The cost of other inventories shall be assigned by using the first-in, first-out (FIFO), weighted average cost formula or a method reflecting generally accepted best practice. An entity shall use the same cost formula for all inventories having a similar nature and use to the entity.

15.9 Where inventories are constantly being replaced and their value is not material to assessing the company's state of affairs and their quantity, value and composition are not subject to material variation, they may be included at a fixed quantity and value.

Recognition as an expense

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

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

Disclosures

15.12 An entity shall disclose the accounting policy adopted in measuring inventories.

Disclosures for medium-sized entities

15.13 A medium-sized entity shall also disclose:

- (a) the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;
- (b) the amount of any write-downs to net realisable value recognised as an expense in the period; and
- (c) the amount of any reversal of any write-downs to net realisable value recognised in the period, and a description of the circumstances or events that led to such reversal.

Section 16: Income taxes

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

16.2 Taxable profit (tax loss) is the profit (loss) for a period, determined in

accordance with the rules established by the taxation authorities, upon which income taxes are payable (recoverable).

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

16.4 Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period. Deferred tax expense (income) is the amount of tax expense (income) included in the determination of profit or loss for the period in respect of changes in deferred tax assets and deferred tax liabilities during the period.

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

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

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

16.7 Temporary differences are differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Temporary differences may be either:

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

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

Recognition of deferred tax liabilities, deferred tax assets and deferred tax

16.9 An entity shall recognise a deferred tax liability for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

- (a) the initial recognition of goodwill; or
- (b) the initial recognition of an asset or liability which:
 - (i) is not a business combination; and
 - (ii) at the time of the transaction, affects neither accounting profit nor taxable profit (loss).

However, for all taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, a deferred tax liability shall be recognised, except to the extent that both the following conditions are satisfied:

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

16.10 An entity shall 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 differences can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:

- (a) is not a business combination; and
- (b) at the time of the transaction, affects neither accounting profit nor taxable profit (loss).

However, for all deductible temporary differences associated with investments in subsidiaries and associates, and interest in joint ventures an entity shall recognise a deferred tax asset to the extent that, and only to the extent that, it is probable that:

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

16.11 An entity shall recognise a deferred tax asset for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.

16.12 At each balance sheet date an entity shall re-assess any unrecognised deferred tax assets, and shall recognise a previously unrecognised deferred tax asset only to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

16.13 An entity shall recognise deferred tax as income or an expense and include it in profit or loss for the period, except to the extent that the tax arises from:

- (a) a transaction or event which is recognised, in the same or a different period, directly in equity, in which case the deferred tax shall be charged or credited directly to equity; or
- (b) a business combination (see paragraph 16.14 - 16.18).

Deferred tax arising from a business combination and the resulting effect on goodwill

16.14 The cost of a business combination is allocated by recognising the identifiable assets acquired and liabilities and contingent liabilities assumed at their fair values at the acquisition date. Temporary differences arise when the tax bases of the identifiable assets acquired and liabilities and contingent liabilities assumed are not affected by the business combination or are affected differently. For example, when the carrying amount of an asset is increased to fair value but the tax base of the asset remains at cost to the previous owner, a taxable temporary difference arises which results in a deferred tax liability. The resulting deferred tax liability affects goodwill (see paragraph 16.15).

16.15 In accordance with Section 21, an entity recognises any deferred tax assets (to the extent that they meet the recognition criteria in paragraph 16.10) or deferred tax liabilities resulting from a business combination as identifiable assets and liabilities at the acquisition date. Consequently, those deferred tax assets and liabilities affect goodwill or the amount of any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the combination (sometimes referred to as 'negative goodwill'). However, in accordance with paragraph 16.9(a), an entity does not recognise deferred tax liabilities arising from the initial recognition of goodwill.

16.16 Goodwill arising in a business combination is measured as the excess of the cost of the business combination over the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities, in accordance with paragraph 21.10 of these Principles. Very often, upon initial recognition of goodwill, a taxable temporary difference arises. This Section does not permit the recognition of the resulting deferred tax liability because goodwill is measured as a residual and the recognition of the deferred tax liability would increase the carrying amount of goodwill. Similarly, subsequent reductions in that unrecognised deferred tax liability are also regarded as arising from the initial recognition of goodwill and are therefore not recognised as required by paragraph 16.9(a).

16.17 As a result of a business combination, an acquirer may consider it probable that it will recover its own deferred tax asset that was not recognised before the business combination. For example, the acquirer may be able to utilise the benefit of its unused tax losses against the future taxable profit of the acquiree. In such cases, the acquirer recognises a deferred tax asset, but does not include it as part of the accounting for the business combination, and therefore does not take it into account in determining the goodwill or the amount of any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the combination (sometimes referred to as 'negative goodwill').

16.18 The potential benefit of the acquiree's income tax loss carryforwards or other deferred tax assets might not satisfy the criteria for separate recognition (under paragraph 21.7 of these Principles) when a business combination is initially accounted for but might be realised subsequently. An entity shall recognise acquired deferred tax benefits as new information about facts and circumstances that existed at the acquisition date become available and in no case later than twelve months from the acquisition date. The entity shall recognise the resulting deferred tax income in profit or loss. In addition, the acquirer shall:

- (a) reduce the carrying amount of goodwill to the amount that would have been recognised if the deferred tax asset had been recognised as an identifiable asset from the acquisition date; and
- (b) recognises the reduction in the carrying amount of goodwill as an expense.

However, this procedure shall not result in the creation of 'negative goodwill', nor shall it increase the amount previously recognised for any 'negative goodwill'.

Recognition of current tax liabilities, current tax assets and current tax

16.19 An entity shall recognise any unpaid current tax for current and prior periods as a liability.

16.20 An entity shall recognise as an asset any amount already paid in respect of current and prior periods that exceeds the amount due for those periods.

16.21 An entity shall recognise current tax as income or an expense and include it in profit or loss for the period, except to the extent that the tax arises from:

- (a) a transaction or event which is recognised, in the same or a different period, directly in equity, in which case the current tax shall be charged or credited directly to equity; or
- (b) a business combination (see paragraphs 16.14 - 16.18).

16.22 When an entity pays dividends to its shareholders it may be required to pay a portion of the dividends to taxation authorities, in the form of withholding tax, on behalf of shareholders. Such an amount paid or payable to taxation authorities shall be recognised in equity as part of the dividends.

