First Impressions: IFRIC 17
Distributions of Non-cash Assets to Owners
International Financial Reporting Standards
February 2009
Foreword

The International Accounting Standards Board published IFRIC (International Financial Reporting Interpretations Committee) Interpretation 17 Distributions of Non-cash Assets to Owners on 27 November 2008. Previously there was no specific guidance in IFRSs on the accounting for distributions of non-cash assets to the owners of an entity, and there was diversity in practice.

Although there are some notable exclusions from the scope of the interpretation, primarily common control transactions, many non-cash distributions will be measured at fair value under the new requirements. This represents a significant change in practice for entities that have accounted for such distributions on a book value basis previously. Under the interpretation if the fair value of the assets distributed exceeds their carrying amount, then that difference will be recognised in profit or loss – but only at the date of settlement. In many cases a liability for the distribution will be recognised prior to that date, at the fair value of the assets to be distributed.

Thus while generally a gain on the distribution will arise upon settlement, it is likely that prior to that date the entity will report lower net assets and potentially even negative net assets. And this might have implications for debt covenants, the classification of liabilities as current or non-current, and the determination of distributable reserves. So the key message in this publication is not to be lulled into thinking that IFRIC 17 is a straightforward accounting interpretation.

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About this publication

This publication has been produced jointly by the KPMG International Financial Reporting Group (part of KPMG IFRG Limited) and the Department of Professional Practice of KPMG in Australia.

We would like to acknowledge the efforts of the principal authors of this publication. Those authors include Julie Santoro and Eamon Dillon of the KPMG International Financial Reporting Group, and Peter Carlson and Michael Voogt of the Department of Professional Practice of KPMG in Australia.

Content

Our First Impressions publications are prepared upon the release of a new International Financial Reporting Standard (IFRS), interpretation or other significant amendment to the requirements of IFRSs. They include a discussion of the key elements of the new requirements and highlight areas that may result in a change of practice. Examples are provided to assist in assessing the impact of implementation.

This edition of First Impressions considers the requirements of IFRIC 17 *Distributions of Non-cash Assets to Owners*, and the related amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* and IAS 10 *Events after the Reporting Period*.

The text of this publication is referenced to IFRIC 17, and to selected other current IFRSs in issue at 31 January 2009. References in the left-hand margin identify the relevant paragraphs of the standards and interpretations.

In many cases further interpretation will be needed in order for an entity to apply IFRSs to its own facts, circumstances and individual transactions. Further, some of the information contained in this publication is based on initial observations developed by the KPMG International Financial Reporting Group, and these observations may change as practice develops.

We will update and supplement the interpretative guidance and examples in this publication by adding additional interpretative guidance to *Insights into IFRS*, our practical guide to IFRSs.

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We have a range of publications that can assist you further, including *Insights into IFRS* and illustrative financial statements for interim and annual reporting under IFRSs. Technical information is available at www.kpmgifrg.com.

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1. Overview of accounting requirements

- IFRIC 17 provides guidance on distributions of non-cash assets to owners, and distributions in which the owner is given the choice of receiving either non-cash assets or a cash alternative.

- The interpretation only addresses the accounting by the entity making the distribution.

- The interpretation applies only to non-reciprocal distributions in which all owners of the same class of equity instruments are treated equally.

- The interpretation does not apply to common control transactions, or to distributions of part of the ownership interests in a subsidiary when control is retained.

- A liability is recognised when the distribution is authorised and is no longer at the discretion of the entity. A corresponding amount is recognised directly in equity.

- The liability is measured at the fair value of the assets to be distributed. When owners can elect to receive cash instead of non-cash assets, the measurement of the liability takes into account the fair value of each alternative and their weighted probabilities.

- The liability is remeasured at the end of each reporting period and on settlement; any changes are recognised directly in equity.

- Non-cash assets held for distribution to owners are subject to the requirements of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations when certain criteria are met; the scope exclusions that apply to IFRIC 17 do not apply to the requirements of IFRS 5. Such assets are measured at the lower of their carrying amount and fair value less costs to distribute when they are in the measurement scope of IFRS 5.

- Upon settlement of the distribution, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognised in profit or loss as a separate line item.

- IFRIC 17 applies prospectively for annual periods beginning on or after 1 July 2009. Earlier application is permitted subject to certain conditions.
2. **Key implementation issues**

IFRIC 17 raises a number of practical implementation issues, especially for entities that recognised non-cash distributions on a book value basis previously. These implementation issues are discussed throughout this publication.

