KPMG

cutting through complexity

AUDIT COMMITTEE INSTITUTE

Insights into IFRS

An overview

September 2014

kpmg.com/ifrs

About the Audit Committee Institute

The KPMG-sponsored Audit Committee Institute is a growing international network that provides complimentary guidance and resources. It is designed to help non-executive directors update and refresh the skills and knowledge that are essential for each member to fulfil their role within the board. From small, sector-specific forums to large key speaker dinners, the Audit Committee Institute offers non-executive directors a forum to network with their peers.

For more information, speak to your usual KPMG contact or go to www.kpmg.com/globalACI.

CONSISTENCY – BUT ALSO RELEVANCE

Last year, our introduction to this publication focused on consistency – both of application and of enforcement. This continues to be a key theme in the preparation of financial statements, and the last year has certainly been busy: the new consolidation suite of standards and the fair value measurement standard have been in effect for a complete annual reporting cycle, and the practical implementation issues are starting to become clear.

Attention will now turn to the new revenue standard. The 2017 effective date might seem a long way off, but already companies are analysing the implications – for both external financial reporting and the core systems used to produce the numbers – and looking at their transition options, including the ability to early adopt. And as we go to print, the complete version of IFRS 9 has just been released, bringing fundamental changes and expected to have a massive impact on the way that banks account for credit losses on their loan portfolios. With the IASB's financial instruments project now substantially complete, implementation efforts can finally begin in earnest.

But as we think about these financial reporting developments, we also find ourselves thinking more and more about the relevance of financial information. Financial statements are not just a compliance exercise. You stand to maximise their value to investors and get more from your efforts if the most important information is prominent, disclosures are clear and avoid immaterial points that obscure key information, and the messaging in financial statements aligns with other published information, such as the management report and earnings releases.

So our recommendation is twofold … Use the interpretative guidance in Insights into IFRS as your tool to help you apply IFRS to real transactions and arrangements. And to start or further your thinking about financial reporting in the wider sense, visit our Better Business Reporting website.

This companion guide, *Insights into IFRS: An overview*, is designed to help Audit Committee members and others by providing a structured guide to the key issues arising from the standards.

Audit Committee Institute
September 2014

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

CONTENTS

How to navigate this publication **4**

1 Background **5**

1.1 Introduction 5
1.2 The Conceptual Framework 6

2 General issues **7**

2.1 Form and components of financial statements 7
2.2 Changes in equity 9
2.3 Statement of cash flows 10
2.4 Fair value measurement 11
2.5 Consolidation 13
2.6 Business combinations 16
2.7 Foreign currency translation 18
2.8 Accounting policies, errors and estimates 20
2.9 Events after the reporting date 21
2.10 Hyperinflation 22

3 Statement of financial position **23**

3.1 General 23
3.2 Property, plant and equipment 24
3.3 Intangible assets and goodwill 26
3.4 Investment property 28
3.5 Associates and the equity method 30
3.6 Joint arrangements 32
3.7 [Not used]
3.8 Inventories 33
3.9 Biological assets 34
3.10 Impairment of non-financial assets 35
3.11 [Not used]
3.12 Provisions, contingent assets and liabilities 37
3.13 Income taxes 39

4 Statement of profit or loss and other comprehensive income **41**

4.1 General 41
4.2 Revenue 43
4.2A Revenue 45
4.3 Government grants 48
4.4 Employee benefits 49
4.5 Share-based payments 51
4.6 Borrowing costs 53

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

5 Special topics **54**
5.1 Leases 54
5.2 Operating segments 56
5.3 Earnings per share 58
5.4 Non-current assets held for sale and discontinued operations 60
5.5 Related party disclosures 61
5.6 Investment entities 62
5.7 Non-monetary transactions 64
5.8 Accompanying financial and other information 65
5.9 Interim financial reporting 66
5.10 [Not used]
5.11 Extractive activities 67
5.12 Service concession arrangements 68
5.13 Common control transactions and Newco formations 70

6 First-time adoption of IFRS **72**
6.1 First-time adoption of IFRS 72
6.2A Regulatory deferral accounts and first-time adoption of IFRS 74

7 Financial instruments **76**
7.1 Scope and definitions 76
7.2 Derivatives and embedded derivatives 77
7.3 Equity and financial liabilities 78
7.4 Classification of financial assets and financial liabilities 79
7.5 Recognition and derecognition 80
7.6 Measurement and gains and losses 81
7.7 Hedge accounting 83
7.8 Presentation and disclosures 85
7A Financial instruments: IFRS 9 (2013) 87

8 Insurance contracts **91**
8.1 Insurance contracts 91

Appendix I **93**
New standards or amendments for 2014 and forthcoming requirements 93

Keeping you informed **95**

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

HOW TO NAVIGATE THIS PUBLICATION

This guide provides a quick overview of the key requirements of IFRS, for easy reference, and is organised by topic.

This edition is designed for companies with a year end of 31 December 2014. It is based on IFRS in issue at 1 July 2014, and includes standards and interpretations that are effective at that date[1] ('currently effective requirements') and *significant* amendments that are effective in later periods ('forthcoming requirements').

Appendix I lists new standards or amendments for 2014 and forthcoming requirements, other than minor amendments.

1 IAS 26 *Accounting and Reporting by Retirement Benefit Plans* and the *IFRS for Small and Medium-sized Entities* are excluded.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

1 BACKGROUND

1.1 Introduction

Currently effective: IFRS Foundation Constitution, IASB and IFRS Interpretations Committee Due Process Handbook, Preface to IFRSs, IAS 1

International Financial Reporting Standards

- IFRS is a set of globally accepted standards for financial reporting applied primarily by listed entities in over 120 countries.
- Individual standards and interpretations are developed and maintained by the IASB and the IFRS Interpretations Committee.
- IFRS is designed for use by profit-oriented entities.

Compliance with IFRS

- Any entity claiming compliance with IFRS complies with all standards and interpretations, including disclosure requirements, and makes an explicit and unreserved statement of compliance with IFRS.
- The overriding requirement of IFRS is for the financial statements to give a fair presentation (or a true and fair view).

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

1.2 The Conceptual Framework

Currently effective: Conceptual Framework for Financial Reporting

Purpose

- The Conceptual Framework is a point of reference:
  - for the IASB and the IFRS Interpretations Committee in developing and maintaining standards and interpretations; and
  - for preparers of financial statements in the absence of specific guidance in IFRS.
- The Conceptual Framework does not override any specific IFRS.

Objective of general purpose financial reporting

- The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.

Qualitative characteristics of useful financial information

- For financial information to be useful, it needs to be relevant to users and faithfully represent what it purports to represent. The usefulness of financial information is enhanced by its comparability, verifiability, timeliness and understandability.

Building blocks of financial statements

- The Conceptual Framework sets out the definitions of 'assets' and 'liabilities'. The definitions of 'equity', 'income' and 'expenses' are derived from the definitions of assets and liabilities.

Measurement basis

- Financial statements are prepared on a modified historical cost basis, with a growing emphasis on fair value.

Going concern

- Financial statements are prepared on a going concern basis, unless management intends, or has no alternative other than, to liquidate the entity or to stop trading.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

2 GENERAL ISSUES

2.1 Form and components of financial statements

Currently effective: IFRS 10, IFRS 11, IAS 1, IAS 27, IAS 28

Complete set of financial statements

- A complete set of financial statements comprises the following.
  - A statement of financial position.
  - A statement of profit or loss and other comprehensive income.
  - A statement of changes in equity.
  - A statement of cash flows.
  - Notes, including accounting policies.
  - Comparative information.
  - A statement of financial position as at the beginning of the preceding period ('third statement of financial position') in certain circumstances.

Reporting date

- The reporting date may change only in exceptional circumstances.

Comparative information

- Comparative information is required for the immediately preceding period only. Additional comparative information may be presented if it is compliant with IFRS; however, it need not comprise a complete set of financial statements.

Types of financial statements

- IFRS sets out the requirements that apply to consolidated, individual and separate financial statements.

Consolidated financial statements

- An entity with one or more subsidiaries presents consolidated financial statements unless it is a qualifying investment entity (see 5.6) or specific exemption criteria are met.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Individual financial statements

- An entity with no subsidiaries but with investments in associates or joint ventures prepares individual financial statements if such investments are accounted for using the equity method, unless specific exemption criteria are met.

Separate financial statements

- A parent, an investor in an associate or a venturer in a joint venture that is not required to prepare consolidated or individual financial statements is permitted, but not required, to present separate financial statements. Alternatively, separate financial statements may be prepared in addition to consolidated or individual financial statements.

Presenting pro forma information

- In our view, it is acceptable to present pro forma information if it is allowed by local regulations and relevant stock exchange rules and if certain criteria are met.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

2.2 Changes in equity

Currently effective: IAS 1

General

- A statement of changes in equity (and related notes) reconciles opening to closing amounts for each component of equity.
- All owner-related changes in equity are presented in the statement of changes in equity separately from non-owner changes in equity.

Entities with no equity

- Entities that have no equity as defined in IFRS may need to adopt the financial statement presentation of members' or unit holders' interests.

Changes in accounting policies and errors

- Generally, accounting policy changes and corrections of prior-period errors are made by adjusting opening equity and restating comparatives unless this is impracticable.
- An entity presents separately in the statement of changes in equity:
  - the total adjustment resulting from changes in accounting policies; and
  - the total adjustment resulting from the correction of errors.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

2.3 Statement of cash flows

Currently effective: IAS 7

Cash and cash equivalents

- 'Cash and cash equivalents' for the purposes of the statement of cash flows include certain short-term investments and, in some cases, bank overdrafts.

Operating, investing and financing activities

- The statement of cash flows presents cash flows during the period, classified by operating, investing and financing activities.
- An entity presents its cash flows in the manner most appropriate to its business.
- An entity chooses its own policy for classifying each of interest and dividends. The chosen presentation method is applied consistently.
- Taxes paid are classified as operating activities unless it is practicable to identify them with, and therefore classify them as, financing or investing activities.

Direct vs indirect method

- Cash flows from operating activities may be presented under either the direct method or the indirect method.

Foreign currency cash flows

- Foreign currency cash flows are translated at the exchange rates at the dates of the cash flows (or using averages when appropriate).

Offsetting

- Generally, all financing and investing cash flows are reported gross. Cash flows are offset only in limited circumstances.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

2.4 Fair value measurement

Currently effective: IFRS 13

Scope

- The standard applies to most fair value measurements and disclosures (including measurements based on fair value) that are required or permitted by other IFRSs.

Fair value principles

- Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date – i.e. an exit price.
- Market participants are independent of each other, they are knowledgeable and have a reasonable understanding of the asset or liability, and they are willing and able to transact.
- Fair value measurement assumes that a transaction takes place in the principal market (i.e. the market with the greatest volume and level of activity) for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability.

Valuation approaches and techniques

- There are three general approaches to valuation, with various techniques applied under those approaches:
  - the market approach – e.g. quoted prices in an active market;
  - the income approach – e.g. discounted cash flows; and
  - the cost approach – e.g. depreciated replacement cost.

