Botswana Accountancy Oversight Authority

GENERALLY ACCEPTED ACCOUNTING PRACTICE (GAAP)IN BOTSWANA

FOR ENTITIES NOT REQUIRED TO COMPLY WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

REVISED 2018

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The General Accepted Accounting Practice (GAAP) in Botswana is issued by the Botswana Accountancy Oversight Authority (BAOA).

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Introduction

Preface to Generally Accepted Accounting Practice (GAAP) in Botswana for entities not applying International Financial Reporting Standards (IFRS)

(a) Regulation of entities not applying IFRS

Entities not applying IFRS should not be constrained by over-regulation which can increase the cost of doing business or foster a culture of non-compliance and informality. These entities need a simplified accounting and financial reporting framework with requirements commensurate with their size, the types of transactions they conduct, and their limited range of stakeholders. It is important that they are not hampered with unnecessary or unduly complex requirements, as many of them lack the capacity and resources required to properly comply with complex regulations. An ideal system strikes an appropriate balance between promoting improved reporting of financial information and lessening the regulatory burden, particularly with regard to requirements that entail significant costs without corresponding benefits.

(b) General purpose financial statements

General purpose financial statements are directed towards the common information needs of a wide range of users such as shareholders, government, creditors, employees and the general public. They are aimed at providing information about the financial position and performance of an entity that is useful for making economic decisions.

(c) Common users and their information needs

The financial statements of entities not applying IFRS are designed to meet the needs of the primary users as follows;

(d) Financial reporting framework of entities not applying IFRS

The financial reporting framework generally follows a simplified accrual based accounting system that is closely linked to cash transactions. It is a compliance framework that is not intended to achieve fair presentation. The application guidelines start with the realistic needs of users and preparers of financial statements. The framework is included within a 3 - tier financial reporting framework that has been adopted in Botswana which comprises:

- IFRS;
- IFRS for SMEs; and
- GAAP for entities not applying IFRS.

The IFRS and IFRS for SMEs are developed by the International Accounting Standards Board (IASB). The compilation of a financial reporting framework for entities not applying IFRS is the responsibility of individual countries/jurisdictions or regional professional accountancy bodies.

(e) Preparers

The financial statements of entities not applying IFRS must be prepared by a registered member of the Botswana Institute of Chartered Accountants. A report from such a person should be included in the financial statements and it should include the name and registered number of the registered member.

User	User Needs
Owners & management	• To assess performance of the entity • To support applications for finance • For internal financial management and planning
Lenders & other creditors	• Assessment of risk when making lending decisions • Monitor performance of entities
Government	• For tax purposes • For fiscal planning
Micro-entity agencies	• To asses support requests from entities

Chapter 1

Purposes, Objectives, Authority and Scope

Purposes

1.01 The principal purposes of this Standard are to:

(a) Provide guidance on the accounting treatments suitable for "exempt private companies" as defined in the Companies Act Chapter 42:01 (Companies Act) and other entities that are not required to comply with IFRS;

(b) Enable entities to prepare financial statements that primary users can use to evaluate or assess the reporting entity's profitability, solvency, resources and other risks and

(c) Ensure that transactions are recognized with integrity and consistency to enable primary users to place reliance on them.

Objectives

1.02 The objectives of this Standard are to enhance the attributes that make the information in the financial statements of applicable entities useful to the primary users. This Standard:

(a) Addresses the majority of the transactions and events that reporting entities within the scope of this Standard may encounter and omits transactions that are either uncommon or relate only to a few entities;

(b) Requires financial statements to reflect the legal form of business activities and transactions;

(c) Requires similar transactions and events to be accounted for and reported in a similar way and dissimilar transactions and events to be accounted for and reported differently, both within the same entity over time and amongst all entities. The Standard attempts to limit choices in accounting treatment to the extent possible and where relevant; and

(d) Assists in presenting information that is relevant, readily understood, reliable, and complete.

Some trade-off between the above objectives is often necessary in practice. The benefit obtained from information should always exceed the cost of providing it. In both cases choices made are a matter of professional judgment.

Authority and scope

A clear definition of entities that fall under this Standard is necessary so that entities that are not eligible to use the Standard do not assert that they are eligible and use it. The definition will also assist eligible entities to clearly recognize their eligibility and use the standard.

1.03 For entities incorporated under the Companies Act, the Standard shall apply to an "exempt private company" as defined in Section 2 (3) of the Act and the financial statements shall be prepared in terms of the provisions of Section 206 (3) of the Act.

1.04 The Standard may be applied by an entity that is not required by any other law, regulation or requirement to apply IFRS, and which is not a public interest entity.

1.05 Public Interest Entity means –

a) any entity that has issued equity or debt securities for public subscription and which is listed on a stock exchange;

b) any bank, deposit taking institution, or other similar institution that is subject to supervision by the Bank of Botswana;

c) any insurance company, pension and provident fund, collective investment undertaking or any other similar institution that is subject to supervision by the Non-Bank Financial Institutions Regulatory Authority; or

d) any entity to which any two of the following conditions are applicable in excess of an amount or number the Minister may prescribe in the Regulations –

   (i) annual revenue,

   (ii) number of employees,

   (iii) the total assets, or

   (iv) total liabilities, not including shareholders equity, applicable at the end of the preceding accounting year.

Chapter 2

Transitional Provisions and First Time Adoption

Definitions

2.01 Adjusted historical cost is the initial cost adjusted by depreciation (amortization), impairment, net realizable value adjustments, etc. as required by the recognition and measurement criteria included in this Standard.

2.02 Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.

Transitional requirements

2.03 An entity is not required to restate its comparative financial information to comply with this Standard, subject to clauses 2.04 to 2.06. The entity may, if it wishes to, restate its comparative financial information as if it has always complied with this Standard, or from the earliest date practicable.

2.04 An entity may, if it wishes to, restate any item previously accounted for on a basis other than the adjusted historical cost, for example at fair value, as if the requirements of this Standard have always been applied.

2.05 In this case (described in 2.04) the previous period carrying amount(s) shall be deemed to be the cost of the item at the beginning of the current reporting period. These items may not be revalued again and shall be accounted for on the adjusted historical cost basis only from the beginning of the current period in which this Standard is adopted.

2.06 Any equity amounts separately accounted for in reserves related to items referred to in 2.04 and 2.05 shall be derecognised and accounted for in the current reporting period's opening retained earnings. Where an entity has elected to restate its comparative financial information in terms of 2.03, all adjustments will be made to the opening retained earnings of the comparative period.

Disclosure

2.07 When an entity adopts this Standard for the first time, the entity shall disclose the applicable framework, standards or details of its entity-specific accounting policies that it applied in the comparative period.