**Fair value measurement**

All liabilities for distributions within the scope of the interpretation are measured at the fair value of the assets to be distributed. Depending on the nature of those assets, the determination of fair value may be a costly and difficult exercise. Management may need to consult specialists to assist in the determination of fair value.

**Negative impact on net assets prior to settlement**

If the fair value of the assets to be distributed is higher than their carrying amount, then there will be a potentially important accounting mismatch during the period between the initial recognition of the liability and its settlement. The mismatch arises in such cases because the liability is recognised at the fair value of the assets from the date of initial recognition, but the assets themselves are not remeasured to fair value until settlement.

In some jurisdictions legally dividends can be paid only from “available profits”, with distributions in excess of available profits being classified as a return of capital. The accounting mismatch might affect the entity’s ability to distribute the non-cash assets, or to declare other dividends subsequently.

Additionally, during the period between initial recognition of the liability and its settlement, the accounting mismatch will affect reported net assets because the recognition of the liability at fair value may result in reduced, or even negative, equity being presented in the financial statements. This could impact debt covenants and consequently the classification of liabilities as current or non-current.

In order to avoid an extended period of mismatch, an entity may seek to minimise the time between the date of initial recognition of the liability and the date of settlement.

**Classification as “held for distribution” prior to recognition of a liability**

Assets to be distributed may meet the criteria to be classified as held for distribution to owners under IFRS 5. Additionally, such assets might meet the requirements to be classified as held for distribution to owners at a date earlier under IFRS 5 at a date earlier than the date at which a liability for the distribution is recognised. This is because IFRS 5 incorporates a probability test in determining whether the held-for-distribution criteria are met, whereas a liability for a distribution is not recognised until it is authorised and no longer at the discretion of the entity. This is likely to be relevant when a reporting date, interim or annual, falls between the date that the assets are classified as held for distribution to owners and the date at which a liability for the distribution is recognised; in such cases the requirements of IFRS 5 will apply prior to a liability for the distribution being recognised (see section 9).

Additionally, the various scope exclusions in IFRIC 17 (see section 3) are not carried through to the IFRS 5 amendments. This may result in non-cash assets that are intended to be distributed being accounted for in accordance with IFRS 5 even if they are not within the scope of IFRIC 17. The most significant impact is likely to be in respect of common control transactions.
No relief for distributions in progress

The interpretation’s effective date of annual periods beginning on or after 1 July 2009 includes no relief for distributions in progress but not yet settled at the effective date, which will require remeasurement of the related liability to fair value if the entity had a different accounting policy previously. However, comparative financial statements should not be re-presented because the transition requires prospective application.
3. Scope

IFRIC 17, 3, BC4, 5 A distribution is a non-reciprocal transfer of assets from an entity to its owners, commonly referred to as a dividend. There is no restriction placed on the term “distribution” in the interpretation other than it must be non-reciprocal. Neither the reason for the transfer of assets nor its legal characterisation is a factor in determining whether it falls within the scope of the interpretation. Therefore, for example, a distribution that is in effect a return of capital is within the scope of the interpretation.

IAS 18, 5, 9, 29, 30, 27, 38A The interpretation addresses the financial statements (separate, individual and/or consolidated) of the entity making the distribution. It does not apply to the financial statements of the recipient of the distribution; recipients will continue to apply the requirements of IAS 18 Revenue and the May 2008 amendment to IAS 27 (2008) Consolidated and Separate Financial Statements in respect of the receipt of dividends.

IFRIC 17, 3 The interpretation applies to non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners, in which all owners of the same class of equity instruments are treated equally. It also applies to distributions in which each owner may elect to receive either their share of the non-cash asset or a cash alternative.

Insight: Perhaps the most significant transactions caught within the scope of the interpretation are de-mergers or spin-offs, in which a company distributes its ownership interests in one or more subsidiaries to shareholders. However, common control transactions are excluded (see below).

The following are significant exclusions from the scope of IFRIC 17:

- common control transactions;
- distributions of part of the ownership interests in a subsidiary when control is retained; and
- distributions in which owners of the same class of equity instruments are not treated equally.

Common control transactions

IFRIC 17, 6, IE2 Common control transactions, i.e., distributions in which the asset ultimately is controlled by the same party or parties both before and after the distribution are outside the scope of the interpretation.