Inputs to valuation techniques

- A fair value hierarchy is established based on the inputs to valuation techniques used to measure fair value.
- A premium or discount (e.g. a control premium) may be an appropriate input to a valuation technique, but only if it is consistent with the relevant unit of account.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Fair value hierarchy

- The inputs are categorised into three levels (Levels 1, 2 and 3), with the highest priority given to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority given to unobservable inputs.
- Appropriate valuation technique(s) should be used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Measuring fair value

- Fair value on initial recognition generally equals the transaction price.
- Non-financial assets are measured based on their 'highest and best use' – i.e. the use that would maximise the value of the asset (or group of assets) for a market participant.
- In the absence of quoted prices for the transfer of the instrument, a liability or an entity's own equity instrument is valued from the perspective of a market participant that holds the corresponding asset. Failing that, other valuation techniques are used to value the liability or own equity instrument from the perspective of a market participant that owes the liability or has issued the equity instrument.
- The fair value of a liability reflects non-performance risk, which is assumed to be the same before and after the transfer of the liability.
- Certain groups of financial assets and financial liabilities with offsetting market or credit risks may be measured based on the net risk exposure.
- For assets or liabilities with bid and ask prices, an entity uses the price within the bid-ask spread that is most representative of fair value in the circumstances. The use of bid prices for assets and ask prices for liabilities is permitted.
- Guidance is provided on measuring fair value when there has been a decline in the volume or level of activity in a market, and when transactions are not orderly.

Disclosures

- A comprehensive disclosure framework is designed to help users of financial statements assess the valuation techniques and inputs used in fair value measurements, and the effect on profit or loss or other comprehensive income of recurring fair value measurements that are based on significant unobservable inputs.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

2.5 Consolidation

Currently effective: IFRS 10, IFRS 12

Entities included in consolidated financial statements

- An entity that controls one or more entities presents consolidated financial statements unless it is a qualifying investment entity (see 5.6) or specific exemption criteria are met.
- Venture capital organisations, mutual funds, unit trusts and similar entities that do not qualify as investment entities (see 5.6) are not exempt from the requirements of the standard and their subsidiaries are consolidated.

Single control model

- An investor controls an investee when the investor is exposed to (has rights to) variable returns from its involvement with the investee, and has the ability to affect those returns through its power over the investee. Control involves power, exposure to variability of returns and a linkage between the two.
- Control is assessed on a continuous basis.

Step 1: Understand the investee

- Control is generally assessed at the level of the legal entity. However, an investor may have control over only specified assets and liabilities of the legal entity (a 'silo'), in which case control is assessed at that level if certain conditions are met.
- The purpose and design of the investee does not in itself determine whether the investor controls the investee. However, it plays a role in the judgement applied by the investor in all areas of the control model. Assessing purpose and design includes considering the risks that the investee was designed to create and to pass on to the parties involved in the transaction, and whether the investor is exposed to some or all of those risks.
- The 'relevant activities' of the investee – i.e. the activities that significantly affect the investee's returns – need to be identified. In addition, the investor determines whether decisions about the relevant activities are made based on voting rights.

Step 2: Power over relevant activities

- Only substantive rights are considered in assessing whether the investor has power over the relevant activities of the investee.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

- If voting rights are relevant for assessing power, then the investor considers potential voting rights that are substantive, rights arising from other contractual arrangements and factors that may indicate de facto power – e.g. the investor has a dominant shareholding and the other vote holders are sufficiently dispersed.
- If voting rights are not relevant for assessing power, then the investor considers evidence of the practical ability to direct the relevant activities (the most important factor), indications of a special relationship with the investee, and the size of the investor's exposure to variable returns from its involvement with the investee.

Step 3: Exposure to variability in returns

- Returns are broadly defined and include not only direct returns (e.g. dividends, interest and changes in the fair value of an investment), but also indirect returns (e.g. achieving economies of scale, cost savings and other synergies).

Step 4: Linkage

- If the investor (decision maker) is an agent, then the link between power and returns is absent and the decision maker's delegated power is treated as if it were held by its principal(s).
- To determine whether it is an agent, the decision maker considers:
  - substantive removal and other rights held by a single or multiple parties;
  - whether its remuneration is on arm's length terms;
  - its other economic interests; and
  - the overall relationship between itself and other parties.
- An entity takes into account the rights of parties acting on its behalf in assessing whether it controls an investee.

Subsidiaries' accounting periods and policies

- The difference between the reporting date of a parent and its subsidiary cannot be more than three months. Adjustments are made for the effects of significant transactions and events between the two dates.
- Uniform accounting policies are used throughout the group.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Non-controlling interests

- 'Ordinary' non-controlling interests (NCI) are measured at fair value, or at their proportionate interest in the net assets of the acquiree, at the date of acquisition. Ordinary NCI are present ownership interests that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. 'Other' NCI are generally measured at fair value.
- Losses in a subsidiary may create a debit balance in NCI.
- NCI in the statement of financial position are classified as equity but are presented separately from the parent shareholders' equity.
- Profit or loss and other comprehensive income (OCI) for the period are allocated between NCI and the shareholders of the parent.

Intra-group transactions

- Intra-group transactions are eliminated in full.

Loss of control

- On the loss of control of a subsidiary, the assets and liabilities of the subsidiary and the carrying amount of the NCI are derecognised. The consideration received and any retained interest (measured at fair value) are recognised. Amounts recognised in OCI are reclassified as required by other IFRSs. Any resulting gain or loss is recognised in profit or loss.

Changes in ownership interest while retaining control

- Changes in the parent's ownership interest in a subsidiary without a loss of control are accounted for as equity transactions and no gain or loss is recognised.

Disclosures

- Detailed disclosures are required, including in respect of *unconsolidated* structured entities.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

2.6 Business combinations

Currently effective: IFRS 3, IFRS 13

Scope

- Business combinations are accounted for under the acquisition method (acquisition accounting), with limited exceptions.

Identifying a business combination

- A 'business combination' is a transaction or other event in which an acquirer obtains control of one or more businesses.
- A 'business' is an integrated set of activities and assets that is capable of being conducted and managed to provide a return to investors by way of dividends, lower costs or other economic benefits.

Identifying the acquirer

- The acquirer in a business combination is the combining entity that obtains control of the other combining business or businesses.

Determining the date of acquisition

- The date of acquisition is the date on which the acquirer obtains control of the acquiree.

Consideration transferred

- Consideration transferred by the acquirer, which is generally measured at fair value at the date of acquisition, may include assets transferred, liabilities incurred by the acquirer to the previous owners of the acquiree and equity interests issued by the acquirer.

Determining what is part of the business combination

- Any items that are not part of the business combination transaction are accounted for outside the acquisition accounting.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Identifiable assets acquired and liabilities assumed

- The identifiable assets acquired and the liabilities assumed are recognised separately from goodwill at the date of acquisition if they meet the definition of assets and liabilities and are exchanged as part of the business combination. They are measured at the date of acquisition at their fair values, with limited exceptions.

Measurement of non-controlling interests

- The acquirer in a business combination can elect, on a transaction-by-transaction basis, to measure 'ordinary' non-controlling interests (NCI) at fair value, or at their proportionate interest in the net assets of the acquiree, at the date of acquisition.
- 'Other' NCI are generally measured at fair value.

Goodwill or a gain on bargain purchase

- Goodwill is measured as a residual and is recognised as an asset. When the residual is a deficit (gain on a bargain purchase), it is recognised in profit or loss after reassessing the values used in the acquisition accounting.

Subsequent measurement and accounting

- Adjustments to the acquisition accounting during the 'measurement period' reflect additional information about facts and circumstances that existed at the date of acquisition.
- In general, items recognised in the acquisition accounting are measured and accounted for in accordance with the relevant IFRSs subsequent to the business combination.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

2.7 Foreign currency translation

Currently effective: IAS 21, IAS 29

Determining the functional currency

- An entity measures its assets, liabilities, income and expenses in its functional currency, which is the currency of the primary economic environment in which it operates.

Translation of foreign currency transactions

- Transactions that are not denominated in an entity's functional currency are foreign currency transactions; exchange differences arising on translation are generally recognised in profit or loss.

Translation of the financial statements of foreign operations

- The financial statements of foreign operations are translated as follows:
  - assets and liabilities are translated at the closing rate;
  - income and expenses are translated at actual rates or appropriate averages; and
  - equity components are translated at the exchange rates at the date of the relevant transactions.
- Exchange differences arising on the translation of the financial statements of a foreign operation are recognised in other comprehensive income (OCI) and accumulated in a separate component of equity. The amount attributable to any non-controlling interests (NCI) is allocated to, and recognised as part of, NCI.

Translation from the functional currency to a different presentation currency

- An entity may present its financial statements in a currency other than its functional currency (presentation currency). An entity that translates its financial statements into a presentation currency other than its functional currency uses the same method as for translating the financial statements of a foreign operation.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Foreign operations with the functional currency of a hyperinflationary economy

- If the functional currency of a foreign operation is the currency of a hyperinflationary economy, then its financial statements are first adjusted to reflect the purchasing power at the current reporting date and then translated into a presentation currency using the exchange rate at the current reporting date. If the presentation currency is not the currency of a hyperinflationary economy, then comparative amounts are not restated.

Sale or liquidation of a foreign operation

- If an entity disposes of its entire interest in a foreign operation, or loses control over a foreign subsidiary or retains neither joint control nor significant influence over an associate or joint arrangement as a result of a partial disposal, then the cumulative exchange differences recognised in OCI are reclassified to profit or loss.
- A partial disposal of a foreign subsidiary without the loss of control leads to a proportionate reclassification of the cumulative exchange differences in OCI to NCI.
- A partial disposal of a joint arrangement or an associate with retention of either joint control or significant influence results in a proportionate reclassification of the cumulative exchange differences recognised in OCI to profit or loss.

Convenience translations

- An entity may present supplementary financial information in a currency other than its presentation currency if certain disclosures are made.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

2.8 Accounting policies, errors and estimates

Currently effective: IAS 1, IAS 8

Selection of accounting policies

- Accounting policies are the specific principles, bases, conventions, rules and practices that an entity applies in preparing and presenting financial statements.
- If IFRS does not cover a particular issue, then management uses its judgement based on a hierarchy of accounting literature.
- Unless otherwise specifically permitted by an IFRS, the accounting policies adopted by an entity are applied consistently to all similar items.

Changes in accounting policy and correction of prior-period errors

- An accounting policy is changed in response to a new or revised IFRS, or on a voluntary basis if the new policy provides reliable and more relevant information.
- Generally, accounting policy changes and corrections of prior-period errors are made by adjusting opening equity and restating comparatives unless this is impracticable.

Changes in accounting estimates

- Changes in accounting estimates are accounted for prospectively.
- If it is difficult to determine whether a change is a change in accounting policy or a change in estimate, then it is treated as a change in estimate.

Change in classification or presentation

- If the classification or presentation of items in the financial statements is changed, then comparatives are restated unless this is impracticable.

Key judgements and estimation uncertainties

- Disclosure is required for judgements that have a significant impact on the financial statements and for key sources of estimation uncertainty.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

2.9 Events after the reporting date

Currently effective: IAS 1, IAS 10

Adjusting events

- The financial statements are adjusted to reflect events that occur after the reporting date, but before the financial statements are authorised for issue by management, if those events provide evidence of conditions that existed at the reporting date.

Non-adjusting events

- Financial statements are not adjusted for events that are a result of conditions that arose after the reporting date, except when the going concern assumption is no longer appropriate.

Identifying the key event

- It is necessary to determine the underlying causes of an event and its timing to determine whether the event is adjusting or non-adjusting.

Current vs non-current classification

- The classification of liabilities as current or non-current is based on circumstances at the reporting date.

Earnings per share

- Earnings per share is restated to include the effect on the number of shares of certain share transactions that happen after the reporting date.

Going concern

- If management determines that the entity is not a going concern after the reporting date but before the financial statements are authorised for issue, then the financial statements are not prepared on a going concern basis.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

2.10 Hyperinflation

Currently effective: IAS 21, IAS 29, IFRIC 7

General requirements

- If an entity's functional currency is hyperinflationary, then its financial statements are restated to express all items in the measuring unit current at the reporting date.

Indicators of hyperinflation

- Hyperinflation is indicated by the characteristics of the country's economy, and it is a matter of judgement when restatement for hyperinflation becomes necessary.