2.08 If any of the items in the previous accounting framework were recognised on a basis other than adjusted historical cost, for example fair value, the entity shall disclose this. In addition, the entity shall disclose the basis and date of the last valuation or measurement that formed the basis of the recorded carrying amount, and the fact that the policy for these items has been amended to an adjusted historical cost basis with no further revaluations or fair value adjustments.

2.09 An entity shall disclose an analysis of the extent to which comparative amounts have been restated in the first reporting period that the entity adopts this Standard. An entity shall disclose a reconciliation of its opening retained earnings for the current period detailing adjustments made to the retained earnings as a result of the adoption of this standard. Should the entity have restated retrospectively as per 2.03 above, a reconciliation of the opening retained earnings balance of the comparative period must be disclosed in the notes to the financial statements.

Chapter 3

Principles, Recognition and Measurement

Underlying principles, assumptions and constraints

3.01 The recognition and measurement principles are subject to the following principles, assumptions and constraints:

(a) going concern;

(b) reliability;

(c) legal form;

(d) neutrality;

(e) completeness;

(f) relevance;

(g) materiality;

(h) matching; and

(i) accrual basis of accounting.

Going concern

3.02 Financial statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. It is assumed that the entity has neither the intention nor the need to liquidate or significantly curtail the scale of its operations; if such an intention or need exists the financial statements may have to be prepared on a different basis and, if so, the basis used must be disclosed.

Reliability

3.03 To be useful, information must also be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent.

Legal form

3.04 The legal form of a transaction or contract (arrangement), rather than its substance, governs its accounting treatment in the entity's financial statements.

3.05 The accounting treatment shall reflect the binding and legal terms of the arrangement.

Neutrality

3.06 To be reliable, the information contained in financial statements must be neutral; that is, free from bias. Financial statements are not neutral if, by the selection or presentation of information, they influence the making of a decision or judgement in order to achieve a predetermined result or outcome.

Completeness

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

Relevance

3.08 To be useful, information must be relevant to the decision-making needs of users. Information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming or correcting past evaluations.

Materiality

3.09 The relevance of information is affected by its materiality. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. In some cases, the nature of information alone is sufficient to determine its relevance.

3.10 This Standard shall be applied to all items, whether individually or in aggregate, which are material in nature or value.

Matching

3.11 The matching principle requires an entity to report (recognise) expenses in the same reporting period that related revenues are recognised. Ideally, matching is based on a cause and effect relationship, e.g. sales result in an expense for the cost of goods sold and a sales commission expense. If no cause and effect relationship exists, an expense shall be recognised in the accounting period when the cost is incurred. If a cost cannot be linked to revenues or to an accounting period, the expense must be recorded immediately.

Accrual basis of accounting

3.12 An entity shall prepare its financial statements using the accrual basis of accounting.

3.13 When the accrual basis of accounting is used, an entity recognises assets, liabilities, equity, income and expenses (elements of the financial statements) when they meet the definitions and recognition criteria set out in 3.20 to 3.27 for those elements in the relevant sections of this Standard.

General Recognition and Measurement Principles

Definitions

Elements of Fiancial Statements

3.14 An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.

3.15 A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

3.16 Income is an increase in economic benefits during the accounting period in the form of an inflow or enhancement of an asset or a decrease of a liability that results in an increase in equity, other than those transactions relating to a contribution from equity participants.

3.17 An expense is a decrease in economic benefits or resources during the accounting period in the form of an outflow or depletion of an asset or an incurrence of a liability that results in a decrease in equity, other than those relating to a distribution to equity participants.

3.18 Equity comprises the balances of transactions with owners in their capacity as owners (e.g. equity contributions and distributions), and the total amount of income and expense, including gains and losses, generated by the entity's activities during the accounting period. Loans payable or loans receivable with no obligation for repayment shall be classified as equity.

3.19 An event is probable if it is more likely to happen than not.

Recognition

3.20 Recognition is the process of incorporating in the financial statements an item that satisfies the criteria for recognition set out in 3.21 to 3.27. Recognition involves the depiction of the item in words and a monetary amount and the inclusion of the description and amount in the financial statements. The failure to recognise such items is not rectified by disclosure of the accounting policies used or by notes or explanatory material.

3.21 An item that meets the definition of an element of financial statements (refer to 3.14 to 3.18) shall be recognised if it meets the following criteria:

(a) It must be probable that future economic benefit associated with the item will flow to or from the entity; and
(b) The item has a cost that can be measured reliably.

3.22 In assessing whether an item meets these criteria and therefore qualifies for recognition in the financial statements, regard needs to be given to the materiality considerations discussed in 3.09 and 3.10. Owing to the interrelationship between the elements of financial statements, an item that meets the definition and recognition criteria for one particular element, for example, an asset, automatically qualifies for recognition of another element, for example, income, liability, equity or a reduction of another asset.

3.23 An asset is recognised in the Balance Sheet when it is probable that the future economic benefit will flow to the entity and the asset has a cost that can be measured reliably.

3.24 A liability is recognised in the Balance Sheet when it is probable that an outflow of resources embodying economic benefit will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably.

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

Examples are the net increase in assets arising on a sale of goods or services and the decrease in liabilities arising from the waiver of a debt payable.

3.26 An expense is recognised in the Income Statement when a decrease in future economic benefit related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. This means, in effect, that recognition of an expense occurs simultaneously with the recognition of an increase in liabilities or a decrease in assets. Examples are the accrual of employee entitlements or the depreciation of equipment.

3.27 Equity is recognised in the Balance Sheet when the related asset, the reduced liability or the net income and expenditure can be recognised.

Measurement

Initial measurement

3.28 Assets, liabilities and equity shall initially be measured at their cost.

3.29 Cost is determined as follows:

(a) For assets, cost is the amount of cash or cash equivalents paid or payable, or where applicable, such value deemed by tax authorities, for example values assigned for inheritance tax or capital transfer taxes.

(b) For liabilities, cost is the amount of proceeds received or receivable in exchange for the obligation, or, in some instances (for example, income taxes and provisions), at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.

(c) For equity, cost is the amount of proceeds received or receivable in exchange for the residual interest in the assets of the entity after deducting all of its liabilities.

Subsequent measurement

3.30 Subsequent to initial recognition, assets and liabilities are measured at adjusted historical cost, based on the recognition and measurement criteria included in this Standard.

Presentation

3.31 An entity shall present the following statements and information (refer to 5.01 for additional details of a complete set of financial statements):

(a) Balance Sheet;

(b) Income Statement;

(c) Notes to the financial statements.