Measurement

16.23 An entity shall measure current tax liabilities (assets) for the current and prior periods, and related tax expense (income), at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date.

16.24 An entity shall measure deferred tax assets and liabilities, and related tax expense (income), 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 reporting date.

16.25 The measurement of deferred tax liabilities and deferred tax assets shall reflect the tax consequences that would follow from the manner in which the entity expects, at the reporting date, to recover or settle the carrying amounts of its assets and liabilities. For example, if the temporary difference arises from an item of income that is expected to be taxable as a capital gain in a future period, the deferred tax liability is measured using the capital gain tax rate.

16.26 Deferred tax assets and deferred tax liabilities shall not be discounted.

16.27 An entity shall review the carrying amount of a deferred tax asset at each reporting date. An entity shall reduce the carrying amount of a deferred tax asset and increase tax expense to the extent that it is no longer probable that sufficient taxable profit will be available to allow recovery of the deferred tax asset. The entity shall reverse that reduction to the extent that it subsequently becomes probable that sufficient taxable profit will be available.

Presentation

16.28 Deferred tax assets (liabilities) shall not be classified as current assets (liabilities).

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

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

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

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

16.31 The tax expense (income) related to profit or loss shall be presented on the

face of the income statement.

Disclosures for medium-sized entities

16.32 An entity shall disclose the major components of tax expense (income) separately.

16.33 The aggregate current and deferred tax relating to items that are charged or credited to equity shall be disclosed separately.

16.34 An entity shall disclose a numerical reconciliation between tax expense (income) and the product of accounting profit multiplied by the applicable tax rate(s), disclosing also the basis on which the applicable tax rate(s) is (are) computed.

16.35 An entity shall also disclose, in respect of each type of temporary difference, and in respect of each type of unused tax losses and unused tax credits:

- (a) the amount of the deferred tax assets and liabilities recognised in the balance sheet for each period presented; and
- (b) the amount of the deferred tax income or expense recognised in the income statement, if this is not apparent from the changes in the amounts recognised in the balance sheet.

16.36 In respect of discontinued operations an entity shall disclose the tax expense relating to:

- (a) the gain or loss on discontinuance; and
- (b) the profit or loss from the discontinued operation for the period, together with the corresponding amounts for each prior period presented.

16.37 The following shall also be disclosed:

- (a) the amount (and expiry date, if any) of deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax asset is recognised in the balance sheet; and
- (b) the amount of a deferred tax asset and the nature of the evidence supporting its recognition when:
 - (i) the utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences; and
 - (ii) the entity has suffered a loss in either the current or preceding period in the tax jurisdiction to which the deferred tax asset relates.

Section 17: Provisions and contingencies

17.1 A provision is a liability of uncertain timing or amount.

17.2 A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Contingent assets occur where the inflow of economic benefits is probable, but not virtually certain.

17.3 A contingent liability is:

- (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or

more uncertain future events not wholly within the control of the entity;
or

- (b) an obligation at the balance sheet date that arises from past events but is not recognised because:
 - (i) it is not probable that a transfer of economic benefits will be required to settle the obligation; or
 - (ii) the amount of the obligation cannot be measured with sufficient reliability.

17.4 This Section does not apply to deferred tax and leases, which are covered by more specific requirements of GAPSME.

Recognition and measurement of provisions

17.5 An entity shall recognise a provision only when:

- (a) the entity has a present obligation as a result of a past event;
- (b) it is probable (i.e. more likely than not) that the entity will be required to transfer economic benefits in settlement; and
- (c) the amount of the obligation can be estimated reliably.

17.6 The entity shall recognise the provision as a liability in the balance sheet and shall recognise the amount of the provision as an expense in profit or loss unless (a) it is part of the cost of producing inventories (see paragraph 15.3) or (b) it is included in the cost of property, plant and equipment in accordance with paragraph 7.4.

17.7 An entity shall measure a provision at the best estimate of the amount required to settle the obligation at the reporting date. When the effect of the time value of money is material, the amount of a provision shall be the present value of the amount expected to be required to settle the obligation. The discount rate (or rates) shall be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money. The risks specific to the liability should be reflected either in the discount rate or in the estimation of the amounts required to settle the obligation, but not both. Gains from the expected disposal of assets shall be excluded from the measurement of a provision. When a provision is measured at the present value of the amount expected to be required to settle the obligation, the unwinding of the discount shall be recognised as finance cost. Provisions shall not be used to adjust the value of assets.

17.8 Where some or all of the expenditure required to settle a provision may be reimbursed by another party (e.g. through an insurance claim), the reimbursement shall be recognised, as a separate asset, only when it is virtually certain to be received if the entity settles the obligation. In the income statement, the expense relating to the provision may be presented net of the recovery.

17.9 An entity shall review provisions at each reporting date and adjust them to reflect the current best estimate of the amount that would be required to settle the obligation at that reporting date. Any adjustments to the amounts previously recognised shall be recognised in profit or loss unless the provision was originally recognised as part of the cost of inventories or property, plant and equipment.

17.10 A provision shall be used only for expenditures for which the provision was originally recognised.

Recognition and measurement of contingencies

17.11 Contingent liabilities and contingent assets shall not be recognised. Nevertheless, paragraph 21.7(c) of these Principles requires a contingent liability

assumed in a business combination to be recognised if its fair value can be measured reliably. The requirements of this paragraph shall not prejudice the application of paragraph 21.7(c).

17.12 Contingent liabilities recognised separately as part of allocating the cost of a business combination are excluded from the scope of this Section. However, the acquirer shall disclose for those contingent liabilities the information required to be disclosed by this Section for each class of provision.

Disclosures

17.13 An entity shall disclose the aggregate amount of contingent liabilities (disclosing guarantees) as at the balance sheet date. An entity shall disclose the nature and form of any valuable security provided.

17.14 An entity shall disclose the aggregate amount of financial commitments that are relevant to assessing the entity's financial position. Any commitments concerning pensions and group entities or associates shall be disclosed separately.

17.15 The nature and business purpose of the entity's arrangements that are not included in the balance sheet shall be disclosed, provided that the risks or benefits arising from such arrangements are material and in so far as the disclosure of such risks or benefits is necessary for the purposes of assessing the financial position of the entity.