Restating the financial statements for hyperinflation

- *Step 1:* Restate the statement of financial position at the beginning of the reporting period by applying the change in the price index during the current period to all items.
- *Step 2:* Restate the statement of financial position at the end of the reporting period by adjusting non-monetary items to current purchasing power terms.
- *Step 3:* Restate the statement of profit or loss and other comprehensive income.
- *Step 4:* Calculate the gain or loss on the net monetary position.

Ceasing hyperinflationary accounting

- If an entity's functional currency ceases to be hyperinflationary, then the amounts reported in the latest financial statements restated for hyperinflation are used as the basis for the carrying amounts in subsequent financial statements.

Supplementary historical cost information

- If an entity presents financial statements restated for hyperinflation, then in our view it is not appropriate to present additional supplementary financial information prepared on a historical cost basis.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

3 STATEMENT OF FINANCIAL POSITION

3.1 General

Currently effective: IAS 1

Format of statement of financial position

- Although IFRS requires certain items to be presented in the statement of financial position, there is no prescribed format.
- Generally, an entity presents its statement of financial position classified between current and non-current assets and liabilities. An entity may present assets and liabilities in the order of liquidity if this presentation provides reliable and more relevant information.

Current vs non-current

- An asset is classified as current if it is expected to be realised in the normal operating cycle or within 12 months, it is held for trading or is cash or a cash equivalent.
- A liability is classified as current if it is expected to be settled in the normal operating cycle, it is due within 12 months, or there are no unconditional rights to defer its settlement for at least 12 months.
- A liability that is payable on demand because certain conditions are breached is classified as current even if the lender has agreed, after the reporting date but before the financial statements are authorised for issue, not to demand repayment.
- Assets and liabilities that are part of working capital are classified as current even if they are due to be settled more than 12 months after the reporting date.

Offsetting

- A financial asset and a financial liability are offset if the criteria are met. Similarly, income tax balances are offset under certain circumstances. Other non-financial assets and non-financial liabilities cannot be offset.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

3.2 Property, plant and equipment

Currently effective: IFRS 13, IAS 16, IFRIC 1, IFRIC 18
Forthcoming: Amendments to IAS 16, IFRS 15

Initial recognition

- Property, plant and equipment is initially recognised at cost.
- Cost includes all expenditure directly attributable to bringing the asset to the location and working condition for its intended use.
- Cost includes the estimated cost of dismantling and removing the asset and restoring the site.

Subsequent measurement

- Subsequent expenditure is capitalised if it is probable that it will give rise to future economic benefits.
- Changes to an existing decommissioning or restoration obligation are generally added to or deducted from the cost of the related asset.

Depreciation

- Property, plant and equipment is depreciated over its expected useful life.
- Estimates of useful life and residual value, and the method of depreciation, are reviewed as a minimum at each reporting date. Any changes are accounted for prospectively as a change in estimate.

Component accounting

- When an item of property, plant and equipment comprises individual components for which different depreciation methods or rates are appropriate, each component is depreciated separately.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Revaluations

- Property, plant and equipment may be revalued to fair value if fair value can be measured reliably. All items in the same class are revalued at the same time, and the revaluations are kept up to date.
- When the revaluation model is chosen, changes in fair value are generally recognised in other comprehensive income.

Retirements and disposals

- The gain or loss on disposal is the difference between the net proceeds received and the carrying amount of the asset.
- Compensation for the loss or impairment of property, plant and equipment is recognised in profit or loss when it is receivable.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

3.3 Intangible assets and goodwill

Currently effective: IFRS 3, IFRS 13, IAS 38, IFRIC 12, SIC-32
Forthcoming: Amendments to IAS 38, IFRS 15

Definitions

- An intangible asset is an identifiable non-monetary asset without physical substance.
- An intangible asset is 'identifiable' if it is separable or arises from contractual or legal rights.

Initial recognition and measurement

- In general, intangible assets are initially recognised at cost.
- The initial measurement of an intangible asset depends on whether it has been acquired separately, has been acquired as part of a business combination or was internally generated.
- Goodwill is recognised only in a business combination and is measured as a residual.
- Internal development expenditure is capitalised if specific criteria are met. These capitalisation criteria are applied to all internally developed intangible assets.
- Internal research expenditure is expensed as it is incurred.
- Expenditure relating to internally generated goodwill, customer lists, start-up costs, training costs, advertising and promotional activities, and relocation or a reorganisation is expensed as it is incurred.

Indefinite useful lives

- Acquired goodwill and other intangible assets with indefinite useful lives are not amortised, but instead are subject to impairment testing at least annually.

Finite useful lives

- Intangible assets with finite useful lives are amortised over their expected useful lives.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Subsequent expenditure

- Subsequent expenditure on an intangible asset is capitalised only if the definition of an intangible asset and the recognition criteria are met.

Revaluations

- Intangible assets cannot be revalued to fair value unless there is an active market.

Retirements and disposals

- The gain or loss on disposal is the difference between the net proceeds received and the carrying amount of the asset.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

3.4 Investment property

Currently effective: IFRS 13, IAS 16, IAS 17, IAS 40

Scope

- Investment property is property (land or building) held to earn rentals or for capital appreciation, or both.
- Property held by a lessee under an operating lease may be classified as investment property if:
  - the rest of the definition of investment property is met; and
  - the lessee measures all of its investment property at fair value.
- A portion of a dual-use property is classified as investment property only if the portion could be sold or leased out under a finance lease. Otherwise, the entire property is classified as property, plant and equipment, unless the portion of the property used for own use is insignificant.
- If a lessor provides ancillary services and such services are a relatively insignificant component of the arrangement as a whole, then the property is classified as investment property.

Recognition and measurement

- Investment property is initially recognised at cost.
- After initial recognition, all investment property is measured under either:
  - the fair value model, subject to limited exceptions; or
  - the cost model.
- When the fair value model is chosen, changes in fair value are recognised in profit or loss.
- Subsequent expenditure is capitalised only if it is probable that it will give rise to future economic benefits.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Reclassification

- Transfers to or from investment property are made only if there has been a change in the use of the property.
- The intention to sell an investment property without redevelopment does not justify reclassification from investment property into inventory; the property continues to be classified as investment property until disposal unless it is classified as held-for-sale.

Disclosures

- Disclosure of the fair value of all investment property is required, regardless of the measurement model used.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

3.5 Associates and the equity method

Currently effective: IAS 28, IFRS 12

Assessing whether an investee is an associate

- The definition of an associate is based on significant influence, which is the power to participate in the financial and operating policy decisions of an entity.
- There is a rebuttable presumption of significant influence if an entity holds 20 percent or more of the voting rights of another entity.
- Potential voting rights that are currently exercisable are considered in assessing significant influence.

Exceptions from applying the equity method

- Generally, associates and joint ventures are accounted for under the equity method in the consolidated financial statements.
- Venture capital organisations, mutual funds, unit trusts and similar entities may elect to account for investments in associates and joint ventures at fair value through profit or loss.
- Equity accounting is not applied to an investee that is acquired with a view to its subsequent disposal if the criteria are met for classification as held-for-sale.

Applying the equity method

- In applying the equity method, an investee's accounting policies should be consistent with those of the investor.
- The investee's reporting date cannot differ from that of the investor by more than three months, and should be consistent from period to period. Adjustments are made for the effects of significant events and transactions between the two dates.
- If an equity-accounted investee incurs losses, then the carrying amount of the investor's interest is reduced but not to below zero. Further losses are recognised as a liability by the investor only to the extent that the investor has an obligation to fund losses or has made payments on behalf of the investee.
- Unrealised profits and losses on transactions with associates are eliminated to the extent of the investor's interest in the investee.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Changes in the status of equity-accounted investees

- On the loss of significant influence or joint control, the fair value of any retained investment is taken into account in calculating the gain or loss on the transaction that is recognised in profit or loss. Amounts recognised in other comprehensive income are reclassified to profit or loss or transferred within equity as required by other IFRSs.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

3.6 Joint arrangements

Currently effective: IFRS 11, IFRS 12
Forthcoming: Amendments to IFRS 11

Identifying joint arrangements

- A joint arrangement is an arrangement over which two or more parties have joint control. There are two types of joint arrangements: a joint operation and a joint venture.

Classifying joint arrangements

- In a joint operation, the parties to the arrangement have rights to the assets and obligations for the liabilities related to the arrangement.
- In a joint venture, the parties to the arrangement have rights to the net assets of the arrangement.
- A joint arrangement not structured through a separate vehicle is a joint operation.
- A joint arrangement structured through a separate vehicle may be either a joint operation or a joint venture. Classification depends on the legal form of the vehicle, contractual arrangements and an assessment of 'other facts and circumstances'.

Accounting for joint arrangements

- A joint venturer accounts for its interest in a joint venture in the same way as an investment in an associate – i.e. generally under the equity method (see 3.5).
- A joint operator recognises its assets, liabilities and transactions – including its share in those arising jointly – in both its consolidated and separate financial statements. These assets, liabilities and transactions are accounted for in accordance with the relevant IFRSs.
- A party to a *joint venture* that does not have joint control accounts for its interest as a financial instrument, or under the equity method if significant influence exists (see 3.5).
- A party to a *joint operation* that does not have joint control recognises its assets, liabilities and transactions – including its share in those arising jointly – if it has rights to the assets and obligations for the liabilities of the joint operation.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

3.8 Inventories

Currently effective: IAS 2
Forthcoming: IFRS 15

Definition

- 'Inventories' are assets:
  - held for sale in the ordinary course of business (finished goods);
  - in the process of production for sale (work in progress); or
  - in the form of materials or supplies to be consumed in the production process or in the rendering of services (raw materials and consumables).

Measurement

- Generally, inventories are measured at the lower of cost and net realisable value.
- Cost includes all direct expenditure to get inventory ready for sale, including attributable overheads.
- The cost of inventory is generally determined under the first-in, first-out (FIFO) or weighted-average method. The use of the last-in, first-out (LIFO) method is prohibited.
- Inventory costing methods – e.g. the standard cost or retail methods – may be used when the results approximate the actual cost.
- If the net realisable value of an item that has been written down subsequently increases, then the write-down is reversed.

Recognition as an expense

- The cost of inventory is recognised as an expense when the inventory is sold.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

3.9 Biological assets

Currently effective: IFRS 13, IAS 41
Forthcoming: Amendments to IAS 41

Scope

- Living animals or plants are in the scope of the standard if they are subject to a process of management of biological transformation.

Measurement

- Biological assets are measured at fair value less costs to sell unless it is not possible to measure fair value reliably, in which case they are measured at cost.
- Gains and losses from changes in fair value less costs to sell are recognised in profit or loss.

Agricultural produce

- Agricultural produce harvested from a biological asset is measured at fair value less costs to sell at the point of harvest. After harvest, the inventories standard generally applies (see 3.8).

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

3.10 Impairment of non-financial assets

Currently effective: IFRS 13, IAS 36, IFRIC 10

Scope

- The standard covers a variety of non-financial assets, including:
  - property, plant and equipment;
  - intangible assets and goodwill; and
  - investments in subsidiaries, associates and joint ventures.

Identifying the level at which assets are tested for impairment

- Whenever possible, an impairment test is performed for an individual asset. Otherwise, assets are tested for impairment in cash-generating units (CGUs). Goodwill is always tested for impairment at the level of a CGU or a group of CGUs.
- A CGU is the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups thereof.
- Goodwill is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the business combination from which it arose. The allocation is based on the level at which goodwill is monitored internally, restricted by the size of the entity's operating segments before aggregation (see 5.2).