Chapter 4

Accounting Policies, Errors and Changes in Accounting Estimates

Definitions

4.01 Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

4.02 Materiality is defined as omissions or misstatements of elements or items in the financial statements if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, is being the determining factor.

4.03 Prospective application of a change in accounting policy, a correction of a material prior period error and recognising the effect of a change in an accounting estimate, respectively, comprise:

(a) applying the new accounting policy to transactions, other events and conditions occurring after the date as at which the policy is changed;
(b) recognising the effect of the prior period error in the current and future periods affected by the change; and
(c) recognising the effect of the change in the accounting estimate in the current and future periods affected by the change.

4.04 Retrospective application is applying a new accounting policy to previously reported transactions, other events and conditions as if that policy had always been applied.

4.05 Retrospective restatement is correcting the recognition, measurement and disclosure of amounts of elements of financial statements as if a prior period error had never occurred.

4.06 Primary financial statements comprise the Balance Sheet and Income Statement.

Selection of accounting policies

General

4.07 Management shall select and apply the entity's accounting policies so that the financial statements comply with all the requirements of this Standard.

4.08 Management shall use its judgement in developing accounting policies that result in information that is relevant to the needs of users of the financial statements and is reliable in nature.

4.09 An entity shall select and apply its accounting policies for each period consistently for similar transactions, events and conditions, unless this Standard specifically requires or permits categorisation of items for which different policies may be appropriate.

Hierarchy

4.10 When a requirement in this Standard specifically applies to a transaction, event or condition, the accounting policy or policies applied to that item shall be determined by applying the requirements of this Standard.

4.11 In the absence of a requirement or guidance within this Standard that specifically applies to a transaction, event or condition, management shall develop an accounting policy that results in information that is relevant to the needs of users of the financial statements and is reliable in nature, by applying the recognition, measurement and other principles as set out in Chapter 3 Principles, recognition and measurement.

Changes in accounting policies

Definitions

4.12 Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

Requirement

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

(a) is required by this Standard; or

(b) amendments thereto results in the financial statements providing reliable and more relevant information about the effects of transactions, events or conditions on the entity's financial position or financial performance.

Accounting treatment

4.14 The effect of a change in accounting policy shall be included in the financial statements in the current period, i.e. prospective application.

Presentation and disclosure

4.15 An entity shall present and disclose:

(a) the amount of the adjustment relating to a prior period, presented on the face of the primary financial statements, after profit or loss for the reporting period; and

(b) in the notes to the financial statements the reasons for the change, including, for changes other than those required by this Standard, the reasons why the newly selected accounting policy provides better reliability and more relevant.

4.16 An entity may elect to disclose in the notes to the financial statements the comparative information relating to the financial position and performance as if the new accounting policy had always been applied, i.e. retrospective application. The additional comparative information shall be clearly identified as being only for information and not forming an integral part of the financial statements.

Corrections of material prior period errors

Definition

4.17 A prior period error is an omission from, or misstatement in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

(a) was available when financial statements for those periods were authorised for issue; and

(b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements. Examples of errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Accounting treatment

4.18 The effect of the correction of a material prior period error shall be included in the financial statements in the current period, i.e. prospective application.

Presentation and disclosure

4.19 An entity shall present and disclose the following for the correction of a material prior period error:

(a) the amount of the correction, presented on the face of the primary statements, after profit or loss for the reporting period; and

(b) the reasons for and nature of the error in the notes to the financial statements.

4.20 Where the error impacts on chargeable income for tax purposes in prior periods, the entity shall disclose in the notes to the financial statements the comparative information relating to the financial position and performance, as if the error never occurred. The additional comparative information shall be clearly identified as being only for information and not forming an integral part of the financial statements. Such disclosure shall include the impact on chargeable income for tax purposes for each prior tax period that is affected.

4.21 Where the error does not impact on chargeable income for tax purposes in prior periods, the entity may disclose in the notes to the financial statements the comparative information relating to the financial position and performance, as if the error never occurred. The additional comparative information shall be clearly identified as being only for information and not forming an integral part of the financial statements.

Changes in accounting estimates

Definition

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

Accounting treatment

4.23 The effect of a change in an accounting estimate shall be included in the determination of profit or loss in the current period, i.e. prospective application. No adjustment to comparative amounts is permitted.

Disclosure and presentation

4.24 An entity may disclose and present:

(a) the amount or effect of a change in an accounting estimate. This may often take the form of a reconciliation (comparative information is not required for this reconciliation);

(b) the amount or effect of the change, on the face of the primary statements, if the change is material; and

(c) the reasons for and nature of material changes in accounting estimates.

Chapter 5
Presentation of Financial Statements

Components of financial statements

5.01 A complete set of financial statements comprises:

(a) a Balance Sheet;

(b) an Income Statement, including a reconciliation of opening and closing retained income, either on the face of the Income Statement or in the notes to the financial statements; and

(c) notes to the financial statements, comprising a summary of significant accounting policies, information required by this Standard and other explanatory notes.

5.02 An entity may use titles for the financial statements other than those used in this Standard, providing these titles are not misleading.

Overall considerations

5.03 An entity whose financial statements comply with this Standard shall make an explicit and unreserved statement of such compliance in the notes to the financial statements. An entity shall not describe financial statements as complying with the Standard, unless they comply with all the requirements of this Standard.

5.04 Inappropriate accounting policies are not rectified either by disclosure of the accounting policies used or by notes or explanatory material.

Consistency of presentation

5.05 The presentation and classification of items in the financial statements shall be retained from one period to the next unless:

(a) a significant change in the nature of the entity's operations or a review of its financial statement presentation demonstrates that the change would result in a more appropriate presentation of events or transactions; or

(b) this Standard requires a change in presentation.

Materiality and aggregation

5.06 Each material class of similar items shall be presented separately in the financial statements. Items of a dissimilar nature or function shall be presented separately unless they are not material.

Offsetting

5.07 Assets and liabilities, and income and expenses, shall not be offset unless specifically required or permitted by this Standard.

Comparative information

5.08 Except when this Standard permits or requires otherwise, comparative information shall be disclosed and presented in respect of the previous period for all amounts reported in the financial statements, as well as all required disclosure items. Comparative information shall be included for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.

5.09 When the presentation or classification of items in the financial statements is amended, comparative amounts shall be reclassified, unless to do so would require undue time, cost or effort. When comparative amounts are reclassified, an entity shall disclose:

(a) the nature of the reclassification;

(b) the amount of each item or class of items that is reclassified; and

(c) the reason for the reclassification.