17.16 Unless disclosed elsewhere as required by other Sections of these Principles, an entity shall disclose, where practicable, the following information:

- (a) the existence of any restrictions on title and the carrying amount of any assets that the entity has pledged as collateral for liabilities or contingent liabilities;
- (b) the aggregate amount, or estimated amount, of capital expenditure contracted but not provided for; and
- (c) the aggregate amount, or estimated amount, of capital expenditure authorised but not contracted.

Additional disclosures for medium-sized entities

17.17 For each class of provision, an entity shall disclose:

- (a) a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits;
- (b) an indication of the uncertainties about the amount and timing of those outflows; and
- (c) having regard to paragraph 4.8(f) of these Principles, a reconciliation of the carrying amount at the beginning and the end of the financial reporting period showing:
 - (i) additional provisions made in the period, including increases to existing provisions;
 - (ii) amounts used (i.e. incurred and charged against the provision) during the period;
 - (iii) unused amounts reversed during the period; and
 - (iv) the increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate.

17.18 Unless the possibility of any outflow of resources in settlement is remote,

an entity shall disclose for each class of contingent liability at the balance sheet date:

- (a) a brief description of the nature of the contingent liability; and
- (b) where practicable:
 - (i) an estimate of its financial effect (if it is impracticable to estimate the financial effect, that fact shall be stated); and
 - (ii) an indication of the uncertainties relating to the amount or timing of any outflow.

17.19 In determining which provisions or contingent liabilities may be aggregated to form a class, it is necessary to consider whether the nature of the items is sufficiently similar for a single statement about them to fulfil the requirements of sub-paragraphs 17.18(a), 17.18(b)(i) and 17.18(b)(ii) respectively.

17.20 Where an inflow of economic benefits is probable, an entity shall disclose a brief description of the nature of the contingent assets at the balance sheet date, and, where practicable, an estimate of their financial effect. If it is impracticable to estimate the financial effect, that fact shall be stated.

17.21 In addition to the disclosure required in paragraph 17.16, a medium-sized entity shall also disclose the financial impact of the entity's arrangements that are not included in the balance sheet, provided that the risks or benefits arising from such arrangements are material and in so far as the disclosure of such risks or benefits is necessary for the purposes of assessing the financial position of the entity.

17.22 In extremely rare cases, disclosure of some or all of the information required by paragraphs 17.18 - 17.22 can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, an entity need not disclose the information, but shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.

Section 18: Foreign currency translation

18.1 An entity's functional currency is the currency of the primary economic environment in which the entity operates and generates net cash flows. A foreign currency is any currency that is not the functional currency.

18.2 An entity's presentation currency is the currency in which its financial statements are presented, which may be regulated by relevant legislation where applicable.

18.3 Monetary items are money held and assets and liabilities to be received or paid in a fixed or determinable amount of money.

Determining the functional currency

18.4 An entity shall identify its functional currency.

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

- (a) the currency:
 - (i) that mainly influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled); and
 - (ii) of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services;

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

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

- (a) the currency in which funds from financing activities (i.e. issuing debt and equity instruments) are generated;
- (b) the currency in which receipts from operating activities are usually retained.

18.7 The following additional factors are considered in determining the functional currency of a foreign operation, and whether its functional currency is the same as that of the reporting entity (the reporting entity, in this context, being the entity that has the foreign operation as its subsidiary, branch, associate or joint venture):

- (a) whether the activities of the foreign operation are carried out as an extension of the reporting entity, rather than being carried out with a significant degree of autonomy. An example of the former is when the foreign operation only sells goods imported from the reporting entity and remits the proceeds to it. An example of the latter is when the operation accumulates cash and other monetary items, incurs expenses, generates income and arranges borrowings, all substantially in its local currency;
- (b) whether transactions with the reporting entity are a high or a low proportion of the foreign operation's activities;
- (c) whether cash flows from the activities of the foreign operation directly affect the cash flows of the reporting entity and are readily available for remittance to it;
- (d) whether cash flows from the activities of the foreign operation are sufficient to service existing and normally expected debt obligations without funds being made available by the reporting entity.

18.8 As noted in paragraph 18.1, the functional currency of an entity reflects the underlying transactions, events and conditions that are relevant to the entity. Accordingly, once the functional currency is determined, it can be changed only if there is a change to those underlying transactions, events and conditions, such as a change in the currency in which those underlying transactions, events and conditions are denominated.

18.9 When there is a change in an entity's functional currency, the entity shall account for the effect of the change in functional currency prospectively from the date of the change. In other words, an entity translates all items into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for non-monetary items are treated as their historical cost.

Reporting foreign currency transactions in the functional currency

18.10 When a transaction qualifies for recognition in accordance with these Principles, and such a transaction is denominated in a foreign currency, an entity shall record it by applying to the foreign currency amount the spot exchange rate, between the functional currency and the currency in which the transaction is denominated, at the date on which the transaction first qualifies for recognition. For practical reasons, unless the relevant exchange rate or rates fluctuate significantly, a rate that approximates the actual rate at the date of the transaction is often used, for

example, an average rate for a week or a month may be used for all transactions in each foreign currency occurring during that period.

18.11 At each balance sheet date, an entity shall:

- (a) translate foreign currency monetary items using the closing rate;
- (b) translate non-monetary items that are measured in terms of historical cost in a foreign currency using the exchange rate at the date of the transaction; and
- (c) translate non-monetary items that are measured at fair value in a foreign currency using the exchange rate at the date when the fair value was determined.

18.12 Except as described in paragraph 18.14, an entity shall recognise, in profit or loss in the period in which they arise, exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements.

18.13 When a gain or loss on a non-monetary item is recognised directly in equity, an entity shall recognise any exchange component of that gain or loss directly in equity. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, an entity shall recognise any exchange component of that gain or loss in profit or loss.

Net investment in a foreign operation

18.14 An entity may have a monetary item that is receivable from or payable to a foreign operation. An item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the entity's net investment in that foreign operation, and is accounted for in accordance with paragraph 18.15. Such monetary items may include long-term receivables or loans. They do not include trade receivables or trade payables.

18.15 Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation (see paragraph 18.14) shall be recognised in profit or loss in the individual financial statements of the reporting entity or the individual financial statements of the foreign operation, as appropriate. In the financial statements that include the foreign operation and the reporting entity (for example, consolidated financial statements when the foreign operation is a subsidiary), such exchange differences shall be recognised initially in a separate component of equity and recognised in profit or loss on disposal of the net investment in accordance with paragraph 18.19.