In the following example Company P controls both Subsidiary S1 (directly) and Subsidiary S2 (indirectly). S1 distributes its shareholding in S2 to P. After the distribution P still controls S2. Therefore this distribution is outside the scope of the interpretation. The accounting for common control transactions is discussed in our publication Insights into IFRS.
If in the above example Company P was an individual, or a group of individuals contractually sharing control, rather than an entity, then the scope exclusion still would apply because the asset is controlled by the same party both before and after the distribution; there is no requirement for that party to be a legal entity.

**IFRIC 17.E2**

If in the above example Company P owned 80 percent rather than 100 percent of S1, then the entire distribution of the shares in S2 to the shareholders still would be outside the scope of IFRIC 17. This is because, as in the above example, P controls both S1 and S2 before and after the distribution.

**Distributions of part of the ownership interests in a subsidiary when control is retained**

**IFRIC 17.IE4**

Distributions of part of the ownership interests in a subsidiary are accounted for as transactions with non-controlling interests in accordance with IAS 27 (2008) if the entity retains control of the subsidiary.

In the following example Company P distributes 20 percent of its shareholding in Subsidiary. However, P retains control over Subsidiary, and therefore this distribution is outside the scope of the interpretation. Instead, P will account for the dilution of its interests in Subsidiary wholly as an equity transaction; further discussion of the accounting for transactions with non-controlling interests can be found in our publication *First Impressions: IFRS 3 and FAS 141R Business Combinations*.

**Distributions in which owners of the same class of equity instruments are not treated equally**

**IFRIC 17.BC6**

Distributions in which owners of the same class of equity instruments are not treated equally are outside the scope of the interpretation. This is because the unequal treatment of owners implies that there is an element of an exchange transaction in the distribution.
4. Example background facts

The following example, based on the consolidated financial statements of Company X, is used throughout the remainder of this publication to illustrate the requirements of the interpretation.

Overview

Company X is a listed company with a wide variety of business interests. As part of its strategy of focusing on its core operations, X plans to distribute to shareholders all of its ownership interests in Division D, which is not part of X’s core operations. X’s shareholders are widely dispersed and X does not have a controlling shareholder or shareholders.

To effect the distribution, X plans to incorporate a new company (Newco) with nominal share capital. X’s interests in D, held by its wholly-owned subsidiary Z, will be transferred to Newco for no consideration. The shares in Newco then will be distributed to X’s shareholders.

X’s annual reporting date is 30 June. Although dividends require shareholder approval, the directors of X believed it “highly probable” that approval would be given when they proposed the distribution.

The following diagrams illustrate the group structure:

**Before distribution:**
- Shareholders
  - Co X (100%)
  - Sub Z: Includes Division D

**After transfer of D to Newco:**
- Shareholders
  - Co X (100%)
  - Sub Z: Excludes Division D (100%)
  - Newco: Comprises Division D (100%)

**After distribution:**
- Shareholders
  - Co X (100%)
  - Sub Z: Excludes Division D (100%)
  - Newco: Comprises Division D (100%)

Timeline

The following dates are relevant in this example:

- 5 October: Newco formed
- 13 November: Assets and liabilities of D transferred to Newco
- 5 December: Distribution proposed by directors
- 20 December: Distribution approved by shareholders
- 31 December: Interim reporting date
- 7 February: Shares in Newco distributed
Values
The following values of the net assets of Newco (Division D) are relevant in this example:

<table>
<thead>
<tr>
<th>Date</th>
<th>Carrying amount in X's consolidated financial statements</th>
<th>Fair value of Newco</th>
</tr>
</thead>
<tbody>
<tr>
<td>20 December</td>
<td>33,000</td>
<td>39,000</td>
</tr>
<tr>
<td>31 December</td>
<td>34,500</td>
<td>40,000</td>
</tr>
<tr>
<td>7 February</td>
<td>35,500</td>
<td>46,000</td>
</tr>
</tbody>
</table>

Potential tax effects are ignored for the purposes of this example.
5. Initial recognition and measurement of a liability

Initial recognition

IFRIC 17.10 A liability is recognised when the distribution is authorised and is no longer at the discretion of the entity. This timing will vary depending on the legal requirements of individual jurisdictions:

- In some cases the above criteria will be met when the distribution is announced by the entity’s governing body, e.g., the board of directors.
- In some cases the above criteria will not be met until the distribution is approved by the owners, e.g., the shareholders.
- In some cases the above criteria will not be met until the distribution is settled because it remains within the discretion of the entity whether or not to pay a dividend prior to settlement.