5.10 When comparative amounts are not reclassified owing to the undue time, cost or effort exemption, an entity shall disclose:

(a) the reason for not reclassifying the amounts; and

(b) the nature of the adjustments that would have been made if the amounts had been reclassified.

Structure and content

5.11 Each component of the financial statements shall be identified clearly. In addition, the following information shall be displayed prominently, and repeated when it is necessary for a proper understanding of the information presented:

(a) the name of the reporting entity or other means of identification, and any change in that information from the preceding reporting date;

(b) the reporting date or the reporting period covered by the financial statements, whichever is appropriate to that component of the financial statements;

(c) the presentation currency; and

(d) the level of rounding used in presenting amounts in the financial statements.

Reporting period

5.12 Financial statements shall be presented at least annually. When an entity's reporting date changes and the annual financial statements are presented for a period of longer or shorter than one year, an entity shall disclose, in addition to the period covered by the financial statements:

(a) the reason for using a longer or shorter period; and

(b) the fact that comparative amounts for the Income Statement and related notes are not entirely comparable.

Chapter 6

Balance Sheet

General

6.01 An asset or liability that qualifies for recognition in terms of 3.23 and 3.24 respectively shall initially be measured at its cost.

6.02 After initial recognition, an asset or liability shall be measured at adjusted historical costs as per 3.30.

Current/Non-current distinction

6.03 An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its Balance Sheet.

Current assets

6.04 An asset shall be classified as current when it satisfies any of the following criteria:

(a) it is held primarily for the purpose of being traded;
(b) it is intended for sale or consumption within 12 months after the reporting date; or
(c) it is cash or a cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

All other assets shall be classified as non-current.

Current liabilities

6.05 A liability shall be classified as current when it satisfies any of the following criteria:

(a) it is due to be settled within 12 months after the reporting date; or
(b) the entity does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date (refer to 6.07 for loans payable or loans receivable with owners and other related entities with no contractual repayment terms).

All other liabilities shall be classified as non-current. If the lender has agreed, after the reporting date and before the authorisation of the financial statements for issue, not to demand payment as a consequence of the breach, the liability is classified as current because, at the reporting date, the entity does not have an unconditional right to defer its settlement for at least 12 months after that date.

6.06 If an entity has the discretion, to refinance or roll over an obligation for at least 12 months after the reporting date under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, where there is no agreement to refinance), the potential to refinance is not considered and the obligation is classified as current.

6.07 Loans payable or loans receivable with no obligation for repayment, shall be classified as equity.

6.08 When an entity breaches an undertaking under a long-term loan agreement on or before the reporting date with the effect that the liability becomes payable on demand, the liability is classified as current, even if the lender has agreed, after the reporting date and before the authorisation of the financial statements for issue, not to demand payment as a consequence of the breach. The liability is classified as current because, at the reporting date, the entity does not have an unconditional right to defer its settlement for at least 12 months after that date.

Presentation

6.09 The entity shall present the following applicable line items on the face of the Balance Sheet:

(a) land and buildings;
(b) plant and equipment;
(c) intangible assets;
(d) livestock and/or growing crops;
(e) agricultural produce;
(f) investments;
(g) inventory;
(h) cash and cash equivalents;
(i) accounts receivable;
(j) provisions;
(k) accounts payable;
(l) loans payable;
(m) income tax assets or liabilities;
(n) equity;
(o) retained earnings; and
(p) reserves.

6.10 Additional line items, headings and subtotals shall be presented on the face of the Balance Sheet when such presentation is relevant to an understanding of the entity's financial position.

6.11 An entity shall disclose the following, for each class of share capital, if applicable, either on the face of the Balance Sheet or in the notes to the financial statements:

(a) that the shares have no par value;
(b) where there was any movement during the reporting period, a reconciliation of the number of shares outstanding at the beginning and at the end of the period (comparative information is not required for this reconciliation);
(c) the rights, preferences and restrictions attaching to that class, including restrictions on the distribution of dividends and the repayment of capital;
(d) shares in the entity held by the entity or by its subsidiaries or associates; and
(e) shares reserved for issue under options and contracts for the sale of shares, including the terms and amounts.

6.12 An entity without share capital, such as a partnership or trust, shall disclose information equivalent to that required by 6.11, showing changes during the reporting period in each category of equity interest, and the rights, preferences and restrictions attaching to each category of equity interest.

6.13 An entity shall provide a description of the nature and purpose of each reserve within equity, if applicable, either on the face of the Balance Sheet or in the notes to the financial statements.

Depreciable assets (including intangible assets)

Scope

6.14 This Section shall be applied to account for depreciable assets as defined (refer to 6.15), which are:

(a) buildings;
(b) depreciable land (refer to 6.63);
(c) plant and equipment;
(d) intangible assets.

Definitions

6.15 A depreciable asset is an asset that is required to be depreciated or amortised in terms of the Standard.

6.16 The depreciable amount of an asset is the cost of the asset, or adjusted historical cost.

6.17 The carrying amount of an asset or liability is the amount at which the asset or liability is presented in the Balance Sheet at the reporting date, being the initial cost adjusted for accumulated depreciation (accumulated amortisation), accumulated impairment losses, etc., as required by the respective sections of this Standard.

6.18 Useful life is:

(a) the period over which an asset is expected to be available for use by an entity and shall be equivalent to the period prescribed by the Botswana Unified Revenue Service (BURS) for the computation of capital allowances.

6.19 Cost is defined for:

(a) assets as the amount of cash or cash equivalents paid or payable, or the consideration given, to acquire the assets at the time of their acquisition;
(b) liabilities as the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business; and
(c) equity is the amount of proceeds received or receivable from the purchaser of the equity instrument or the right, net of direct costs of issuing the equity instrument or right.

6.20 The elements of cost of a depreciable asset are:

(a) its purchase price, including duties and non-refundable purchase taxes;
(b) after deducting trade discounts and rebates, but excluding settlement discounts; and
(c) costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of being operated in the manner intended by the entity.
(d) After deducting any roll-over relief that the entity may be eligible to, and does claim, in accordance with income tax legislation.

6.21 Examples of directly attributable costs of a depreciable asset include:

(a) costs of employee benefits arising directly from the construction or acquisition of the asset;
(b) professional and legal fees;
(c) costs of site or activity preparation;
(d) agent commission;
(e) initial delivery and handling costs;
(f) installation and assembly costs;
(g) costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition; and
(h) transfer duties.

6.22 Examples of expenditure that is not attributable to the cost of a depreciable asset include:

(a) costs of opening a new facility or starting a new service;
(b) marketing expenditure;
(c) costs of introducing a new product or service (including costs of advertising and promotional activities);
(d) costs of developing an intangible asset, except for amounts paid to a service provider;
(e) costs of conducting business in a new location or with a new class of customer (including costs of staff training); and
(f) administration and other general overhead costs.
(g) Finance cost on acquisition or construction of assets.