Determining when to test for impairment

- Impairment testing is required when there is an indication of impairment.
- Annual impairment testing is required for goodwill and intangible assets that either are not yet available for use or have an indefinite useful life. This impairment test may be performed at any time during the year, provided that it is performed at the same time each year.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Measuring an impairment loss

- An impairment loss is recognised if an asset's or CGU's carrying amount exceeds the greater of its fair value less costs to sell and value in use.
- Estimates of future cash flows used in the value in use calculation are specific to the entity, and need not be the same as those of market participants. The discount rate used in the value in use calculation reflects the market's assessment of the risks specific to the asset or CGU, as well as the time value of money.

Recognising an impairment loss

- An impairment loss for a CGU is allocated first to any goodwill and then pro rata to other assets in the CGU that are in the scope of the standard.
- An impairment loss is generally recognised in profit or loss.

Reversal of impairment

- Reversals of impairment are recognised, other than for impairments of goodwill.
- A reversal of an impairment loss is generally recognised in profit or loss.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

3.12 Provisions, contingent assets and liabilities

Currently effective: IAS 37, IFRIC 1, IFRIC 5, IFRIC 6, IFRIC 21
Forthcoming: IFRS 15

Definitions

- A provision is a liability of uncertain timing or amount that arises from a past event that is expected to result in an outflow of the entity's resources.
- A contingent liability is a present obligation with uncertainties about either the probability of outflows of resources or the amount of the outflows, or a possible obligation whose existence is uncertain.
- A contingent asset is a possible asset whose existence is uncertain.

Recognition

- A provision is recognised for a legal or constructive obligation if there is a probable outflow of resources and the amount can be estimated reliably. 'Probable' in this context means more likely than not.
- A constructive obligation arises when an entity's actions create valid expectations of third parties that it will accept and discharge certain responsibilities.
- A provision is not recognised for future operating losses.
- A provision for restructuring costs is not recognised until there is a formal plan and details of the restructuring have been communicated to those affected by the plan.
- Provisions are not recognised for repairs or maintenance of own assets or for self-insurance before an obligation is incurred.
- A provision is recognised for a contract that is onerous.
- Contingent liabilities are recognised only if they are present obligations assumed in a business combination – i.e. there is uncertainty about the outflows but not about the existence of an obligation. Otherwise, contingent liabilities are disclosed in the notes to the financial statements unless the likelihood of an outflow of resources is remote.
- Contingent assets are not recognised in the statement of financial position. If an inflow of economic benefits is probable, then details are disclosed in the notes to the financial statements.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Measurement

- A provision is measured at the 'best estimate' of the expenditure to be incurred.
- Provisions are discounted if the effect of discounting is material.

Reimbursements

- A reimbursement right is recognised as a separate asset when recovery is virtually certain, capped at the amount of the related provision.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

3.13 Income taxes

Currently effective: IAS 12, SIC-25

Scope

- Income taxes are taxes based on taxable profits, and taxes that are payable by a subsidiary, associate or joint arrangement on distribution to investors.

Current tax

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

Deferred tax

- Deferred tax is the amount of income taxes payable (recoverable) in future periods as a result of past transactions or events.
- Deferred tax is recognised for the estimated future tax effects of temporary differences, unused tax losses carried forward and unused tax credits carried forward.
- A deferred tax liability is not recognised if it arises from the initial recognition of goodwill.
- A deferred tax asset or liability is not recognised if:
  - it arises from the initial recognition of an asset or liability in a transaction that is not a business combination; and
  - at the time of the transaction, it affects neither accounting profit nor taxable profit.
- Deferred tax is not recognised in respect of temporary differences associated with investments in subsidiaries, associates and joint arrangements if certain conditions are met.
- A deferred tax asset is recognised to the extent that it is *probable* that it will be realised.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Measurement

- Current and deferred tax are measured based on rates that are enacted or substantively enacted at the reporting date.
- Deferred tax is measured based on the expected manner of settlement (liability) or recovery (asset). There is a rebuttable presumption that the carrying amount of investment property measured at fair value will be recovered through sale.
- Deferred tax is not discounted.

Classification and presentation

- The total income tax expense (income) recognised in a period is the sum of current tax plus the change in deferred tax assets and liabilities during the period, excluding tax recognised outside profit or loss – i.e. in other comprehensive income or directly in equity – or arising from a business combination.
- Income tax related to items recognised outside profit or loss is itself recognised outside profit or loss.
- Deferred tax is classified as non-current in a classified statement of financial position.
- An entity offsets current tax assets and current tax liabilities only when it has a legally enforceable right to set off current tax assets against current tax liabilities, and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.
- An entity offsets deferred tax assets and deferred tax liabilities only when it has a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity, or different taxable entities that intend either to settle on a net basis or to realise the asset and settle the liability simultaneously.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

4 STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

4.1 General

Currently effective: IAS 1

Format of statement of profit or loss and OCI

- Profit or loss and other comprehensive income (OCI) may be presented in either:
  - a single statement, with profit or loss and OCI presented in two sections; or
  - two statements – a 'statement of profit or loss' displaying components of profit or loss, followed immediately by a 'statement of comprehensive income' beginning with profit or loss and displaying components of OCI.
- Although IFRS requires certain items to be presented in the statement of profit or loss and OCI, there is no prescribed format.

Other comprehensive income

- OCI comprises items of income and expense that are not recognised in profit or loss.
- Items of OCI are grouped into items that may be reclassified subsequently to profit or loss and those that will not be.
- Reclassification adjustments from OCI to profit or loss are disclosed in the statement of profit or loss and OCI or in the notes.

Use of the description 'unusual' or 'exceptional'

- In our view, use of the terms 'unusual' or 'exceptional' should be infrequent and reserved for items that justify a greater prominence.

Extraordinary items

- The presentation or disclosure of items of income and expense characterised as 'extraordinary items' is prohibited.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Offsetting

- Items of income and expense are not offset unless this is required or permitted by another IFRS, or when the amounts relate to similar transactions or events that are individually not material.

Alternative earnings measures

- The presentation of alternative earnings measures (e.g. EBITDA) in the statement of profit or loss and OCI is not generally prohibited, although national regulators may have more restrictive requirements.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

4.2 Revenue

Currently effective: IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18, SIC-31
Forthcoming: IFRS 15

Overall approach

- Revenue is recognised only if it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably.
- Revenue recognition does not require cash consideration. However, when goods or services exchanged are similar in nature and value, the transaction does not generate revenue.
- When an arrangement includes more than one component, it may be necessary to account for the revenue attributable to each component separately.
- When two or more transactions are linked so that the individual transactions have no commercial effect on their own, they are analysed as one arrangement.

Measurement

- Revenue is measured at the fair value of consideration received, taking into account any trade discounts and volume rebates.
- If a transaction includes a financing element, then revenue is measured by discounting all future cash receipts at an imputed rate of interest.

Sale of goods

- Revenue from the sale of goods is recognised when:
  - the entity has transferred the significant risks and rewards of ownership to the buyer; and
  - it no longer retains control or has managerial involvement in the goods.

Construction contracts

- Construction contracts are accounted for under the percentage-of-completion method.
- The completed-contract method is not permitted.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Service contracts

- Revenue from service contracts is recognised in the period during which the service is rendered, generally under the percentage-of-completion method.

Gross vs net presentation

- Revenue comprises the gross inflows of economic benefits received by an entity for its own account.
- In an agency relationship, amounts collected on behalf of the principal are not recognised as revenue by the agent.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

4.2A Revenue

Forthcoming: IFRS 15

IFRS 15 *Revenue from Contracts with Customers* is effective for annual periods beginning on or after 1 January 2017. Early adoption is permitted.

Overall approach

- The core principle of the standard is that revenue is recognised in the way that depicts the transfer of the goods or services to the customer at the amount to which the entity expects to be entitled. The core principle is implemented by an entity applying a five-step, contract-based model to recognise and measure revenue from contracts with customers.

Step 1: Identify the contract

- An entity accounts for a contract in accordance with the model when the contract is legally enforceable and all of the following criteria are met:
  - the contract is approved and the parties are committed to their obligations;
  - rights to goods or services and payment terms can be identified;
  - the contract has commercial substance; and
  - collection of the consideration is considered probable.

Step 2: Identify the performance obligations in the contract

- A performance obligation is a promise to deliver a good or service that is distinct – in other words:
  - the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer; and
  - the entity's promise to transfer the good or service to the customer is separately identifiable from other goods or services in the contract.
- An entity accounts for a series of distinct goods and services as a single performance obligation if they are substantially the same and have the same pattern of transfer.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Step 3: Determine the transaction price

- The 'transaction price' is the amount of consideration to which an entity expects to be entitled in exchange for transferring the goods or services to the customer.
- In determining the transaction price, an entity considers the effects of variable consideration (including the constraint), whether there is a significant financing component in the arrangement, consideration payable to the customer and non-cash consideration.
- Sales- and usage-based royalties arising from licences of intellectual property are excluded from the transaction price and are generally recognised as the subsequent sale or usage occurs.

Step 4: Allocate the transaction price to the performance obligations in the contract

- The transaction price is generally allocated to the performance obligations in a contract on the basis of relative stand-alone selling prices.
- Discounts and variable consideration may be allocated to one or more specific performance obligations in certain circumstances.

Step 5: Recognise revenue

- Except for distinct licences of intellectual property, which are subject to specific guidance in the standard, revenue is recognised over time if one of the following criteria is met.
  - The customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs.
  - The entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.
  - The entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

- If a performance obligation is not satisfied over time, then the entity recognises revenue at the point in time at which it transfers control of the goods or services to the customer.

Costs

- The standard includes guidance on accounting for incremental costs to obtain and costs to fulfil a contract that are not in the scope of another IFRS.

Presentation

- An entity recognises a contract asset when it transfers goods or services before it has an unconditional right to payment, and a contract liability when the customer makes a payment before it receives the goods or services.

Disclosures

- An entity provides specific quantitative and qualitative disclosures to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Transition

- An entity may make the transition to the standard using one of two methods.
  - Apply the standard retrospectively (with optional practical expedients) and record the effect of applying the standard at the start of the earliest presented comparative period.
  - Apply the standard to open contracts at the date of initial application and record the effect of applying the standard at that date. The comparative periods presented are not restated.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

4.3 Government grants

Currently effective: IAS 20, IAS 41, SIC-10

Definition

- Government grants are transfers of resources to an entity by a government entity in return for compliance with certain conditions.

Recognition and measurement

- Unconditional government grants related to biological assets measured at fair value less costs to sell are recognised in profit or loss when they become receivable; conditional grants for such assets are recognised in profit or loss when the required conditions are met.
- Government grants that relate to the acquisition of an asset, other than a biological asset measured at fair value less costs to sell, are recognised in profit or loss as the related asset is depreciated or amortised.
- Other government grants are recognised in profit or loss when the entity recognises as expenses the related costs that the grants are intended to compensate.
- If a government grant is in the form of a non-monetary asset, then both the asset and the grant are recognised either at the fair value of the non-monetary asset or at a nominal amount.
- Forgivable or low-interest loans from a government may include components that need to be treated as government grants.

Presentation

- Government grants related to assets are presented as deferred income or as a deduction from the carrying amount of the related asset.
- Government grants related to income are presented separately in profit or loss, or as a deduction from the related expense.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

4.4 Employee benefits

Currently effective: IAS 19, IFRIC 14
Forthcoming: Amendments to IAS 19

Overall approach

- The standard specifies the accounting for various types of employee benefits, including:
  - benefits provided for services rendered – e.g. pensions, lump-sum payments on retirement, paid absences and profit-sharing arrangements; and
  - benefits provided on termination of employment.
- Post-employment plans are classified as:
  - defined contribution plans – plans under which an entity pays a fixed contribution into a fund and will have no further obligation; and
  - defined benefit plans – all other plans.
- Liabilities and expenses for employee benefits that are provided in exchange for services are generally recognised in the period in which the services are rendered.
- The costs of providing employee benefits are recognised in profit or loss or other comprehensive income (OCI), unless other IFRSs permit or require capitalisation.