As a result of issuing the interpretation, the Board also amended IAS 10 Events after the Reporting Period to delete the description of declared: “i.e., the dividends are appropriately authorised and no longer at the discretion of the entity.” This means that IAS 10 now refers to the declaration of a dividend with no further explanation. The Board’s rationale for this change was that the previous description of declared was inconsistent with company law in many jurisdictions.

IAS 10.13, IFRIC 17.10, BC18-20 With the deletion from IAS 10, IFRIC 17 becomes the only source of guidance on what “declared” means. However, in the Basis for Conclusions the Board confirmed that the amendment to IAS 10 does not change the general principle that a liability for a dividend is recognised only when the dividend has been authorised and is no longer at the discretion of the entity. Therefore no change in practice is expected with regard to the timing of the existence of a liability for a dividend payable. For further discussion on the recognition of a liability for a dividend payable, see our publication Insights into IFRS.

Insight: A liability for a dividend is recognised when the distribution is authorised and is no longer at the discretion of the entity. Although this guidance has been deleted from IAS 10, the Basis for Conclusions to IFRIC 17 confirms this position in respect of all dividends, i.e., not only those within the scope of IFRIC 17.

Initial measurement

IFRIC 17.11, 12 The liability for the distribution is measured at the fair value of the assets to be distributed. A corresponding amount is recognised directly in equity. For distributions in which the owners may elect to receive either non-cash assets or a cash alternative, the entity considers the fair value of each alternative and their weighted probabilities when measuring the liability. There are no exemptions from the fair value measurement requirement for distributions within the scope of IFRIC 17.

Unless required by other IFRSs, the assets to be distributed are not remeasured to fair value when the liability is recognised. Instead, assets to be distributed that fall within the scope of IFRS 5 are measured in accordance with that standard (see section 9). Assets to be distributed that are not within the measurement scope of IFRS 5 (e.g., deferred tax assets) continue to be measured in accordance with other IFRSs (e.g., IAS 12 Income Taxes). Assets to be distributed are derecognised when the distribution occurs (see section 7).
Insight: If the fair value of the assets to be distributed is higher than their carrying amount, then there will be a potentially important accounting mismatch during the period between the initial recognition of the liability and its settlement. The mismatch arises in such cases because the liability is recognised at the fair value of the assets from the date of initial recognition, but the assets themselves are not remeasured to fair value until the distribution is made.

In some jurisdictions legally dividends can be paid only from “available profits,” with distributions in excess of available profits being classified as a return of capital. The accounting mismatch may affect the entity’s ability to distribute the non-cash assets, or to declare other dividends subsequently.

Additionally, during the period between initial recognition of the liability and its settlement, the accounting mismatch will affect reported net assets because the recognition of the liability at fair value may result in reduced, or even negative, equity being presented in the financial statements. This could impact debt covenants and consequently the classification of liabilities as current or non-current.

Worked example
The requirements of the interpretation in respect of the initial recognition and measurement of a liability apply as follows to the example background facts in section 4.

The liability is recognised on 20 December, which is the date on which the shareholders approved the distribution. Although the directors proposed the distribution on 5 December, it requires shareholder approval for it to be authorised and no longer at the discretion of X. However, the criteria for classification as held for distribution to owners under IFRS 5 may be met prior to 20 December (see section 9).

On 20 December X records the following entry in its consolidated financial statements:

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>39,000</td>
</tr>
<tr>
<td>Liability for distribution</td>
<td>39,000</td>
</tr>
<tr>
<td>To record liability at the fair value of Newco</td>
<td></td>
</tr>
</tbody>
</table>
6. Reporting date

IFRIC 17

The liability for the distribution is remeasured at each reporting date, and at the date of settlement. Once again, remeasurement is based on the fair value of the assets to be distributed. Any changes in the measurement of the liability are recognised in equity; this is consistent with the accounting for the liability at the time of initial recognition (see section 5).

**Insight:** The issues in respect of the potential accounting mismatch and its consequences, highlighted in section 5, continue to be relevant. In order to avoid an extended period of mismatch, an entity may seek to minimise the time between the date of initial recognition of the liability and the date of settlement.

**Worked example**

The requirements of the interpretation in respect of the remeasurement of the liability apply as follows to the example background facts in section 4.