6.23 The cost of a self-constructed depreciable asset (excluding intangible assets) is determined using the same principles as for an acquired depreciable asset.

De-recognition

6.24 The carrying amount of a depreciable asset shall be derecognised and expensed:
(a) on disposal; or
(b) when no future economic benefits are expected from its use or disposal.

6.25 The gain or loss arising from derecognising a depreciable asset shall be included in profit or loss when the item is derecognised. Gains shall not be classified as revenue.

6.26 The gain or loss arising from de-recognition of a depreciable asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item(s).

Disclosure

6.27 The financial statements shall disclose, for each class of depreciable asset:

(a) the depreciation / amortisation methods used;
(b) the useful lives or the depreciation/ amortisation rates used;
(c) the gross carrying amount and the accumulated depreciation/ amortisation and the accumulated

impairment losses (if applicable) at the beginning and end of the period;

Comparative information is not required for this analysis.

(d) a reconciliation of the carrying amount at the beginning and end of the period showing:

(i) additions;

(ii) disposals or retirements;

(iii) depreciation / amortisation charge recognised during the reporting period;

(iv) impairment losses recognised in the Income Statement during the reporting period;

(v) reversals of impairment losses originally recognised in a prior period;

(vi) net exchange differences arising on the translation of the financial statements into the presentation currency, and on the translation of a foreign operation into the presentation currency of the entity; and

(vii) other changes in the carrying amount during the reporting period. Comparative information is not required for this reconciliation.

6.28 An entity shall also disclose:

(a) the existence and amounts of:

(i) any depreciable asset that have restrictions on its title;

(ii) encumbrances on any depreciable asset; or

(iii) any depreciable asset pledged as security for liabilities;

(b) the amount of contractual commitments for the development or acquisition of depreciable assets; and

(c) if it is not disclosed separately on the face of the Income Statement, any amount of compensation from third parties for a depreciable asset that was impaired, lost or given up that is included in profit or loss.

Impairment of assets

Scope

6.29 This Section shall be applied to account for impairment of all assets, except for inventories, investments, accounts receivable, and cash and cash equivalents as defined (refer to 6.139, 6.168, 6.220 and 6.240 respectively).

Definitions

6.30 An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount.

6.31 The recoverable amount of an asset is the net realisable value (refer 6.38 to 6.41).

Identifying an asset that may be impaired

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

6.33 In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the indicators below.

External indicators (sources of information)

(a) During the reporting period, the asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use;

(b) Significant changes with an adverse effect on the entity have taken place during the reporting period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which the asset is dedicated.

Internal indicators (sources of information)

(a) Evidence is available of obsolescence or physical damage of the asset.

(b) Significant changes with an adverse effect on the entity have taken place during the reporting period, or are expected to take place in the near future in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operations to which the asset belongs and plans to dispose of the asset before the previously expected date.

(c) Evidence available from internal reporting that indicates that the economic performance of the asset is, or will be, worse than expected.

6.34 The lists in 6.33 are not exhaustive. An entity may identify other indicators (including those in other sections of this Standard) that evidence that an asset may be impaired; these circumstances also require the entity to determine the asset's recoverable amount.

Recognition

6.35 If the recoverable amount is less than the carrying amount of an investment, an impairment loss, equal to the difference, shall be recognised as an expense in the Income Statement immediately.

Assessment

6.36 Any individually material asset shall be assessed for impairment separately.

6.37 Other assets may be aggregated, based on their nature or risk characteristics, and assessed for impairment collectively.

Measurement - Recoverable amount

6.38 The recoverable amount of an asset is its net realisable value. Some assets form part of a group of assets working together, also known as a 'cash-generating unit', and do not independently generate cash flows or have a resale value by themselves. For such assets, the entity shall assess the larger group of assets, i.e. the cash-generating unit, for impairment, rather than the individual assets.

Net realisable value

6.39 Net realisable value is calculated as the estimated selling price of the asset in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

6.40 Net realisable value refers to the net amount that an entity expects to realise from the disposal of the asset in the ordinary course of business.

6.41 Costs of disposal, other than those that have been recognised as liabilities, are deducted in determining net realisable value. Examples of costs of disposal are legal costs, stamp duty and similar transaction taxes, costs of removing the asset, and direct incremental costs to bring an asset into condition for its disposal.

Recognising an impairment loss

6.42 An impairment loss shall be recognised as an expense in the Income Statement immediately it is known.

6.43 After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset shall be adjusted to accommodate the new carrying value over its remaining useful life as defined in 6.18.

Reversal of impairment losses

6.44 An entity may reverse an impairment loss, if the indicator(s) of impairment no longer exist(s).

6.45 The new carrying amount of the asset shall be measured at its revised net realisable value.

6.46 The carrying amount of an asset for which a previously recognised impairment loss is reversed may not exceed the amount it would have been measured at had the adjusted historical cost been applied without any impairment. Therefore, an asset shall never be measured at an amount exceeding its cost.

6.47 Reversals of previously recognised impairment losses shall be included as income in the Income Statement in the reporting period in which the reversal occurs.

Presentation and disclosure

6.48 An entity shall present separately the total impairment and reversal of impairment for all such assets that were materially impaired, or where material reversals of impairment losses were reversed, during the reporting period on the face of the Income Statement (refer to 7.01):

6.49 An entity shall disclose the following for each class of asset that was impaired during the reporting period in the notes to the financial statements:

(a) the amount of impairment losses recognised during the reporting period and the line item(s) of the Income Statement in which those impairment losses are included, if not separately presented on the face of the Income Statement in terms of this Standard;
(b) the amount of reversals during the reporting period of previously recognised impairment losses and the line item(s) of the Income Statement in which those impairment losses are included, if not separately presented on the face of the Income Statement in terms of this Standard;
(c) the indicators that caused the impairment or reversal of impairment (the main events and circumstances that led to the recognition of impairment losses); and
(d) the basis on which the entity estimated the recoverable amount of the assets.

Land and buildings

Scope

6.50 This Section shall be applied to account for land and buildings as defined (refer to 6.51).

Definitions

6.51 Land and buildings are land along with anything permanently affixed to the land, such as buildings, specifically property that is stationary, or fixed in location. This includes land and buildings used by the entity to produce goods and services, for administration purposes, held for capital appreciation or to earn rental income.

6.52 Depreciation is the systematic allocation of the cost of an asset over its useful life as determined by the entity or on a straight-line basis or another systematic basis such as the units of production or the diminishing balance methods.