Use of a presentation currency other than the functional currency

18.16 If an entity's presentation currency differs from its functional currency, that entity shall translate its results and financial position into the presentation currency, using the following procedures:

- (a) assets and liabilities for each balance sheet presented (i.e. including comparatives) shall be translated at the closing rate at the date of that balance sheet;
- (b) income and expenses for each income statement (i.e. including comparatives) shall be translated at exchange rates at the dates of the transactions. If exchange rates between the functional and presentation currencies do not fluctuate significantly, an entity may use a rate that approximates the exchange rates at the dates of the transactions, for example an average rate for the period; and

- (c) all resulting exchange differences shall be recognised as a separate component of equity.

Translation of a foreign operation into the investor's presentation currency

18.17 In incorporating the results and financial position of a foreign operation with those of the reporting entity (for example by consolidation or the equity method), the entity shall translate the results and financial position of the foreign operation into the reporting entity's presentation currency by applying the requirements of paragraph 18.16 of these Principles. Where the foreign operation is to be consolidated, the reporting entity shall subsequently follow normal consolidation procedures, such as the elimination of intra-group balances and intra-group transactions of a subsidiary (see Section 22 Consolidated Financial Statements). However, an intra-group monetary asset (or liability), whether short-term or long-term, cannot be eliminated against the corresponding intra-group liability (or asset) without showing the results of currency fluctuations in the consolidated financial statements. This is because the monetary item represents a commitment to convert one currency into another and exposes the reporting entity to a gain or loss through currency fluctuations. Accordingly, in the consolidated financial statements of the reporting entity, an entity continues to recognise such an exchange difference in profit or loss or, if it arises from the circumstances described in paragraph 18.15, the entity shall classify it as equity until the disposal of the foreign operation.

18.18 Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation shall be treated as assets and liabilities of the foreign operation. Thus, they shall be expressed in the functional currency of the foreign operation and shall be translated at the closing rate in accordance with paragraph 18.16(a).

18.19 On the disposal of a foreign operation, the cumulative amount of the exchange differences deferred in the separate component of equity relating to that foreign operation shall be recognised in profit or loss when the gain or loss on disposal is recognised.

Disclosures

18.20 For items included in the financial statements which are or were originally denominated in a foreign currency, an entity shall disclose the bases of conversion used to express them in the functional currency.

18.21 An entity shall disclose the currency in which the financial statements are presented. When the presentation currency is different from the functional currency, an entity shall state that fact and shall disclose the functional currency and the reason for using a different presentation currency.

18.22 When there is a change in the entity's functional currency the entity shall disclose that fact and the reason for the change in functional currency.

Disclosures for medium-sized entities

18.23 An medium-sized entity shall also disclose:

- (a) the amount of exchange differences recognised in profit or loss; and
- (b) net exchange differences classified in a separate component of equity, for instance in accordance with paragraph 18.13, and a reconciliation of the amount of such exchange differences at the beginning and end of the period.

Section 19: Post balance sheet events

19.1 Post balance sheet events are those events, favourable and unfavourable, that occur between the balance sheet date and the date when the financial statements are authorised for issue. There are two types of events:

- (a) Adjusting events are those that provide evidence of conditions that existed at the balance sheet date; and
- (b) Non-adjusting events are those that are indicative of conditions that arose after the balance sheet date.

Recognition and Measurement

19.2 An entity shall adjust the amounts recognised in its financial statements, including related disclosures, to reflect adjusting events after the balance sheet date. When adjusting the amounts recognised in the financial statements, an entity shall have regard to the recognition, measurement and disclosure requirements in the relevant sections of these Principles. Examples of adjusting events are:

- (a) the settlement, after the balance sheet date, of a court case that confirms that the entity had a present obligation at the balance sheet date, in which case an entity shall recognise a corresponding liability and shall adjust the amount previously recognised as provisions in accordance with Section 17 of these Principles; and
- (b) the receipt of evidence after the balance sheet date that indicates that an asset was impaired at the balance sheet date, such as a customer being declared bankrupt or inventories being sold at an amount that is lower than their previously recognised net realisable value. In such case an entity shall recognise an impairment loss, or adjust a previously recognised impairment loss, in accordance with Sections 12 and 15 of these Principles.

19.3 An entity shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the balance sheet date. Nevertheless, if non-adjusting events after the balance sheet date are material, non-disclosure could influence the economic decisions of users taken on the basis of the financial statements hence disclosures may need to be given in accordance with this section. Examples of non-adjusting events are a decline in market value of investments between the balance sheet date and the date when the financial statements are authorised for issue, or an entity declaring dividends to holders of equity instruments after the balance sheet date.

Disclosure

19.4 An entity shall disclose the following for each material category of non-adjusting event after the balance sheet date:

- (a) the nature of the event; and
- (b) an estimate of its financial effect, or a statement that such an estimate cannot be made.

19.5 An entity shall disclose the date on which the financial statements were authorised for issue and who gave that authorisation.

Section 20: Related party disclosures

20.1 A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to as the ‘reporting entity’).

- (a) A person or a close member of that person’s family is related to a

reporting entity if that person:

- (i) has control or joint control of the reporting entity;
 - (ii) has significant influence over the reporting entity; or
 - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- (b) An entity is related to a reporting entity if any of the following conditions applies:
- (i) the entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
 - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
 - (iii) both entities are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

20.2 For the purposes of the paragraph 20.1 the relevant terms shall have the following meaning:

- (a) key management personnel shall mean those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity;
- (b) post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees;
- (c) close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:
 - (i) that person's children and spouse or domestic partner;
 - (ii) children of that person's spouse or domestic partner; and
 - (iii) dependants of that person or that person's spouse or domestic partner;
- (d) control, joint control and significant influence shall have the meaning assigned to them in Section 10 of these Principles.

20.3 The following are not necessarily related parties:

- (a) two entities simply because they have a director in common;
- (b) two venturers simply because they share joint control over a joint venture;

- (c) any of the following simply by virtue of their normal dealings with an entity (even though they may affect the freedom of action of an entity or participate in its decision making process):
 - (i) providers of finance,
 - (ii) trade unions,
 - (iii) public utilities, and
 - (iv) government departments and agencies,
- (d) a customer, supplier, franchisor, distributor or general agent with whom an entity transacts a significant volume of business, merely by virtue of the resulting economic dependence.

20.4 A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

Disclosure

20.5 An entity shall disclose the name and registered office of that entity which draws up the consolidated financial statements of the smallest body of entities of which it forms part as a subsidiary.