Defined benefit post-employment plans

- To account for defined benefit post-employment plans, an entity:
  - determines the present value of a defined benefit obligation by applying an actuarial valuation method;
  - deducts the fair value of any plan assets;
  - adjusts for any effect of the asset ceiling; and
  - determines service costs and net interest (recognised in profit or loss) and remeasurements (recognised in OCI).

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Multi-employer plans

- If insufficient information is available for a multi-employer defined benefit plan to be accounted for as a defined benefit plan, then it is treated as a defined contribution plan and additional disclosures are required.
- If an entity applies defined contribution plan accounting to a multi-employer defined benefit plan and there is an agreement that determines how a surplus in the plan would be distributed or a deficit in the plan funded, then an asset or a liability that arises from the contractual agreement is recognised.

Group plans

- If there is a contractual agreement or stated policy for allocating a group's net defined benefit cost, then participating group entities recognise the cost allocated to them.
- If there is no agreement or policy in place, then the net defined benefit cost is recognised by the entity that is the legal sponsor, and other participating entities expense their contribution payable for the period.

Other employee benefits

- Short-term employee benefits – i.e. those that are expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service – are expensed as they are incurred, except for termination benefits.
- The expense for long-term employee benefits, calculated on a discounted basis, is usually accrued over the service period.

Termination benefits

- A termination benefit is recognised at the earlier of:
  - the date on which the entity recognises costs for a restructuring in the scope of the provisions standard (see 3.12) that includes the payment of termination benefits; and
  - the date on which the entity can no longer withdraw the offer of the termination benefits.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

4.5 Share-based payments

Currently effective: IFRS 2

Basic principles

- Goods or services received in a share-based payment transaction are measured at fair value.
- Equity-settled transactions with employees are generally measured based on the grant-date fair value of the equity instruments granted.
- Equity-settled transactions with non-employees are generally measured based on the fair value of the goods or services obtained.

Equity-settled transactions with employees

- For equity-settled transactions, an entity recognises a cost and a corresponding increase in equity. The cost is recognised as an expense unless it qualifies for recognition as an asset.
- Initial estimates of the number of equity-settled instruments that are expected to vest are adjusted to current estimates and ultimately to the actual number of equity-settled instruments that vest unless differences are due to market conditions.

Cash-settled transactions with employees

- For cash-settled transactions, an entity recognises a cost and a corresponding liability. The cost is recognised as an expense unless it qualifies for recognition as an asset.
- At each reporting date and at settlement date, the recognised liability is remeasured at fair value. The remeasurements are recognised in profit or loss.

Employee transactions with a choice of settlement

- Grants in which the counterparty has the choice of equity or cash settlement are accounted for as compound instruments. Therefore, the entity accounts for a liability component and a separate equity component.
- The classification of grants in which the entity has the choice of equity or cash settlement depends on whether the entity has the ability and intent to settle in shares.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Modifications and cancellations of employee transactions

- Modification of a share-based payment results in the recognition of any incremental fair value but not any reduction in fair value. Replacements are accounted for as modifications.
- Cancellation of a share-based payment results in accelerated recognition of any unrecognised expense.

Group share-based payment arrangements

- A share-based payment transaction in which the receiving entity, the reference entity and the settling entity are in the same group from the perspective of the ultimate parent is a group share-based payment transaction and is accounted for as such by both the receiving and the settling entities.
- A share-based payment that is settled by a shareholder external to the group is also in the scope of the standard from the perspective of the receiving entity, as long as the reference entity is in the same group as the receiving entity.
- A receiving entity that has no obligation to settle the transaction accounts for the share-based payment transaction as equity-settled.
- A settling entity classifies a share-based payment transaction as equity-settled if it is obliged to settle in its own equity instruments; otherwise, it classifies the transaction as cash-settled.

Share-based payments with non-employees

- Goods are recognised when they are obtained and services are recognised over the period in which they are received.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

4.6 Borrowing costs

Currently effective: IAS 23

Overall approach

- Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset generally form part of the cost of that asset.

Qualifying assets

- A 'qualifying asset' is one that necessarily takes a substantial period of time to be made ready for its intended use or sale.

Borrowing costs eligible for capitalisation

- Borrowing costs may include interest calculated under the effective interest method, certain finance charges and certain foreign exchange differences.
- Borrowing costs are reduced by interest income from the temporary investment of borrowings.

Period of capitalisation

- Capitalisation begins when an entity meets all of the following conditions:
  - expenditure for the asset is being incurred;
  - borrowing costs are being incurred; and
  - activities that are necessary to prepare the asset for its intended use or sale are in progress.
- Capitalisation ceases when the activities necessary to prepare the asset for its intended use or sale are substantially complete.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

5 SPECIAL TOPICS

5.1 Leases

Currently effective: IAS 17, IFRIC 4, SIC-15, SIC-27
Forthcoming: IFRS 15

Definition

- An arrangement that at its inception can be fulfilled only through the use of a specific asset or assets, and that conveys a right to use that asset or those assets, is a lease or contains a lease.

Classification

- A lease is classified as either a finance lease or an operating lease.
- Lease classification depends on whether substantially all of the risks and rewards incidental to ownership of the leased asset have been transferred from the lessor to the lessee.
- A lessee may classify a property interest held under an operating lease as an investment property (see 3.4). If this is done, then the lessee accounts for that lease as if it were a finance lease, measures investment property using the fair value model and recognises a lease liability for future lease payments.
- A lease of land with a building is treated as two separate leases: a lease of the land and a lease of the building; the two leases may be classified differently.
- In determining whether the lease of land is a finance lease or an operating lease, an important consideration is that land normally has an indefinite economic life.
- Lease classification is made at inception of the lease and is not revised unless the lease agreement is modified.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Accounting for finance leases

- The lessor derecognises the leased asset and recognises a finance lease receivable.
- The lessee recognises the leased asset and a liability for future lease payments.
- Special requirements for revenue recognition apply to manufacturer or dealer lessors granting finance leases.

Accounting for operating leases

- Under an operating lease, both parties treat the lease as an executory contract. The lessor and the lessee recognise the lease payments as income/expense over the lease term. The lessor recognises the leased asset in its statement of financial position; the lessee does not.
- Lessors and lessees recognise incentives granted to a lessee under an operating lease as a reduction in lease rental income/expense over the lease term.

Sale-and-leaseback transactions

- Immediate gain recognition from the sale-and-leaseback of an asset depends on whether the leaseback is classified as a finance or as an operating lease and, if the leaseback is an operating lease, whether the sale takes place at fair value.

Linked transactions

- A series of linked transactions in the legal form of a lease is accounted for based on the substance of the arrangement; the substance may be that the series of transactions is not a lease.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

5.2 Operating segments

Currently effective: IFRS 8

Scope

- An entity presents segment disclosures if its debt or equity instruments are traded in a public market or it files, or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market.

Management approach

- Segment disclosures are provided about the components of the entity that management monitors in making decisions about operating matters – i.e. they follow a 'management approach'.
- Such components (operating segments) are identified on the basis of internal reports that the entity's chief operating decision maker (CODM) regularly reviews in allocating resources to segments and in assessing their performance.

Aggregating operating segments

- The aggregation of operating segments is permitted only when the segments have 'similar' economic characteristics and meet a number of other specified criteria.

Determining reportable segments

- Reportable segments are identified based on quantitative thresholds of revenue, profit or loss, or assets.

Disclosing segment information

- The amounts disclosed for each reportable segment are the measures reported to the CODM, which are not necessarily based on the same accounting policies as the amounts recognised in the financial statements.
- Because segment profit or loss, segment assets and segment liabilities are disclosed as they are reported to the CODM, rather than as they would be reported under IFRS, disclosure of how these amounts are measured for each reportable segment is also required.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

- Reconciliations between total amounts for all reportable segments and financial statement amounts are disclosed with a description of all material reconciling items.
- General and entity-wide disclosures include information about products and services, geographical areas – including country of domicile and individual foreign countries, if material – major customers, and factors used to identify an entity's reportable segments. Such disclosures are required even if an entity has only one segment.

Comparative information

- Comparative information is normally restated for changes in reportable segments.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

5.3 Earnings per share

Currently effective: IAS 33

Scope

- An entity presents basic and diluted earnings per share (EPS) if its ordinary shares or potential ordinary shares are traded in a public market, or it files, or is in the process of filing, its financial statements with a securities commission for the purpose of issuing any class of ordinary shares in a public market.

Basic EPS

- Basic EPS is calculated by dividing the earnings attributable to holders of ordinary equity of the parent by the weighted-average number of ordinary shares outstanding during the period.

Diluted EPS

- To calculate diluted EPS, an entity adjusts profit or loss attributable to ordinary equity holders, and the weighted-average number of shares outstanding for the effects of all dilutive potential ordinary shares.
- Potential ordinary shares are considered dilutive only if they decrease EPS or increase loss per share from continuing operations. In determining whether potential ordinary shares are dilutive, each issue or series of potential ordinary shares is considered separately.
- Contingently issuable ordinary shares are included in basic EPS from the date on which all necessary conditions are satisfied and, when they are not yet satisfied, in diluted EPS based on the number of shares that would be issuable if the reporting date were the end of the contingency period.
- If a contract may be settled in either cash or shares at the entity's option, then it is presumed that it will be settled in ordinary shares and the resulting potential ordinary shares are used to calculate diluted EPS.
- If a contract may be settled in either cash or shares at the holder's option, then the more dilutive of cash and share settlement is used to calculate diluted EPS.
- For diluted EPS, diluted potential ordinary shares are determined independently for each period presented.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Retrospective adjustment

- If the number of ordinary shares outstanding changes without a corresponding change in resources, then the weighted-average number of ordinary shares outstanding during all periods presented is adjusted retrospectively for both basic and diluted EPS.

Presentation and disclosures

- Basic and diluted EPS for both continuing and total operations are presented in the statement of profit or loss and other comprehensive income (OCI) with equal prominence, for each class of ordinary shares that has a differing right to share in the profit or loss for the period.
- Separate EPS information is disclosed for discontinued operations, either in the statement of profit or loss and OCI or in the notes to the financial statements.
- Adjusted basic and diluted EPS based on alternative earnings measures may be disclosed and explained in the notes to the financial statements.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

5.4 Non-current assets held for sale and discontinued operations

Currently effective: IFRS 5, IFRS 13, IFRIC 17

Held for sale: Classification

- Non-current assets and some groups of assets and liabilities (known as disposal groups) are classified as held-for-sale when their carrying amounts will be recovered principally through sale.

Held for sale: Measurement and presentation

- Assets classified as held-for-sale are not amortised or depreciated.
- Non-current assets and disposal groups held for sale are generally measured at the lower of their carrying amount and fair value less costs to sell, and are presented separately on the face of the statement of financial position.
- The comparative statement of financial position is not re-presented when a non-current asset or disposal group is classified as held-for-sale.

Held for distribution

- The classification, presentation and measurement requirements that apply to items that are classified as held-for-sale are also applicable to a non-current asset or disposal group that is classified as held-for-distribution.

Discontinued operations: Classification

- A discontinued operation is a component of an entity that either has been disposed of or is classified as held-for-sale.
- Discontinued operations are limited to those operations that are a separate major line of business or geographical area, and to subsidiaries acquired exclusively with a view to resale.

Discontinued operations: Presentation

- Discontinued operations are presented separately on the face of the statement of profit or loss and other comprehensive income (OCI).
- The comparative statement of profit or loss and OCI is re-presented for discontinued operations.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

5.5 Related party disclosures

Currently effective: IAS 24

Identifying related parties

- 'Related party relationships' include those involving control (direct or indirect), joint control or significant influence.
- Key management personnel and their close family members are also parties related to an entity.