6.53 The useful life of a depreciable asset is the estimated remaining period, over which the economic benefits embodied in the asset are expected to be consumed by the entity and shall be equivalent to the period prescribed by BURS for the computation of capital allowances.

Recognition

6.54 Land and buildings shall be recognised if the recognition criteria of an asset as per 3.14 have been met. All the recognition criteria are usually only met once transfer has taken place.

6.55 Land and buildings that can be separated may be accounted for separately, even when they are acquired together.

Measurement

Initial measurement

6.56 Land and buildings shall initially be measured at their cost (refer to 6.19 to 6.21).

6.57 The cost of land and buildings acquired in a single transaction may be allocated between the land portion and the building portion of the purchase price. This could be achieved by determining the value of the land portion with a reference to the area size and the market related cost per area in the location, and the difference being accounted for as the building part of the property, or any other systematic and accepted basis.

Subsequent measurement

6.58 Subsequent to initial recognition, buildings shall be measured at adjusted historical cost, which is their cost less accumulated depreciation (if applicable) and any impairment losses, at each reporting date. Land should not be depreciated where it can be separated.

Subsequent expenditure

6.59 If expenditure on land and buildings increases the value or output capacity of the property, and benefits are expected over more than one financial period, the expenditure shall be capitalised and depreciated consistently with the property's remaining useful life.

6.60 An entity does not recognise in the carrying amount of an item of land and buildings the costs of the day-to-day servicing of the item. Rather, these costs are recognised in profit or loss as incurred. Costs of day-to-day servicing are primarily the costs of labour and consumables. The purpose of these expenditures is often described as the 'repairs and maintenance' of the item of land and buildings.

6.61 The entity may refer to the tax treatment of subsequent expenditures to assess whether the amount shall be capitalised.

6.62 Parts of some items of buildings may require replacement at regular intervals. Components of buildings may also be acquired to make a less frequently recurring replacement, such as replacing the interior walls of a building, or to make a non-recurring replacement. Under the recognition principle, an entity recognises in the carrying amount of an item of land and buildings the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is de-recognised in accordance with the de-recognition provisions in 6.24 to 6.26.

Depreciation

6.63 Separately identifiable freehold land shall not be depreciated, except in limited circumstances where its value depletes over time. Some examples of land that shall be depreciated include quarries and sites used for landfill, which have a limited useful life.

6.64 Land that has been acquired separately through a leasehold arrangement shall be depreciated over the shorter of its useful life or remaining lease period.

6.65 Buildings and depreciable land shall be depreciated over their estimated useful lives which shall be equivalent to the period prescribed by BURS for the computation of capital allowances (refer 6.53).

6.66 Land and buildings obtained in one transaction (refer 6.55 and 6.57), but not separately recognised as a land portion and a buildings portion, shall not be depreciated if the major part of the value of the land and buildings relates to the land portion.

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

6.68 The depreciable amount of a building or depreciable land shall be allocated on the straight line basis over its useful life.

6.69 The useful life of a building or depreciable land shall be assessed at the time of acquisition and shall be reviewed when clear indicators arise which may significantly affect the current estimated useful life of the building or depreciable land.

6.70 Clear indications of a change may include, for example, a change in how a building or depreciable land is used, significant unexpected wear and tear, technological advancement and changes in market prices.

6.71 Any changes to the initially estimated useful life of a building or depreciable land shall be accounted for as a change in accounting estimate as per 4.20 to 4.22.

6.72 Depreciation shall begin when the building or depreciable land is available for use, i.e. when it is in the condition necessary for it to be capable of being used in the manner intended by management. Depreciation of a building or depreciable land ceases when the building or depreciable land is derecognised. However, depreciation does not cease when a building or depreciable land becomes idle or is retired from active use unless it is fully depreciated.

Impairment

6.73 To determine whether land and buildings are impaired, an entity shall apply the guidance in 6.32 to 6.34 on impairment of assets. Specific indicators of impairment relevant to land and buildings include:

(a) general property price decreases;
(b) a factory or shop standing idle or empty;
(c) low occupancy of rental property;
(d) physical damage due to negligence or nature; and
(e) loss-making activities on the land or in the building.

Compensation for impairment

6.74 Compensation from third parties for land and buildings that were impaired, lost or given up shall be included in profit or loss when the compensation becomes receivable.

De-recognition

6.75 The entity shall apply the same de-recognition principles for depreciable assets (refer to 6.24 to 6.26) to land and buildings.

Disclosure

6.76 The entity shall make the disclosures required for depreciable assets (refer to 6.27 to 6.28) to land and buildings. plant and equipment as defined (refer to 6.78).

Plant and equipment

Scope

6.77 This Section shall be applied to account for plant and equipment as defined (refer to 6.78).

Definitions

6.78 Plant and equipment comprises tangible items, other than land and buildings, which are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes. Examples of plant and equipment include tools, machinery, vehicles, office fittings and computer equipment used in the operation of the business.

6.79 Depreciation is the systematic allocation of the cost of an asset on a straight-line basis over its useful life.

6.80 The useful life of a depreciable asset is the estimated remaining period, over which the economic benefits embodied in the asset are expected to be consumed by the entity and shall be equivalent to the period prescribed by BURS for the computation of capital allowances.

Recognition

6.81 Plant and equipment shall be recognised if the recognition criteria of an asset as per 3.23 have been met.

Measurement

Initial measurement

6.82 An item of plant and equipment shall initially be measured at its cost (refer to 6.19 to 6.21).

Subsequent measurement

6.83 Subsequent to initial recognition, an item of plant and equipment shall be measured at adjusted historical cost, which is its cost less accumulated depreciation and any impairment losses, at each reporting date.

Subsequent expenditure

6.84 If subsequent expenditure on plant and equipment increases the value or output capacity of the plant and equipment, and additional benefits are expected over more than one financial year, the expenditure shall be capitalised and depreciated consistent with the plant and equipment's remaining useful life

6.85 An entity does not recognise in the carrying amount of an item of plant and equipment the costs of the day-to-day servicing of the item. Rather, these costs are recognised in profit or loss as incurred. Costs of day-to-day servicing are primarily the costs of labour and consumables. The purpose of these expenditures is often described as the 'repairs and maintenance' of the item of plant and equipment.

6.86 Parts of some items of plant and equipment may require replacement at regular intervals. Under the recognition principle, an entity recognises in the carrying amount of an item of plant and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognised in accordance with the de-recognition provisions in 6.24 to 6.26.

Depreciation

6.87 Plant and equipment shall be depreciated over their expected useful lives which shall be based on the rates prescribed by BURS for the computation of capital allowances (refer 6.18).