20.6 An entity shall disclose the following in relation to members of the entity's board of directors and other members of its administrative, managerial and supervisory bodies:

- (a) the amount of advances and credits granted with indications of the interest rates, main conditions and any amounts repaid or written off or waived; and
- (b) any commitments entered into on their behalf by way of guarantees of any kind with an indication of the total for each category.

20.7 Without prejudice to paragraph 20.8, if an entity enters into transactions with specific categories of related parties, the entity shall disclose the amount of the transactions, the nature of the related party relationships and other information about the transactions and outstanding balances necessary for an understanding of the financial position of the entity. These specific categories shall include parties having control, joint control or significant influence over the entity, subsidiaries, associates and jointly controlled entities of the entity and members of the reporting entity's board of directors. Such disclosures may include for example:

- (a) the amount of the transactions in aggregate for each significant category of transactions, except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial position of the entity;
- (b) the amount of outstanding balances in aggregate and: (i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and (ii) details of any guarantees given or received;
- (c) provisions for doubtful debts related to the amount of outstanding balances; and
- (d) the expense recognised during the period in respect of bad or doubtful debts due from related parties.

20.8 An entity is exempt from disclosing related party transactions between members of a group, provided that subsidiaries which are party to the transactions are wholly owned by a member of the group.

Additional disclosures for medium-sized entities

20.9 A medium-sized entity shall always disclose, where applicable, the name and registered office of the ultimate parent, if different from the immediate parent, together with the name and registered office of the entity which draws up the consolidated financial statements of the largest body of entities of which it forms part as a subsidiary entity. A medium-sized entity shall disclose the place where copies of the consolidated financial statements referred to in this Paragraph and Paragraph 20.5 may be obtained, provided that they are available.

20.10 A medium-sized entity shall also disclose the following in relation to members of the entity's board of directors and other members of its administrative, managerial and supervisory bodies:

- (a) the amount of the emoluments granted in respect of the financial year by reason of their responsibilities; and
- (b) any commitments arising or entered into in respect of retirement pensions of former members of the entity's board of directors.

20.11 The disclosures required by paragraph 20.7 shall be made by a medium-sized entity in respect of all related parties. Information about individual transactions may be aggregated according to their nature except where separate information is necessary for an understanding of the effects of related party transactions on the financial position of the entity.

Section 21: Business combinations and goodwill

21.1 This Section shall be applied by a parent in accounting for its investments in subsidiaries in the consolidated financial statements, if any, that present the financial results of the parent and its subsidiaries as those of a single economic entity in accordance with Section 22 of these Principles. This Section shall also be applied to any transaction or other event that meets the definition of a business combination. This Section shall not be applied by an investor in accounting for its investments in subsidiaries in its individual financial statements (as defined in paragraph 10.1), the accounting for which is specifically covered in Section 10 of GAPSME.

21.2 A business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities. A business combination is the bringing together of separate entities or businesses into one reporting entity. The result of nearly all business combinations is that one entity, the acquirer, obtains control of one or more other separate businesses, individually referred to as "the acquiree". The acquisition date is the date on which the acquirer effectively obtains control of the acquiree. Control is defined in paragraph 10.3 of these Principles.

21.3 The acquirer is the combining entity that obtains control of the other combining entities or businesses.

Method of accounting

21.4 Save as provided for in paragraph 21.18, all business combinations shall be accounted for by applying the purchase method. Applying the purchase method involves the following steps:

- (a) identifying an acquirer;
- (b) measuring the cost of the business combination; and
- (c) allocating, at the acquisition date, the cost of the business combination

to the assets acquired and liabilities and contingent liabilities assumed.

21.5 The acquirer shall measure the cost of a business combination as the aggregate of:

- (a) the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquiree; plus
- (b) any costs directly attributable to the business combination.

21.6 The acquirer shall, at the acquisition date, allocate the cost of a business combination by recognising the acquiree's identifiable assets and liabilities and those contingent liabilities that satisfy the recognition criteria at their fair values at that date, except for non-current assets (or disposal groups) that are classified as held for sale, which shall be recognised at fair value less costs to sell. Any difference between the cost of the business combination and the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities so recognised shall be accounted for in accordance with paragraphs 21.9 - 21.17.

21.7 The acquirer shall recognise separately the acquiree's identifiable assets, liabilities and contingent liabilities at the acquisition date only if they existed at that date and if they satisfy the following criteria at that date:

- (a) in the case of an asset other than an intangible asset, it is probable that any associated future economic benefits will flow to the acquirer, and its fair value can be measured reliably;
- (b) in the case of a liability other than a contingent liability, it is probable that an outflow of resources will be required to settle the obligation, and its fair value can be measured reliably; and
- (c) in the case of an intangible asset or a contingent liability, its fair value can be measured reliably.

21.8 The acquirer's income statement shall incorporate the acquiree's profits and losses after the acquisition date by including the acquiree's income and expenses based on the cost of the business combination to the acquirer. For example, depreciation expense included after the acquisition date in the acquirer's income statement that relates to the acquiree's depreciable assets shall be based on the fair values of those depreciable assets at the acquisition date, i.e. their cost to the acquirer.

Goodwill - Recognition and Measurement at recognition

21.9 Internally generated goodwill shall not be recognised.

21.10 The acquirer shall, at the date of acquisition of a business:

- (a) recognise goodwill acquired in a business combination as an asset; and
- (b) initially measure that goodwill at its cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised in accordance with paragraph 21.7.

21.11 If the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised in accordance with paragraph 21.7 exceeds the cost of the business combination (sometimes referred to as 'negative goodwill'), the acquirer shall:

- (a) reassess the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the

measurement of the cost of the combination; and

- (b) recognise immediately in profit or loss any excess remaining after that reassessment.

Goodwill - Measurement after recognition

21.12 After initial recognition, goodwill shall be carried at its cost less any accumulated amortisation and any accumulated impairment losses. To determine whether goodwill is impaired, an entity applies Section 12 of these Principles. That Section explains how an entity reviews the carrying amount of its assets, how it determines the recoverable amount of an asset, and when it recognises, or reverses the recognition of, an impairment loss. Because goodwill does not generate cash flows independently of other assets or groups of assets, it is necessary to allocate goodwill to the group (groups) of assets that is (are) expected to benefit from the synergies of the business combination for the purpose of estimating its recoverable amount. Any resulting impairment losses shall be recognised in accordance with paragraphs 12.11 – 12.13 of these Principles.