Recognition and measurement

- There are no special recognition or measurement requirements for related party transactions.

Disclosures

- The disclosure of related party relationships between a parent and its subsidiaries is required, even if there have been no transactions between them.
- No disclosure is required in consolidated financial statements of intra-group transactions eliminated in preparing those statements.
- Comprehensive disclosures of related party transactions are required for each category of related party relationship.
- Key management personnel compensation is disclosed in total and is analysed by component.
- In certain instances, government-related entities are allowed to provide less detailed disclosures on related party transactions.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

5.6 Investment entities

Currently effective: IFRS 10, IFRS 12, IFRS 13, IAS 39

Overall approach

- A qualifying investment entity is *required* to account for investments in controlled entities – as well as investments in associates and joint ventures – at fair value through profit or loss.
- As an exception, an investment entity consolidates a subsidiary that provides investment-related services or engages in permitted investment-related activities with investees.

Qualifying investment entities

- To qualify as an investment entity, an entity is required to meet three 'essential' tests, and is expected to have one or more 'typical' characteristics.
- The 'essential' tests are as follows:
  - the entity obtains funds from one or more investors to provide those investors with investment management services;
  - the entity commits to its investors that its business purpose is to invest for returns solely from capital appreciation and/or investment income; and
  - the entity measures and evaluates the performance of substantially all investments on a fair value basis.
- The 'typical' characteristics are as follows:
  - the entity has more than one investment;
  - the entity has more than one investor;
  - the investors are not related parties; and/or
  - the entity has ownership interests in the form of equity or similar interests.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Parents of investment entities

- The consolidation exception is mandatory for the parent of an investment entity that itself meets the definition of an investment entity.
- The consolidation exception is not carried through to the consolidated financial statements of a parent that is not itself an investment entity – i.e. the parent is nevertheless required to consolidate all subsidiaries.

Disclosures

- An investment entity discloses quantitative data about its exposure to risks arising from unconsolidated subsidiaries.
- To the extent that an investment entity does not have 'typical' characteristics, it discloses the significant judgements and assumptions made in concluding that it is an investment entity.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

5.7 Non-monetary transactions

Currently effective: IAS 16, IAS 18, IAS 38, IAS 40, IFRIC 18, SIC-31
Forthcoming: IFRS 15

Definition

- A non-monetary transaction is an exchange of non-monetary assets, liabilities or services for other non-monetary assets, liabilities or services with little or no monetary consideration involved.

Exchanges of assets held for use

- Exchanges of assets held for use are generally measured at fair value and result in the recognition of gains or losses.
- As exceptions, exchanged assets held for use are recognised based on historical cost if the exchange lacks commercial substance or if fair value cannot be measured reliably for either the asset received or the asset given up.

Barter transactions

- Revenue is recognised for barter transactions unless the transaction is incidental to the entity's main revenue-generating activities or the items exchanged are similar in nature and value.

Donated assets

- Donated assets may be accounted for in a manner similar to government grants unless the transfer is, in substance, an equity contribution.

Transfers of assets from customers

- Property, plant and equipment that is contributed from customers and is used to provide access to a supply of goods or services is recognised as an asset if it meets the definition of an asset and the recognition criteria for property, plant and equipment.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

5.8 Accompanying financial and other information

Currently effective: IAS 1, IFRS Practice Statement *Management Commentary*

General

- An entity considers its legal or regulatory requirements in assessing what information is disclosed in addition to that required by IFRS.
- Financial and non-financial information in addition to that required by IFRS is generally presented outside the financial statements as accompanying information, but may be presented within the financial statements if appropriate.

Types of financial and non-financial information

- IFRS Practice Statement *Management Commentary* provides a broad, non-binding framework for the presentation of management commentary.

Corporate governance disclosures

- Although they are not required by IFRS, corporate governance disclosures may need to be provided under local legal or regulatory requirements.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

5.9 Interim financial reporting

Currently effective: IAS 34, IFRIC 10
Forthcoming: IFRS 15

Scope and basis of preparation

- Interim financial statements contain either a complete or a condensed set of financial statements for a period shorter than an annual reporting period.

Form and content

- The following, as a minimum, are presented in condensed interim financial statements:
  - condensed statement of financial position;
  - condensed statement of profit or loss and other comprehensive income;
  - condensed statement of cash flows;
  - condensed statement of changes in equity; and
  - selected explanatory notes.

Recognition and measurement

- Items are generally recognised and measured as if the interim period were a discrete period.
- As an exception, income tax expense for an interim period is based on an estimated average annual effective income tax rate.

Accounting policies

- Generally, the accounting policies applied in the interim financial statements are those that will be applied in the next annual financial statements.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

5.11 Extractive activities

Currently effective: IFRS 6, IFRIC 20

Scope

- Entities identify and account for pre-exploration expenditure, exploration and evaluation (E&E) expenditure and development expenditure separately.
- There is no industry-specific guidance on the recognition or measurement of pre-exploration expenditure or development expenditure. Pre-exploration expenditure is generally expensed as it is incurred.

E&E expenditure

- Each type of E&E cost can be expensed as it is incurred or capitalised, in accordance with the entity's selected accounting policy.
- Capitalised E&E costs are classified as either tangible or intangible assets, according to their nature.

Stripping costs

- Stripping costs incurred in the production phase of surface mining activities that improve access to ore to be mined in future periods are capitalised if certain criteria are met.

Impairment

- Some relief is provided from the general requirements of IFRS (see 3.10) in assessing whether there is any indication of impairment of E&E assets.
- The test for recoverability of E&E assets can combine several cash-generating units, as long as the combination is not larger than an operating segment (see 5.2).

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

5.12 Service concession arrangements

Currently effective: IFRIC 12, SIC-29

Forthcoming: IFRS 15, Amendments to IAS 16 and IAS 38

Scope

- IFRS provides specific guidance on the accounting by private sector entities (operators) for public-to-private service concession arrangements.
- The interpretation applies only to those service concession arrangements in which the public sector (the grantor) controls or regulates the services provided, prices to be charged and any significant residual interest in the infrastructure.

Operator's rights over the infrastructure

- For service concession arrangements in the scope of the interpretation, the operator does not recognise public service infrastructure as its own property, plant and equipment if the infrastructure is existing infrastructure of the grantor, or if the infrastructure is built or acquired by the operator as part of the service concession arrangement.

Items provided by the grantor

- If the grantor provides other items to the operator that the operator may retain or sell at its option, then the operator recognises those items as its assets, with a liability for unfulfilled obligations.

Recognition of construction or upgrade revenue

- The operator recognises and measures revenue for providing construction or upgrade services by applying guidance for construction contracts and revenue for other services in accordance with the general revenue standard (see 4.2).

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Recognition of consideration receivable for construction or upgrade services

- The operator recognises consideration receivable from the grantor for construction or upgrade services – including upgrades of existing infrastructure – as a financial asset and/or an intangible asset.
- The operator recognises a financial asset to the extent that it has an unconditional right to receive cash (or another financial asset) irrespective of the use of the infrastructure.
- The operator recognises an intangible asset to the extent that it has a right to charge for use of the infrastructure.

Subsequent accounting for financial and intangible assets

- Any financial asset recognised is accounted for in accordance with the relevant financial instruments standards (see section 7), and any intangible asset in accordance with the intangible assets standard (see 3.3). There are no exemptions from these standards for operators.

Maintenance obligations and upgrade services

- The operator recognises and measures contractual obligations to maintain or restore infrastructure in accordance with the provisions standard (see 3.12), except for any construction or upgrade element, which is accounted for by applying the guidance for construction contracts (see 4.2).

Borrowing costs

- The operator generally capitalises attributable borrowing costs incurred during construction or upgrade periods to the extent that it has a right to receive an intangible asset. Otherwise, the operator expenses borrowing costs as they are incurred.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

5.13 Common control transactions and Newco formations

Currently effective: Not explicitly covered, but IFRS 3, IFRS 10 and IFRIC 17 are relevant

Common control transactions

- In our view, the acquirer in a common control transaction has a choice of applying either book value accounting or acquisition accounting in its consolidated financial statements.
- In our view, the transferor in a common control transaction that is a demerger has a choice of applying either book value accounting or fair value accounting in its consolidated financial statements. In other disposals, in our view judgement is required in determining the appropriate consideration transferred in calculating the gain or loss on disposal.
- In our view, an entity generally has a choice of accounting for a common control transaction using book value accounting, fair value accounting or exchange amount accounting in its separate financial statements when investments in subsidiaries are accounted for at cost.
- Common control transactions are accounted for using the same accounting policy to the extent that the substance of the transactions is similar.
- If a new parent is established within a group and certain criteria are met, then the cost of the acquired subsidiaries in the separate financial statements of the new parent is determined with reference to its share of total equity of the subsidiaries acquired.

Newco formations

- Newco formations generally fall into one of two categories: to effect a business combination involving a third party; or to effect a restructuring among entities under common control.
- In a Newco formation to effect a business combination involving a third party, acquisition accounting generally applies.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

- In a Newco formation to effect a restructuring among entities under common control, in our view it is first necessary to determine whether there has been a business combination. If there has been, then the same accounting choices are available as for common control transactions in consolidated financial statements.
- If a Newco is used in a conditional initial public offering, then in our view the transaction can be analysed in the same way as either a Newco formation to effect a business combination involving a third party, or a Newco formation to effect a restructuring among entities under common control.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

6 FIRST-TIME ADOPTION OF IFRS

6.1 First-time adoption of IFRS

Currently effective: IFRS 1

Forthcoming: IFRS 9, IFRS 14, IFRS 15, Amendments to IFRS 11

General requirements

- IFRS sets out specific transition requirements and exemptions available on the first-time adoption of IFRS.
- An opening statement of financial position is prepared at the date of transition, which is the starting point for accounting in accordance with IFRS.
- The 'date of transition' is the beginning of the earliest comparative period presented on the basis of IFRS.
- At least one year of comparatives is presented on the basis of IFRS, together with the opening statement of financial position.
- The transition requirements and exemptions on the first-time adoption of IFRS are applicable to both annual and interim financial statements.

Selection of accounting policies

- Accounting policies are chosen from IFRS effective at the first annual IFRS reporting date.
- Generally, those accounting policies are applied retrospectively in preparing the opening statement of financial position and in all periods presented in the first IFRS financial statements.

Mandatory exceptions

- Retrospective application of changes in accounting policy is prohibited in some cases – generally, when doing so would require hindsight.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Optional exemptions

- A number of exemptions are available from the general requirement for retrospective application of IFRS accounting policies.

Disclosures

- Detailed disclosures on the first-time adoption of IFRS include reconciliations of equity and profit or loss from previous GAAP to IFRS.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

6.2A Regulatory deferral accounts and first-time adoption of IFRS

Forthcoming: IFRS 14

IFRS 14 *Regulatory Deferral Accounts* is effective for annual periods beginning on or after 1 January 2016. Early adoption is permitted, but an eligible entity can choose to apply this interim standard only if it is a first-time adopter of IFRS after 30 January 2014. The standard does not affect other entities.

Overall approach and scope

- The standard permits an eligible entity to continue to recognise and measure regulatory deferral account balances in accordance with its previous GAAP when it adopts IFRS – i.e. to apply a 'grandfathering' approach.
- An entity is eligible to apply the standard only if it:
  - is subject to oversight and/or approval from an authorised body (the rate regulator);
  - accounted for regulatory deferral account balances in its financial statements under its previous GAAP immediately before adopting IFRS; and
  - elects to apply the requirements of the standard in its first IFRS financial statements.
- Adoption of the standard is optional for eligible entities, but the decision to apply it has to be taken in an entity's first IFRS financial statements.
- The grandfathering approach does not apply to presentation. Regulatory deferral account balances are presented separately from assets, liabilities, income and expenses that are recognised in accordance with other IFRSs.