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

6.89 The depreciable amount of an item of plant and equipment shall be allocated on a straight-line basis over its useful life.

6.90 Depreciation of an item of plant and equipment begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of being operated in the manner intended by management. Depreciation of an item of plant and equipment ceases when it is derecognised. However, depreciation does not cease when the item of plant and equipment becomes idle or is retired from active use unless it is fully depreciated.

Impairment

6.91 To determine whether an item of plant and equipment is impaired, an entity shall apply the guidance in 6.32 to 6.34 on impairment of assets.

6.92 Specific indicators of impairment relevant to plant and equipment include:

(a) a machine standing idle or not used at full capacity;

(b) a machine or other item of equipment becoming obsolete or outdated;

(c) physical damage to plant and machinery; and

(d) loss-making activities by the machine or equipment.

(e) technological obsolescence

Compensation for impairment

6.93 Compensation from third parties for items of plant and equipment that were impaired, lost or given up shall be included in profit or loss when the compensation becomes receivable.

De-recognition

6.94 The entity shall apply the same de-recognition principles for depreciable assets (refer to 6.24 to 6.26) to plant and equipment.

Disclosure

6.95 The entity shall make the disclosures required for depreciable assets (refer to 6.27 to 6.28) to plant and equipment.

Assets and liabilities arising on acquisition of a business

6.96 All goodwill (positive or negative) should be written off to the income statement immediately upon recognition.

Leases

Scope

6.97 This Section, as well as the following sections, shall be applied to account for all leases as defined (refer 6.98) in the financial statements of the lessee and lessor. Under this Standard, all leases shall be accounted for according to their legal form.

Definitions

6.98 A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. For the purpose of this Standard a lease:

(a) may or may not transfer substantially all the risks and rewards incidental to ownership of an assets,

(b) May or may not result in title transferring to the lessee at the end of the lease period.

6.99 The lessee is the entity which has the right of use of an asset, gained through a lease agreement with the actual owner (lessor) of the asset.

6.100 The lessor is the entity which is the actual owner (lessor) of the asset, which has transferred the right of use of an asset to another entity (lessee) through ``a lease agreement.

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

6.102 The inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease.

6.103 The commencement of the lease term is the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease (i.e. the recognition of the assets, liabilities, income or expenses resulting from the lease, as appropriate).

6.104 Contingent rentals are that portion of the lease payments that is not fixed in amount, but is based on the future amount of a factor that changes other than with the passage of time (e.g. percentage of future sales, amount of future use, future price indices, and future market rates of interest).

6.105 Initial direct costs of a lease are incremental costs that are directly attributable to negotiating and arranging a lease, except for such costs incurred by manufacturers or dealers.

Financial statements of the lessee

Recognition

6.106 Lease payments shall be recognised in the Income Statement as an expense as and when they are paid or payable. Any finance expense included in the lease instalments shall be recognised separately in the Income Statement.

6.107 Contingent rentals shall be recognised as an expense as they are incurred, i.e. when they are paid or payable.

6.108 Any initial direct costs of a lease shall be recognised in profit or loss in the reporting period in which they are incurred, i.e. when they are paid or payable.

Measurement

6.109 Lease payments shall be measured at the amount paid or payable.

Disclosure

6.110 A lessee shall make the following disclosures for leases:

(a) the total of future minimum lease payments payable under non-cancellable leases for each of the following financial periods in aggregate:

(i) not later than one year after the reporting date;

(ii) later than one year after the reporting date;

(iii) optionally, for longer leases, more than five years after the reporting date;

(b) the total of future minimum sub-lease payments expected to be received under non-cancellable sub-leases at the reporting date;

(c) lease payments recognised as an expense in the reporting period, with separate amounts for minimum lease payments and contingent rentals;

(d) amounts received under a sub-leasing agreement; and

(e) a general description of the lessee's material leasing arrangements, including, but not limited to, the following:

(i) the basis on which contingent rent payable is determined;

(ii) the existence and terms of renewal or purchase options, balloon repayments, escalation clauses and variations on the interest charges (i.e. fixed or floating interest rates);

(iii) the existence and terms of sub-lease agreements; and

(iv) restrictions imposed by lease arrangements, such as those concerning dividends, additional debt and further leasing.

Financial statements of the lessor

Recognition

6.111 Lease receipts are recognised in income when received or receivable. Any finance income included in the lease instalments shall be recognised separately in the Income Statement.

6.112 Contingent rental received shall be recognised in income when it is earned, i.e. received or receivable.

6.113 A lessor shall recognise a leased asset in its Balance Sheet according to the nature of the asset and as per the appropriate section of this Standard.

6.114 Any initial direct costs of a lease shall be recognised in profit or loss in the reporting period in which they are incurred, i.e. when they are paid or payable.

Measurement

6.115 Lease payments received under a lease arrangement shall be measured at the amount received or receivable.

6.116 Costs, including depreciation, incurred in earning the lease income are recognised as an expense as incurred, i.e. when they are paid or payable.

6.117 The depreciation policy for depreciable leased assets shall be according to the nature of the asset and as per the appropriate section of this Standard.

Disclosure

6.118 A lessor shall disclose the following for leases:

(a) the total of future minimum lease payments under non-cancellable leases for each of the following periods in aggregate:

(i) not later than one year after the reporting date;

(II) later than one year after the reporting date;

(iii) optionally, for longer leases, more than five years after the reporting date;

(b) lease and sub-lease payments recognised as an income in the reporting period, with separate amounts for minimum lease payments, contingent rentals, and sub-lease payments;

(c) a general description of the lessor's material leasing arrangements, including, but not limited to, the following:

(i) the basis on which contingent rent receivable is determined;

(ii) the existence and terms of renewal or purchase options, balloon payments, escalation clauses and variations on the interest charges (i.e. fixed or floating interest rates); and restrictions imposed by lease arrangements, such as those concerning dividends, additional debt and further leasing

Agriculture

Scope

6.119 This section shall be applied to:

(a) livestock and growing crops

(b) agricultural produce at the point of harvest

6.120 This Section is applied to account only for agricultural produce at the point of harvest. Thereafter, the Section on inventories applies (refer to 6.139 to 6.167). Accordingly, this Section does not deal with the processing of agricultural produce after harvest; for example, the processing of grapes into wine by a vintner who has grown the grapes. While such processing may be a logical and natural extension of agricultural activity, and the events taking place may bear some similarity to biological transformation, such processing is not included within the definition of agricultural activity in this Section.