21.13 The residual value assigned to goodwill shall be zero.

21.14 An entity shall amortise goodwill on a straight-line basis over its useful life, which shall not exceed 20 years. In exceptional cases where the useful life of goodwill cannot be reliably estimated, it shall be written off over a maximum period of 10 years. The amortisation charge for each period shall be recognised in profit or loss.

21.15 The useful life of goodwill shall be reviewed regularly and revised if necessary, subject to the constraint that the revised useful life shall not exceed 20 years or 10 years as applicable, from the date of acquisition. The carrying amount at the date of revision shall be amortised over the revised estimate of remaining useful life. Such a change shall be accounted for as a change in an accounting estimate in accordance with Section 5 of these Principles.

21.16 Goodwill shall not be revalued.

21.17 An impairment loss recognised for goodwill shall not be reversed in a subsequent period.

Business combinations within a group

21.18 The book values of shares held in the capital of an entity included in the consolidation may be set off against the corresponding percentage of capital of the acquiree, provided that the entities in the business combination are ultimately controlled by the same party both before and after the business combination, and that control is not transitory:

Provided that the requirements in paragraphs 21.18 and 21.19, shall also apply in the case of a combination of businesses under common control:

Provided further that if the business combination under common control has not resulted in the acquirer holding shares in the capital of an entity, the acquirer may apply paragraph 21.18 in its financial statements and:

- (a) the consideration paid shall be used as a substitute for the book values of shares held in the capital of the acquiree; and
- (b) the percentage ownership of net assets shall be used as a substitute for the percentage of capital:

Provided further that entities electing to apply paragraph 21.18 to business combinations under common control shall not apply paragraph 21.4 to such business combinations.

21.19 Any difference arising under paragraph 21.18 shall be added to or deducted from consolidated reserves, as appropriate. For the avoidance of doubt, the terms consolidated reserves and equity are interchangeable in this respect.

Disclosure

21.20 For each business combination (or group of individually immaterial business combinations) that was (were) effected during the period, the acquirer shall disclose the following in the consolidated financial statements:

- (a) the names and descriptions of the combining entities or businesses;
- (b) the acquisition date;
- (c) the percentage of voting equity instruments acquired;
- (d) the cost of the combination and a description of the components of that cost, including any costs directly attributable to the combination. When equity instruments are issued or issuable as part of the cost, the following shall also be disclosed:
 - (i) the number of equity instruments issued or issuable; and
 - (ii) the fair value of those instruments and the basis for determining that fair value;
- (e) details of any operations the entity has decided to dispose of as a result of the combination;
- (f) the amounts recognised at the acquisition date for each class of the acquiree's assets, liabilities and contingent liabilities, including goodwill;
- (g) the methods used to calculate the value of goodwill and any significant changes in value in relation to the preceding financial year;
- (h) a description of the factors that contributed to the recognition of goodwill, and an explanation of the period over which goodwill is amortised;
- (i) a description of each intangible asset that was not recognised separately from goodwill and an explanation of why the intangible asset's fair value could not be measured reliably (see paragraph 11.3 of these Principles);
- (j) the amount of any excess recognised in profit or loss and the line item in the income statement in which the excess is recognised, together with a description of the nature of any excess recognised in profit or loss in accordance with paragraph 21.11; and
- (k) the amount of the acquiree's profit or loss since the acquisition date included in the acquirer's profit or loss for the period, unless disclosure would be impracticable. If such disclosure would be impracticable, that fact shall be disclosed, together with an explanation of why this is the case.

21.21 For each business combination effected after the end of the reporting period but before the financial statements are authorised for issue, the acquirer shall make the disclosures required by paragraph 21.20 unless such disclosure would be impracticable. If disclosure of any of that information would be impracticable, that fact shall be disclosed, together with an explanation of why this is the case.

21.22 Having regard to paragraph 4.8(c) of these Principles, in respect of all business combinations, an acquirer shall disclose a reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period, showing separately:

- (a) the gross amount and accumulated amortisation and impairment losses at the beginning of the period;
- (b) changes arising from new business combinations, amortisation, impairment losses, disposals of previously acquired businesses, and other changes; and
- (c) the gross amount and accumulated amortisation and impairment losses at the end of the period.

21.23 When an entity applies the method described in paragraph 21.18, the resulting movement in reserves and the names and registered offices of the entities concerned shall be disclosed in the notes to the consolidated financial statements.

Section 22: Consolidated financial statements

22.1 Consolidated financial statements are the financial statements of a group presented as those of a single economic entity.

22.2 Entities that are required, or that elect, to prepare consolidated financial statements may only apply these regulations if the group does not exceed the limits of at least two of the three following criteria on the balance sheet date of the parent:

- (a) total revenue (as defined in paragraph (b) of sub-regulation (2) of regulation 5 of these regulations): forty million euro (€40,000,000) computed net, or forty-eight million euro (€48,000,000) computed gross;
- (b) balance sheet (as defined in paragraph (a) of sub-regulation (2) of regulation 5 of these regulations): twenty million euro (€20,000,000) computed net, or twenty-four million euro (€24,000,000) computed gross;
- (c) employees (as determined in accordance with paragraph (c) of sub-regulation (2) of regulation 5 of these regulations): two hundred and fifty (250):

For the avoidance of doubt, the determination of thresholds computed gross shall mean that the group revenue and balance sheet shall be computed without any set-offs and other adjustments that would be required for the preparation of consolidated financial statements. Determination of thresholds computed net shall mean that group revenue and balance sheet shall be computed after such adjustments have been effected.

22.3 For the purposes of calculating the criteria in paragraph 22.2, entities for which total revenue is not relevant shall be required to include income from other sources.

22.4 In relation to a subsequent financial year, where, on its balance sheet date, an entity exceeds or ceases to exceed the limits of two of the three criteria set out in paragraph 22.2, as applicable that fact shall affect the application of this regulation only if it occurs in two consecutive financial years.

22.5 In determining whether an entity or group exceeds the thresholds in paragraph 22.2, (qualification in relation to subsequent financial year by reference to circumstances in preceding financial years) in relation to a financial year in relation to which the Schedule has effect, the entity or group is to be treated as having

qualified as small or medium-sized (as the case may be) in any previous year in which it would have so qualified if amendments to the same effect as the amendments made by the Schedule had had effect in relation to that previous year.