At 31 December X prepares interim consolidated financial statements, and records the following entry:

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>1,000</td>
</tr>
<tr>
<td>Liability for distribution</td>
<td>1,000</td>
</tr>
<tr>
<td>To remeasure liability at the fair value of Newco (40,000 - 39,000)</td>
<td></td>
</tr>
</tbody>
</table>

In addition, X must comply with the requirements of IFRS 5 (see section 9).

The following is the overall effect on reported net assets in X’s interim consolidated financial statements:

<table>
<thead>
<tr>
<th>Effect on reported net assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carrying amount of assets</td>
</tr>
<tr>
<td>Liabilities increased by</td>
</tr>
<tr>
<td>Equity decreased by</td>
</tr>
</tbody>
</table>

This decrease in equity illustrates the accounting mismatch discussed in section 5 as the carrying amount of Newco’s (D’s) net assets in X’s consolidated financial statements at 31 December is 34,500, but the distribution is measured at 40,000.
7. Settlement date

*IFRIC 17*13-15, At the date on which the distribution occurs (i.e., settlement date), the following takes place:

- The liability is remeasured based on the fair value of the assets to be distributed, with any change therein recognised in equity (see section 6).
- The liability and the assets distributed are derecognised.
- Any difference between the fair value of the assets distributed and their carrying amount in the financial statements is recognised as a separate line item in profit or loss, with a consequential effect on earnings per share.
- Any amounts recognised in other comprehensive income in relation to the assets distributed (e.g., revaluation reserves) are reclassified to profit or loss or transferred directly to retained earnings if required in accordance with other IFRSs, on the same basis that would be required if the non-cash assets had been disposed of.

*IFRIC 17 BC39* It is expected that the amount recognised in profit or loss at the settlement date will never be a loss because if the fair value of the assets had been lower than their carrying amount, then an impairment loss would have been recognised prior to settlement.

**Insight:** Distributions of non-cash assets may be made more attractive by the positive impact on profit or loss when the fair value of the assets distributed is higher than their carrying amount, although total equity will remain unchanged.

**Worked example**
The requirements of the interpretation in respect of the settlement of the distribution apply as follows to the example background facts in section 4.

On 7 February X distributes the shares in Newco, thereby losing control of Newco (Division D). X records the following journal entries:

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>6,000</td>
</tr>
<tr>
<td>Liability for distribution</td>
<td>6,000</td>
</tr>
<tr>
<td><em>To remeasure liability at the fair value of Newco (46,000 - 40,000)</em></td>
<td></td>
</tr>
<tr>
<td>Liability for distribution</td>
<td>46,000</td>
</tr>
<tr>
<td>Net assets of D</td>
<td>35,500</td>
</tr>
<tr>
<td>Profit or loss (separate line item)</td>
<td>10,500</td>
</tr>
<tr>
<td><em>To derecognise liability and Newco’s (D’s) net assets</em></td>
<td></td>
</tr>
</tbody>
</table>
8. Disclosures

IFRIC 17.16 The interpretation requires specific disclosures for distributions within its scope:

- the carrying amount of the dividend payable at the beginning and end of the period; and
- any increase or decrease in the dividend payable recognised during the period as a result of changes in the fair value of the assets to be distributed.

IFRIC 17.17 In addition, when a liability for a distribution within the scope of the interpretation meets the criteria for initial recognition after the reporting date but before the financial statements are authorised for issue, the following is disclosed:

- the nature of the asset to be distributed;
- the carrying amount and estimated fair value of the asset to be distributed as of the reporting date; and
- the following information:
  - whether fair values are determined, in whole or in part, directly by reference to published price quotations in an active market or are estimated using a valuation technique; and
  - the method used to determine fair value and, when a valuation technique is used, the assumptions applied.

The disclosure requirements of IFRS 5 are discussed in section 9.
9. Non-current assets held for distribution to owners

IFRS 5.5A As a result of issuing the interpretation, the Board also expanded the scope of IFRS 5 to include non-current assets (or disposal groups) held for distribution to owners acting in their capacity as owners.

Insight: The scope exclusions in IFRIC 17 are not carried through to the IFRS 5 amendments. This may result in non-cash assets that are intended to be distributed being accounted for in accordance with IFRS 5, even if they are not within the scope of IFRIC 17. The most significant impact is likely to be in respect of common control transactions (see section 3).

IFRS 5.12A A non-current asset (or disposal group) is classified as held for distribution to owners when the entity is committed to the distribution, which is when:

- the assets are available for immediate distribution in their present condition; and
- the distribution is “highly probable”.