Application of other IFRSs

- The normal requirements of other IFRSs apply to regulatory deferral account balances, subject to some exceptions, exemptions and additional requirements that are specified in the interim standard, including:
  - presentation of earnings per share both including and excluding the net movement in regulatory deferral account balances;

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

- application of the requirements of the impairment standard (see 3.10) to a cash-generating unit that includes regulatory deferral account balances;
- exclusion from the measurement requirements of the standard on non-current assets held for sale and discontinued operations (see 5.4);
- application of uniform accounting policies to the regulatory deferral account balances of all of an entity's subsidiaries, associates and joint ventures in its consolidated financial statements, regardless of whether such investees account for those balances;
- application of business combinations guidance, with an exception for the recognition and measurement of an acquiree's regulatory deferral account balances;
- additional disclosure requirements if an entity's interests in its subsidiaries, associates or joint ventures contain regulatory deferral account balances; and
- the option to use the deemed cost exemption on transition to IFRS for items of property, plant and equipment or intangible assets that are, or were previously, used in operations that are subject to rate regulation.

Disclosures

- An entity provides disclosures that enable users of the financial statements to evaluate the nature of, risks associated with and effects of rate regulation on an entity's financial position, financial performance and cash flows.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

7 FINANCIAL INSTRUMENTS

7.1 Scope and definitions

Currently effective: IFRS 7, IAS 32, IAS 39
Forthcoming: IFRS 9

Scope

- The standards on financial instruments generally apply to all financial instruments. They also apply to a contract to buy or sell a non-financial item if the contract can be settled net in cash – including if the non-financial item is readily convertible to cash – unless the contract is held for delivery of the item in accordance with the entity's expected purchase, sale or usage requirements.
- Financial instruments subject to scope exclusions include certain loan commitments and financial guarantee contracts as well as financial instruments in the scope of other specific IFRSs – e.g. investments in subsidiaries and associates, insurance contracts and employee benefits. However, certain investments in subsidiaries, associates and joint ventures are in the scope of the financial instruments standards.

Definition

- A 'financial instrument' is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity.
- Financial instruments include a broad range of financial assets and financial liabilities. They include both primary financial instruments (e.g. cash, receivables, debt, shares in another entity) and derivative financial instruments (e.g. options, forwards, futures, interest rate swaps, currency swaps).

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

7.2 Derivatives and embedded derivatives

Currently effective: IAS 39, IFRIC 9

Forthcoming: IFRS 9

Derivatives

- A derivative is a financial instrument or other contract in the scope of the financial instruments standard, the value of which changes in response to some underlying variable (other than a non-financial variable that is specific to a party to the contract), that has an initial net investment smaller than would be required for other instruments that have a similar response to the variable and that will be settled at a future date.

Embedded derivatives

- An embedded derivative is a component of a hybrid contract that affects the cash flows of the hybrid contract in a manner similar to a stand-alone derivative instrument.
- A hybrid instrument also includes a non-derivative host contract that may be a financial or a non-financial contract.
- An embedded derivative is not accounted for separately from the host contract if it is closely related to the host contract, if a separate instrument with the same terms as the embedded derivative would not meet the definition of a derivative or if the entire contract is measured at fair value through profit or loss. In other cases, an embedded derivative is accounted for separately as a derivative.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

7.3 Equity and financial liabilities

Currently effective: IAS 32, IAS 39, IFRIC 2, IFRIC 17, IFRIC 19
Forthcoming: IFRS 9

Classification

- An instrument, or its components, is classified on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument.
- If a financial instrument has both equity and liability components, then they are classified separately.

Recognition and measurement

- Gains and losses on transactions in an entity's own equity instruments are recognised directly in equity.
- Incremental costs that are directly attributable to issuing or buying back own equity instruments are recognised directly in equity.
- Dividends and other distributions to the holders of equity instruments are recognised directly in equity.

Reclassification of instruments between liability and equity

- The classification of an instrument is made at initial recognition and is not generally revised as a result of subsequent changes in circumstances. However, a reclassification between equity and liability or vice versa may be required in some cases.

Presentation

- Treasury shares held are presented as a deduction from equity.
- Non-controlling interests in the statement of financial position are classified as equity but are presented separately from the parent shareholders' equity.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

7.4 Classification of financial assets and financial liabilities

Currently effective: IAS 39

Forthcoming: IFRS 9

Classification

- Financial assets are classified into one of four categories: at fair value through profit or loss; loans and receivables; held-to-maturity; or available-for-sale. Financial liabilities are categorised as either at fair value through profit or loss (FVTPL), or other liabilities. The categorisation determines whether and where any remeasurement to fair value is recognised.
- Financial assets and financial liabilities classified at FVTPL are further subcategorised as held-for-trading (which includes derivatives) or designated as at FVTPL on initial recognition.

Reclassification of financial assets

- Reclassifications of financial assets may be permitted or required if specific conditions are met.
- Financial assets may not be reclassified into the FVTPL category after initial recognition.
- Reclassifications or sales of held-to-maturity assets may require other held-to-maturity assets to be reclassified as available-for-sale.

Reclassification of financial liabilities

- Reclassification of financial liabilities into and out of FVTPL is not permitted.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

7.5 Recognition and derecognition

Currently effective: IAS 39
Forthcoming: IFRS 9

Initial recognition

- Financial assets and financial liabilities, including derivative instruments, are recognised in the statement of financial position when the entity becomes a party to the contract. However, 'regular-way' purchases and sales of financial assets are recognised either at trade date or at settlement date.

Derecognition of financial assets

- A financial asset is derecognised only when the contractual rights to the cash flows from the financial asset expire or when the financial asset is transferred and the transfer meets certain specified conditions.
- An entity does not derecognise a transferred financial asset if it retains substantially all of the risks and rewards of ownership.
- An entity continues to recognise a transferred financial asset to the extent of its continuing involvement if it has neither retained nor transferred substantially all of the risks and rewards of ownership, and it has retained control of the financial asset.

Derecognition of financial liabilities

- A financial liability is derecognised when it is extinguished – i.e. it is discharged or cancelled or expires – or when its terms are substantially modified.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

7.6 Measurement and gains and losses

Currently effective: IFRS 13, IAS 39, IAS 18, IAS 21

Forthcoming: IFRS 9, IFRS 15

Measurement on initial recognition

- On initial recognition, financial assets and financial liabilities are generally measured at fair value plus directly attributable transaction costs if the instruments are not classified as at fair value through profit or loss (FVTPL).

Subsequent measurement

- Financial assets are subsequently measured at fair value, except for loans and receivables and held-to-maturity investments (which are measured at amortised cost) and investments in unlisted equity instruments in the rare circumstances that fair value cannot be measured reliably (which are measured at cost).
- Changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income (OCI), except for foreign exchange gains and losses on available-for-sale monetary items and impairment losses, which are recognised in profit or loss. On derecognition, any gains or losses accumulated in OCI are reclassified to profit or loss.
- Financial liabilities, other than those classified at FVTPL, are generally measured at amortised cost.
- Changes in the fair value of financial assets and financial liabilities at FVTPL are recognised in profit or loss.
- All derivatives (including separated embedded derivatives) are measured at fair value with changes in fair value recognised in profit or loss.

Recognition of interest

- Interest income and interest expense are calculated using the effective interest method. The effective interest rate is calculated at initial recognition based on estimated cash flows considering all of the contractual terms of the financial instrument but excluding future credit losses. For floating rate instruments, the effective interest rate is updated to reflect movements in market rates of interest.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Impairment of financial assets

- An entity assesses whether there is objective evidence of the impairment of financial assets not measured at FVTPL. When there is objective evidence of impairment, any impairment loss is recognised in profit or loss.
- Objective evidence of impairment arises from loss events that have occurred after initial recognition of the financial asset that have an impact on the estimated future cash flows of the asset.
- For investments in equity instruments, a significant or prolonged decline in fair value below cost is also objective evidence of impairment. Impairment losses on equity instruments cannot be reversed.
- Impairment is assessed individually for assets that are individually significant and collectively for other assets. A collective assessment of impairment is also performed for assets that have not been identified as impaired on an individual basis.
- The measurement of impairment depends on whether a financial asset is measured at amortised cost (i.e. classified as loans and receivables or held-to maturity) or classified as available-for-sale.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

7.7 Hedge accounting

Currently effective: IAS 39, IFRIC 16
Forthcoming: IFRS 9

Introduction

- Hedge accounting allows an entity to measure assets, liabilities and firm commitments selectively on a basis different from that otherwise stipulated in IFRS or to defer the recognition in profit or loss of gains or losses on derivatives.
- Hedge accounting is voluntary. However, it is permitted only when strict requirements related to documentation and high effectiveness are met.

Hedge accounting models

- There are three hedge accounting models:
  - fair value hedges of fair value exposures;
  - cash flow hedges of cash flow exposures; and
  - net investment hedges of currency exposures on net investments in foreign operations.

Qualifying hedged items

- Qualifying hedged items can be:
  - recognised assets or liabilities;
  - unrecognised firm commitments;
  - highly probable forecast transactions; or
  - net investments in foreign operations.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Qualifying hedging instruments

- In general, only derivative instruments entered into with an external party qualify as hedging instruments.
- However, for hedges of foreign exchange risk only, non-derivative financial instruments may qualify as hedging instruments.

Qualifying hedged risks

- The hedged risk should be one that could affect profit or loss.

Effectiveness testing

- Effectiveness testing is conducted on both a prospective and a retrospective basis. In order for a hedge to be highly effective, changes in the fair value or cash flows of the hedged item attributable to the hedged risk should be offset by changes in the fair value or cash flows of the hedging instrument within a range of 80–125 percent.

Discontinuing hedge accounting

- Hedge accounting is discontinued prospectively if:
  - the hedged transaction is no longer highly probable;
  - the hedging instrument expires or is sold, terminated or exercised;
  - the hedged item is sold, settled or otherwise disposed of;
  - the hedge is no longer highly effective; or
  - the entity revokes the designation.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

7.8 Presentation and disclosures

Currently effective: IFRS 7, IFRS 13, IAS 1, IAS 32
Forthcoming: IFRS 9

Offsetting

- A financial asset and a financial liability are offset only when the entity:
  - currently has a legally enforceable right to set off; and
  - has an intention to settle net or to settle both amounts simultaneously.

Disclosure objectives

- An entity is required to disclose information that enables users to evaluate:
  - the significance of financial instruments for the entity's financial position and performance; and
  - the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Significance of financial instruments for financial position and performance

- Specific disclosure requirements include information on:
  - carrying amounts and fair values;
  - items designated at fair value through profit or loss;
  - reclassification of financial assets between categories;
  - offsetting of financial assets and financial liabilities and the effect of potential netting arrangements;
  - collateral; and
  - hedge accounting.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Nature and extent of risks arising from financial instruments

- Disclosure of both qualitative and quantitative information is required.
- Qualitative disclosures describe management's objectives, policies and processes for managing risks arising from financial instruments.
- Quantitative data about the exposure to risks arising from financial instruments is based on information provided internally to key management. However, certain disclosures about the entity's exposures to credit risk, liquidity risk and market risk arising from financial instruments, and about transfers of financial assets, are required, irrespective of whether this information is provided to management.

Fair value disclosures

- Disclosure of fair value is required per class of assets and liabilities in a way that permits comparison with carrying amounts.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

7A Financial instruments: IFRS 9 (2013)

Forthcoming: IFRS 9

IFRS 9 *Financial Instruments* is not yet effective. It has a mandatory effective date of 1 January 2018.

This chapter is based on the version of IFRS 9 published in November 2013 (IFRS 9 (2013)). On 24 July 2014, shortly before Insights into IFRS (and this overview) was finalised, the IASB published the complete IFRS 9 that includes all three phases of the project to replace IAS 39: classification and measurement, impairment and hedge accounting. For further information, see kpmg.com/ifrs.