22.6 In the case of the first financial reporting period of an entity or group, the entity or group shall determine whether the criteria in paragraph 22.2 have been exceeded by computing the assets comprising the balance sheet total, total revenue and the average number of employees for the first financial reporting period in accordance with the Schedule such that it shall be deemed to have exceeded the relevant criteria if as at the end of the first financial reporting period two of the balance sheet total, total revenue and average number of employees exceeded the limits established in paragraph 22.2.

22.7 For the purposes of this Section, where a financial reporting period is shorter or longer than one calendar year, the total revenue generated during that financial reporting period shall be deemed to be the amount arrived at by dividing the total revenue figure generated in that financial reporting period by the number of months in that financial reporting period, and multiplying that number by twelve.

22.8 If, in certain circumstances, one or more of the subsidiaries to be consolidated are prohibited from applying GAPSME in the preparation of their individual financial statements, the group's consolidated financial statements may nevertheless be prepared in accordance with this Section (subject to the overriding principle in paragraph 22.2) provided that the following information is disclosed in the consolidated financial statements:

- (a) the fact that a subsidiary (subsidiaries) has (have) prepared financial statements in accordance with a financial reporting framework other than GAPSME;
- (b) the name (names) of the relevant subsidiary (subsidiaries); and
- (c) the financial reporting framework under which those financial statements have been prepared.

Consolidation procedures

22.9 The consolidated financial statements present financial information about the group as a single economic entity. In preparing consolidated financial statements, an entity shall:

- (a) combine the financial statements of the parent and its subsidiaries line by line by adding together like items of assets, liabilities, equity, income and expenses;
- (b) eliminate the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary;
- (c) measure minority interests in the profit or loss of consolidated subsidiaries for the reporting period separately from the parent shareholders' interest; and
- (d) measure minority interests in the net assets of consolidated subsidiaries separately from the parent shareholders' equity in them. Minority interests in the net assets consist of:
 - (i) the amount of those minority interests at the date of the original combination; and
 - (ii) the minority's share of changes in equity since the date of the combination.

22.10 When potential voting rights exist (such as voting rights that would result

from exercise of share options or warrants or from conversion of convertible securities), the proportions of profit or loss and changes in equity to the parent and minority interests are determined on the basis of existing ownership interests and do not reflect the possible exercise or conversion of potential voting rights.

22.11 Intra-group balances and transactions, including income, expenses and dividends, are eliminated in full. Profits and losses resulting from intra-group transactions that are recognised in assets, such as inventory and fixed assets, are eliminated in full. Intra-group losses may indicate an impairment that requires recognition in the consolidated financial statements.

22.12 The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall be prepared as of the same reporting date.

22.13 Consolidated financial statements shall be prepared using uniform accounting policies for like transactions and other events and conditions in similar circumstances. If a member of the group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

22.14 The income and expenses of a subsidiary are included in the consolidated financial statements from the acquisition date. The income and expenses of a subsidiary are included in the consolidated financial statements until the date on which the parent ceases to control the subsidiary. The difference between the proceeds from the disposal of the subsidiary and the carrying amount of the interest in the subsidiary as of the date of disposal, including the cumulative amount of any exchange differences that relate to the subsidiary recognised in equity in accordance with Section 18, is recognised in the consolidated income statement as the gain or loss on the disposal of the subsidiary.

22.15 If an entity ceases to be a subsidiary but the investor (former parent) continues to hold some equity shares, those shares shall be accounted for in accordance with Section 9 of these Principles from the date the entity ceases to be a subsidiary, provided that it does not become an associate or a jointly controlled entity. The carrying amount of the investment at the date that the entity ceases to be a subsidiary shall be regarded as the cost on initial measurement of an investment.

22.16 An entity shall present minority interest in the consolidated balance sheet within equity, separately from the parent shareholders' equity.

22.17 An entity shall disclose minority interest in the profit or loss of the group separately in the income statement, as required by paragraph 4.23.

22.18 Losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the subsidiary's equity. The excess, and any further losses applicable to the minority, are allocated against the majority interest except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered.

Accounting for investments in associates and jointly controlled entities in the consolidated financial statements

22.19 When an entity prepares consolidated financial statements it shall measure all its investments in associates and jointly controlled entities in its consolidated financial statements in accordance with the equity method in paragraphs 10.15 –

10.25, and shall give the disclosures required by paragraph 10.32, of these Principles. An entity shall account for its investments in jointly controlled operations and jointly controlled assets in its consolidated financial statements in accordance with paragraphs 10.26 and 10.27 of these Principles.

Disclosure

22.20 An entity's consolidated financial statements shall include all the relevant disclosures required by the respective Sections of these Principles, in a way which facilitates the assessment of the financial position of the entities included in the consolidation taken as a whole, taking account of the essential adjustments resulting from the particular characteristics of consolidated financial statements as compared to annual financial statements, including the following:

- (a) in disclosing transactions between related parties, transactions between related parties included in a consolidation that are eliminated on consolidation shall not be included;
- (b) in disclosing the amounts of emoluments and advances and credits granted to members of the board, only amounts granted by the parent and its subsidiaries to members of the board of the parent shall be disclosed.

22.21 Where an entity included in a consolidation has an associate, that associate shall be shown in the consolidated balance sheet as a separate item with an appropriate heading.

Section 23: Discontinued operations and non-current assets held for sale

23.1 A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and

- (a) represents a separate major line of business or geographical area of operations;
- (b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- (c) is a subsidiary acquired exclusively with a view to resale.

23.2 A disposal group is a group of assets to be disposed of, by sale or other wise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Discontinued operations - Presentation and Disclosure

23.3 An entity shall disclose a single amount on the face of the income statement comprising the total of -

- (a) the post-tax profit or loss of discontinued operations; and
- (b) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or group(s) of assets and liabilities constituting the discontinued operation.

Discontinued operations - Presentation and Disclosure for Medium-sized entities

23.4 An entity shall disclose:

- (a) an analysis of the single amount mentioned in paragraph 23.3 into:
 - (i) the revenue, expenses, pre-tax profit or loss and income tax expense of discontinued operations; and
 - (ii) the gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or group(s) of assets

constituting the discontinued operation and the related income tax expense.

The analysis may be presented in the notes or on the face of the income statement. If it is presented on the face of the income statement it shall be presented in a section identified as relating to discontinued operations, i.e. separately from continuing operations; and

- (b) the net cash flows attributable to the operating, investing and financing activities of discontinued operations. These disclosures may be presented either in the notes or on the face of the financial statements.