IFRS 5.12A A distribution is “highly probable” when:

- actions to complete the distribution have been initiated and are expected to be completed within one year from the date of classification;
- these actions indicate that it is unlikely that significant changes to the distribution will be made or that the distribution will be withdrawn; and
- shareholder approval is highly probable, if this is required in the relevant jurisdiction.

Insight: A distribution may be “highly probable,” and the assets classified as held for distribution to owners, at a date earlier than the date at which a liability for the distribution is recognised (see section 5). This is particularly relevant when a reporting date falls between the date that the assets are classified as held for distribution to owners and the date on which a liability for the distribution is recognised; in such cases the requirements of IFRS 5 will apply prior to a liability for the distribution being recognised.

IFRS 5.2, 15A Consistent with a non-current asset (or disposal group) held for sale, a non-current asset (or disposal group) held for distribution to owners and within the measurement scope of IFRS 5 is measured at the lower of its carrying amount and its fair value less costs to distribute. Costs to distribute are incremental costs directly attributable to the distribution, excluding finance costs and income tax expense. Non-current assets to be distributed that are not within the measurement scope of IFRS 5 (e.g., deferred tax assets) continue to be measured in accordance with other IFRSs (e.g., IAS 12).

IFRS 5.5A While the amendments to IFRS 5 refer to the classification, presentation and measurement requirements of the standard applying to non-current assets (or disposal groups) held for distribution to owners, they do not refer to disclosures. Therefore while it might be inferred that the disclosures included in the presentation section of the standard apply (see below), it appears that the “additional disclosures” in paragraphs 41 and 42 of the standard do not. It is not clear whether this omission was intended by the IFRIC.
**Worked example**

The requirements of the interpretation in respect of the settlement of the distribution apply as follows to the example background facts in section 4.

The net assets of Newco (Division D) are classified as held for distribution to owners on 5 December because shareholder approval of the distribution is considered highly probable and it is assumed that the remaining criteria of IFRS 5 are met. This is earlier than the date on which the liability is recognised (20 December – see section 5).

![IFRS 5.38](image)

At 31 December, in its interim consolidated financial statements and in accordance with IFRS 5, X presents the assets and liabilities of D in two line items:

- in current assets, assets classified as held for distribution to owners; and
- in current liabilities, liabilities classified as held for distribution to owners.

In accordance with IFRS 5, X includes the following in the notes to the interim consolidated financial statements:

![IFRS 5.41(a)-(d)](image)

On 20 December the Company’s shareholders approved the distribution of the shares in Newco, one of the Group’s wholly-owned subsidiaries. Newco’s operations comprise the Group’s retail activities. The distribution is expected to occur on 7 February. At 31 December the disposal group (Newco) comprised assets of 40,000 and liabilities of 5,500. The fair value of Newco at 31 December was estimated at 40,000, and a liability for that amount has been recognised (see note xx). *

![IFRS 5.38](image)

**Assets classified as held for distribution to owners**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property, plant and equipment</td>
<td>29,000</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>11,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>40,000</strong></td>
</tr>
</tbody>
</table>

![IFRS 5.38](image)

**Liabilities classified as held for distribution to owners**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans and borrowings</td>
<td>2,000</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>3,500</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5,500</strong></td>
</tr>
</tbody>
</table>

* It is not clear from the amendments to IFRS 5 whether this disclosure is required (see discussion above). However, its inclusion in this example provides a better explanation of the transaction.
10. Effective date and transition

IFRIC 17 and the amendments to IFRS 5 apply prospectively for annual periods beginning on or after 1 July 2009; earlier application is permitted provided that IFRS 3 (2008), IAS 27 (2008) and the related amendments to IFRS 5 are applied at the same time. Retrospective application is not permitted.

**Insight:** The interpretation includes no relief for distributions in progress but not yet settled at the effective date, which will require remeasurement of the related liability to fair value if the entity had a different accounting policy previously. However, comparative financial statements should not be re-presented because the transition requires prospective application.

For example, Company P has an annual reporting date of 30 June. Assuming that P does not elect to apply the interpretation early, the new requirements will apply from 1 July 2009. On 30 June 2009 P recognises a liability for a distribution of non-cash assets; in accordance with P’s accounting policy the liability is measured at the carrying amount of the non-cash assets to be distributed, an amount of 100,000. The fair value of those assets is 120,000 on 1 July 2009. On 1 July 2009 P remeasures the liability to 120,000, recognising the increase directly in equity in the financial year ending 30 June 2010.
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