Scope

- IFRS 9 will supersede IAS 39. IFRS 9 (2013) includes guidance on classification and measurement, recognition and derecognition of financial assets and financial liabilities and general hedge accounting.
- IFRS 9 (2013) does not include the chapters on impairment of financial assets and limited amendments to the guidance on the classification and measurement of financial assets issued in July 2014 as part of the complete version of IFRS 9.
- In addition, the IASB is working on a macro hedge accounting project that has been carved out of IFRS 9.

Classification of financial assets

- There are two primary measurement categories for financial assets: amortised cost and fair value.
- The IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale are eliminated.
- A financial asset is measured at amortised cost if both of the following conditions are met:
  - the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
  - the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

- All other financial assets are measured at fair value.
- Entities have an irrevocable option to classify financial assets that meet the amortised cost criteria as at fair value through profit or loss (FVTPL) if doing so eliminates or significantly reduces an accounting mismatch.

Classification of financial liabilities

- The classification requirements for financial liabilities in IFRS 9 are similar to those in IAS 39.
- Entities have an irrevocable option to classify financial liabilities that meet the amortised cost criteria as at FVTPL similar to the fair value option in IAS 39.

Embedded derivatives

- Embedded derivatives with host contracts that are financial assets in the scope of IFRS 9 are not separated; instead, the hybrid financial instrument is assessed as a whole for classification under IFRS 9.
- Hybrid instruments with host contracts that are not financial assets in the scope of IFRS 9 are assessed to determine whether the embedded derivative(s) are required to be separated from the host contract using the same guidance as in IAS 39.

Reclassification

- The classification of a financial asset or a financial liability is determined on initial recognition.
- Reclassifications of financial assets are made only on a change in an entity's business model that is significant to its operations. These are expected to be very infrequent.
- No other reclassifications are permitted.

Measurement

- If a financial asset is measured at fair value, then all changes in fair value are generally recognised in profit or loss.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

- On initial recognition of an investment in an equity instrument that is not held for trading, an entity has the irrevocable option, on an instrument-by-instrument basis, to recognise gains and losses in other comprehensive income (OCI) with no reclassification of gains and losses into profit or loss and no impairments recognised in profit or loss. If an equity investment is so designated, then dividend income is generally recognised in profit or loss.
- There is no exemption that allows unquoted equity investments and related derivatives to be measured at cost.
- For financial liabilities designated as at FVTPL, a split presentation of changes in fair value is generally required. The portion of the fair value changes that is attributable to changes in the financial liability's credit risk is recognised directly in OCI. The remainder is recognised in profit or loss. The amount presented in OCI is never reclassified to profit or loss.

Hedge accounting

- As under IAS 39, hedge accounting is voluntary. However, voluntary discontinuation when the hedging criteria are met is prohibited.
- As an alternative to hedge accounting, a new fair value option for certain credit exposures is introduced.
- The hedge accounting models – fair value, cash flow and net investment hedges of currency exposures – remain unchanged from IAS 39.
- Additional exposures compared with IAS 39 may be hedged items.
- Additional items compared with IAS 39 may qualify as hedging instruments.
- The hedged risk should be one that could affect profit or loss or OCI in the case of an equity investment for which changes in fair value are presented in OCI. Additional risks compared with IAS 39 may qualify as the hedged risk.
- Effectiveness testing is conducted on a prospective basis only. IFRS 9 removes the bright line effectiveness range of 80–125 percent included in IAS 39 and instead requires application of judgement to determine whether a hedge is effective.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

- Hedge accounting is discontinued prospectively if it ceases to meet the qualifying criteria after the rebalancing – for example:
  - the risk management objective for the hedging relationship has changed;
  - the hedging instrument expires or is sold, terminated or exercised;
  - there is no longer an economic relationship between the hedged item and the hedging instrument; or
  - the effect of the credit risk starts dominating the value changes that result from the economic relationship.
- For a fair value hedge of the interest rate exposure of a portfolio of financial instruments, an entity may apply the hedge accounting requirements of IAS 39 rather than IFRS 9.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

8 INSURANCE CONTRACTS

8.1 Insurance contracts

Currently effective: IFRS 4
Forthcoming: IFRS 9

Scope

- An insurance contract is a contract that transfers significant insurance risk. Insurance risk is 'significant' if an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding those that lack commercial substance.
- A financial instrument that does not meet the definition of an insurance contract (including investments held to back insurance liabilities) is accounted for under the general recognition and measurement requirements for financial instruments.
- Financial instruments that include discretionary participation features are in the scope of the standard – i.e. existing accounting policies may be applied, although these are subject to the general financial instrument disclosures (see 7.8).

Recognition and measurement

- Generally, entities that issue insurance contracts are required to continue their existing accounting policies with respect to insurance contracts except when the standard requires or permits changes in accounting policies.
- Changes in existing accounting policies for insurance contracts are permitted only if the new policy, or a combination of new policies, results in information that is more relevant or reliable, or both, without reducing either relevance or reliability.
- The recognition of catastrophe and equalisation provisions is prohibited for contracts not in existence at the reporting date.
- A liability adequacy test is required to ensure that the measurement of an entity's insurance liabilities considers all contractual cash flows, using current estimates.
- The application of 'shadow accounting' for insurance liabilities is permitted for consistency with the treatment of unrealised gains or losses on assets.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Insurance contracts acquired in a business combination

- An expanded presentation of the fair value of insurance contracts acquired in a business combination or portfolio transfer is permitted.

Presentation and disclosures

- Significant disclosures are required of the terms, conditions and risks related to insurance contracts, consistent in principle with those required for financial assets and financial liabilities.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

APPENDIX I

New standards or amendments for 2014 and forthcoming requirements

Since the September 2013 edition of this overview, a number of standards, amendments to or interpretations of standards have been issued. This Appendix lists these new pronouncements in issue at 1 July 2014, which were not yet effective for periods beginning on 1 January 2013 and therefore may need to be considered for the first time when preparing IFRS financial statements for an annual period beginning on 1 January 2014.

New currently effective requirements

Effective date	New standards or amendments	Chapter in this overview (other KPMG guidance)
1 January 2014	*Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)*[1]	5.6 (First Impressions: Consolidation relief for investment funds)
	Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)	7.8 (First Impressions: Offsetting financial assets and financial liabilities)
	Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)	2.4, 3.10 (IFRS Breaking News)
	Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)	7.1–7.7 (In the Headlines – Issue 2013/13)
	IFRIC 21 *Levies*	3.12 (In the Headlines – Issue 2013/09)

1. An illustration of the disclosures for investment funds that early adopt these amendments is available in Appendix I of our publication Guide to annual financial statements – Illustrative disclosures for investment funds.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Forthcoming requirements

Effective date	New standards or amendments	KPMG guidance
1 July 2014	*Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)*	In the Headlines – Issue 2013/20
	Annual Improvements to IFRSs 2010–2012 Cycle[2]	IFRS Newsletter: The Balancing Items – Issue 6
	Annual Improvements to IFRSs 2011–2013 Cycle[2]	IFRS Newsletter: The Balancing Items – Issue 6
1 January 2016	IFRS 14 *Regulatory Deferral Accounts*	In the Headlines – Issue 2014/01
	Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)	In the Headlines – Issue 2014/07
	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	In the Headlines – Issue 2014/08
	Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)	In the Headlines – Issue 2014/12
1 January 2017	IFRS 15 *Revenue from Contracts with Customers*	In the Headlines – Issue 2014/09
1 January 2018	IFRS 9 *Financial Instruments*	In the Headlines – Issue 2013/19

2. The amendments to IFRS 2 and IFRS 3 are applied to share-based payment transactions whose grant date is on or after 1 July 2014 and to business combinations whose date of acquisition is on or after 1 July 2014, respectively.

   The amendment to IFRS 13 is applied from the beginning of the annual period in which IFRS 13 was initially applied.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

KEEPING YOU INFORMED

Visit kpmg.com/ifrs to keep up to date with the latest developments in IFRS and browse our suite of publications. Whether you are new to IFRS or a current user of IFRS, you can find digestible summaries of recent developments, detailed guidance on complex requirements, and practical tools such as illustrative disclosures and checklists. For a local perspective, follow the links to the IFRS resources available from KPMG member firms around the world.

All of these publications are relevant for those involved in external IFRS reporting. The *In the Headlines* series provides a high-level briefing for audit committees and boards.

Your need	Publication series	Purpose
Briefing	In the Headlines	Provides a high-level summary of significant accounting, auditing and governance changes together with their impact on entities.
	IFRS Newsletters	Highlights recent IASB and FASB discussions on the financial instruments, insurance and leases projects. Includes an overview, analysis of the potential impact of decisions, current status and anticipated timeline for completion.
	The Balancing Items	Focuses on narrow-scope amendments to IFRS.
	New on the Horizon	Considers the requirements of consultation documents such as exposure drafts and provides KPMG's insight. Also available for specific sectors.
	First Impressions	Considers the requirements of new pronouncements and highlights the areas that may result in a change in practice. Also available for specific sectors.
Application issues	Insights into IFRS	Emphasises the application of IFRS in practice and explains the conclusions that we have reached on many interpretative issues.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Your need	Publication series	Purpose
Application issues (continued)	IFRS Practice Issues	Addresses practical application issues that an entity may encounter when applying IFRS. Also available for specific sectors.
	IFRS Handbooks	Includes extensive interpretative guidance and illustrative examples to elaborate or clarify the practical application of a standard.
Interim and annual reporting	Guide to financial statements – Illustrative disclosures	Illustrates one possible format for financial statements prepared under IFRS, based on a fictitious multinational corporation. Available for annual and interim periods, and for specific sectors. To start answering the question 'How can I improve my business reporting?', visit kpmg.com/betterbusinessreporting.
	Guide to financial statements – Disclosure checklist	Identifies the disclosures required for currently effective requirements for both annual and interim periods.
GAAP comparison	IFRS compared to US GAAP	Highlights significant differences between IFRS and US GAAP. The overview version provides a high-level briefing for audit committees and boards.
Sector-specific issues	IFRS Sector Newsletters	Provides a regular update on accounting and regulatory developments that directly impact specific sectors.
	Application of IFRS	Illustrates how entities account for and disclose sector-specific issues in their financial statements.
	Impact of IFRS	Provides a high-level introduction to the key IFRS accounting issues for specific sectors and discusses how the transition to IFRS will affect an entity operating in that sector.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

For access to an extensive range of accounting, auditing and financial reporting guidance and literature, visit KPMG's Accounting Research Online. This web-based subscription service can be a valuable tool for anyone who wants to stay informed in today's dynamic environment. For a free 15-day trial, go to aro.kpmg.com and register today.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

© 2014 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Publication name: *Insights into IFRS: An overview*

Publication number: 131890

Publication date: September 2014

KPMG International Standards Group is part of KPMG IFRG Limited.

KPMG International Cooperative ('KPMG International') is a Swiss entity that serves as a coordinating entity for a network of independent firms operating under the KPMG name. KPMG International provides no audit or other client services. Such services are provided solely by member firms of KPMG International (including sublicensees and subsidiaries) in their respective geographic areas. KPMG International and its member firms are legally distinct and separate entities. They are not and nothing contained herein shall be construed to place these entities in the relationship of parents, subsidiaries, agents, partners, or joint venturers. No member firm has any authority (actual, apparent, implied or otherwise) to obligate or bind KPMG International or any other member firm, nor does KPMG International have any such authority to obligate or bind any member firm, in any manner whatsoever.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

The KPMG name, logo and "cutting through complexity" are registered trademarks or trademarks of KPMG International.

kpmg.com/ifrs