23.5 Unless impracticable, an entity shall restate the disclosures in the preceding paragraphs for prior periods presented in the financial statements so that the disclosures relate to all operations that have been discontinued by the end of the reporting period for the latest period presented.

23.6 If an entity ceases to classify a component of an entity as held for sale, the entity shall reclassify the results of operations of the component previously presented in discontinued operations and shall include them in income from continuing operations for all periods presented. The amounts for prior periods shall be described as having been restated.

Non-current assets held for sale

23.7 An entity shall classify a non-current asset (including property, plant and equipment, intangibles, and investments in subsidiaries, associates and joint ventures) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets, its sale must be highly probable, and the entity must expect to complete the sale within one year from the date of classification as held for sale.

23.8 An entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell.

23.9 An entity shall not depreciate (or amortise) a non-current asset while it is classified as held for sale or while it is part of a disposal group classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale shall continue to be recognised.

Non-current assets held for sale - Presentation

23.10 An entity shall present a non-current asset classified as held for sale and the assets of a disposal group classified as held for sale separately from other assets in the balance sheet. The liabilities of a disposal group classified as held for sale shall be presented separately from other liabilities in the balance sheet. Those assets and liabilities shall not be offset and presented as a single amount.

23.11 An entity shall not reclassify or re-present amounts presented for non-current assets (or for the assets and liabilities of disposal groups) classified as held for sale in the balance sheets for prior periods to reflect the classification in the balance sheet for the latest period presented.

Non-current assets held for sale - Presentation and Disclosure for medium-sized entities

23.12 The major classes of assets and liabilities classified as held for sale shall be separately disclosed by a medium-sized entity either on the face of the balance sheet or in the notes.

23.13 A medium-sized entity shall present separately any cumulative income or expense recognised directly in equity relating to a non-current asset (or disposal group) classified as held for sale.

23.14 A medium-sized entity shall disclose the following information in the period in which non-current assets have been either classified as held for sale or sold:

- (a) a description of the asset or disposal group;
- (b) a description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of that disposal; and
- (c) the gain or loss recognised, if not separately presented on the face of the income statement.

Section 24: Adoption of GAPSME

24.1 An entity shall apply this Section upon:

- (a) *First-time adoption of GAPSME*, i.e. when it prepares financial statements that conform to these Principles in which the entity makes an explicit and unreserved statement in those financial statements of compliance with the General Accounting Principles for Small and Medium-Sized Entities (GAPSME), and any of the following circumstances prevail:
 - (i) the entity did not present financial statements for previous periods; or
 - (ii) the entity presented all its previous financial statements in conformity with a financial reporting framework other than GAPSME.
- (b) *Subsequent adoption of GAPSME*, i.e. when the entity applied these Principles in previous financial reporting periods but presented its most recent previous financial statements in conformity with a financial reporting framework other than GAPSME. Typically this would apply when, as a result of the occurrence of specific circumstances an entity is disqualified from applying these Principles, but the entity is subsequently eligible to re-apply GAPSME in accordance with these regulations and the entity opts to re-apply these Principles, thus preparing financial statements that conform to these Principles.

First-time adoption

24.2 Paragraph 4.1 of these Principles defines a complete set of financial statements.

24.3 Paragraph 4.7 of these Principles requires a complete set of financial statements to show comparative amounts in respect of the previous comparable period for every item presented in the financial statements and notes thereto. An entity may present comparative information in respect of more than one comparable prior period. Therefore, the date of an entity's transition to these Principles is the beginning of the earliest period for which the entity presents full comparative information in accordance with GAPSME in its first financial statements that conform to these Principles.

24.4 An entity shall prepare an opening GAPSME balance sheet at the date of the transition to GAPSME. This is the starting point for its accounting under GAPSME.

24.5 An entity shall use the same accounting policies in its opening GAPSME balance sheet and throughout all periods presented in the financial statements to which paragraph 24.1 refers. Those accounting policies shall comply with the relevant Sections of these Principles.

24.6 An entity shall, in its opening balance sheet:

- (a) recognise all assets and liabilities whose recognition is required by these Principles;
- (b) not recognise items as assets or liabilities if these Principles do not permit such recognition;
- (c) reclassify items that it recognised under its previous financial reporting framework as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity under these Principles; and
- (d) apply these Principles in measuring all recognised assets and liabilities.

24.7 The accounting policies that an entity uses in its opening balance sheet under these Principles may differ from those that it used for the same date using its previous financial reporting framework. The resulting adjustments arise from transactions, other events or conditions before the date of transition to these Principles. Therefore, an entity shall recognise those adjustments directly in retained earnings (or, if appropriate, another category of equity) at the date of transition to these Principles.

24.8 If it is impracticable for an entity to restate the opening balance sheet at the date of transition in accordance with these Principles, the entity shall apply paragraphs 24.4 – 24.7 in the earliest period for which it is practicable to do so, and shall disclose the date of transition and the fact that data presented for prior periods are not comparable. If it is impracticable for an entity to provide any disclosures required by these Principles for any period before the period in which it prepares its first financial statements that conform to these Principles, the omission shall be disclosed.

Subsequent adoption

24.9 Upon subsequent adoption an entity shall apply paragraphs 24.4 – 24.7, and the term opening balance sheet shall be taken to refer to the balance sheet as at the beginning of the earliest period for which the entity presents full comparative information in accordance with these Principles in the financial statements that conform to these Principles.

Presentation and disclosure

24.10 An entity shall disclose the date of the transition to GAPSME, and shall explain whether it is a case of first-time adoption or subsequent adoption of GAPSME. In the latter case, an entity shall also disclose the date of the end of the latest financial reporting period for which the entity had previously prepared its financial statements in accordance with these Principles.

24.11 An entity shall explain how the transition from its previous financial reporting framework to these Principles affected its reported financial position and financial performance. In particular, an entity's financial statements to which paragraph 24.1 refers shall include:

- (a) reconciliations of its equity reported under its previous financial reporting framework to its equity under these Principles for both of the following dates:

- (i) the date of transition to these Principles; and
 - (ii) the end of the latest period presented in the entity's most recent annual financial statements under its previous financial reporting framework; and
- (b) a reconciliation of the profit or loss reported under its previous financial reporting framework for the latest period in the entity's most recent annual financial statements to its profit or loss under these Principles for the same period.
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