Definitions

6.121 Agricultural activity is the management by an entity of the biological transformation and harvest of livestock and growing crops for sale, into agricultural produce, or into additional livestock and growing crops.

6.122 Agricultural produce is the harvested product of the entity's livestock and growing crops.

6.123 Biological transformation is the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in livestock and growing crops.

6.124 Harvest is the detachment of produce from livestock and growing crops, or the cessation of a plant or animal's life processes.

6.125 Livestock and growing crops are living animals or plants.

6.126 A class of livestock and growing crops is an aggregate of similar living animals or plants.

Recognition

6.127 Livestock and growing crops shall be recognised if the recognition criteria of an asset as per 3.23 have been met.

Measurement

Initial measurement

6.128 Livestock and growing crops shall initially be measured at their cost.

6.129 The cost of livestock and growing crops comprises:

(a) the purchase price of the asset, including import duties and non-refundable purchase taxes;

(b) after deducting trade discounts and rebates, but excluding settlement discounts;

(c) costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of being operated in the manner intended by the entity; and

(d) costs related to the biological transformation of livestock and growing crops until the asset reaches full production, but not costs to maintain mature livestock or growing crops.

(e) Or tax values as prescribed by BURS.

Examples of items that comprise cost, or not, of livestock and growing crops comprise:

(i) The cost of livestock and growing crops include purchase of livestock, transport of livestock to farm, feeding of livestock, as well as the cost of fertilization and watering of the soil of crops or plantations.

(ii) Costs that are not costs of livestock and growing crops are administration and other general overhead costs. Costs an entity incurs to maintain livestock and growing crops that produce regenerative agricultural produce, such as fruit, wool and milk, shall not be capitalized.

6.130 Agricultural produce generated by an entity's livestock and growing crops shall be measured at its cost at the point of harvest. Such measurement is the cost at that date when applying 6.140 to 6.158 on inventory.

Subsequent measurement

6.131 Subsequent to initial recognition, livestock and growing crops shall be measured at adjusted historical cost, which is the cost of the livestock or growing crop less any accumulated impairment losses, at each reporting date.

Depreciation

6.132 Livestock and growing crops shall not be depreciated.

De-recognition

6.133 The carrying amount of an item of livestock and/or growing crops shall be derecognised and expensed:

(a) when it is transferred to inventory;

(b) when it is sold; or

(c) when no further economic benefits are expected from its disposal.

6.134 The gain or loss arising from derecognising livestock and growing crops shall be included in profit or loss when the item is derecognised.

6.135 The gain or loss arising from de-recognition of livestock and growing crops shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

6.136 The carrying amount of the livestock and growing crops derecognised shall be based on an accepted basis based on quantifiable measures, e.g. the relative cost or weight of the class of livestock and growing crops sold to the total of that class.

Disclosure

6.137 An entity shall provide an analysis of the carrying value of each class of livestock and growing crops,

6.138 An entity shall disclose the existence and amounts of restrictions on title or encumbrances, and livestock and growing crops pledged as security for liabilities.

Inventories

Scope

6.139 This Section shall be applied to account for all inventory as defined (refer to 6.140).

Definitions

6.140 Items of inventory (inventories) are assets that are:

(a) held for sale in the ordinary course of business;

(b) in the process of production for such sale; or

(c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Examples of inventories include goods purchased and held for resale, including, for example, merchandise purchased by a retailer and held for resale, or land and other property held for resale. Inventories also encompass finished goods or work in progress being produced by the entity and include materials and supplies awaiting use in the production process. In the case of a service provider, inventories include the costs of the service for which the entity has not yet recognised the related revenue.

6.141 Fair value less cost to complete and sell is the estimated selling price, in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. This value is also commonly referred to as the 'net realisable value' (NRV).

6.142 In other words, 'fair value less cost to complete and sell' refers to the net amount that an entity expects to realise from the sale of inventory in the ordinary course of business.

6.143 Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.

Recognition

6.144 Inventories shall be recognised if the recognition criteria of an asset as per 3.23 have been met.

6.145 If the fair value less cost to complete and sell an item of inventory is less than the carrying amount of the item, an impairment loss, equal to the difference, shall be recognised as an expense in the Income Statement immediately. An allowance for obsolete, slow-moving or otherwise impaired inventories may be maintained as a separate allowance account and shall be offset against the related inventories carrying amount on the face of the Balance Sheet

Measurement

Initial measurement

6.146 Inventories shall initially be measured at its cost (refer to 6.147 to 6.158).

Cost of inventories

6.147 The cost of inventory shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventory to its present location and condition.

6.148 The costs of purchase of inventory comprise the purchase price, import duties and non-refundable other taxes, transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services.

6.149 Costs of conversion comprise costs directly related to the units of production, such as direct labour, together with a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods.

6.150 Costs incurred in respect of construction and other development on behalf of third parties may be recognised as an inventory cost to the extent they are not yet invoiced to the third party, subject to impairment testing. The costs shall be classified as work-in-progress.

Subsequent measurement

6.151 Subsequent to initial recognition, inventories shall be measured at adjusted historical cost, which is the lower of cost and its fair value less cost to complete and sell (also known as NRV), at each reporting date.

Fair value less cost to complete and sell

6.152 The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may also not be recoverable if the estimated costs of completion or the estimated costs to be incurred to make the sale have increased. The practice of writing inventory down below cost to fair value less cost to complete and sell is consistent with the view that assets should not be carried in excess of amounts expected to be realised from their sale or use.

6.153 Estimates of fair value less cost to complete and sell are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the reporting date to the extent that such events confirm conditions existing at the reporting date.

6.154 An assessment is made of fair value less cost to complete and sell inventory when there are indications that an item of inventory's fair value less cost to complete and sell is lower than its carrying amount.

6.155 Such indicators may include physical damage, natural decay, obsolescence, unsaleability or declining selling prices.

6.156 When the circumstances that previously caused inventories to be written down below cost no longer exist, or when there is clear evidence of an increase in fair value less cost to complete and sell because of changed economic circumstances, the amount of the write-down is reversed (i.e. the reversal is limited to the amount of the original write-down) so that the new carrying amount is the lower of the cost and the revised fair value less cost to complete and sell. This occurs, for example, when an item of inventory that is carried at fair value less cost to complete and sell, because its selling price has declined, is still on hand in a subsequent period and its selling price has increased.

6.157 The carrying amount of an inventory item for which a previously recognised write-down to fair value less cost to complete and sell is reversed may not exceed its original cost.

6.158 The amount of any reversal of any write-down of inventories, arising from an increase in fair value less cost to complete and sell, shall be recognised as an adjustment to the cost of the related inventories and recognised in profit or loss in the reporting period in which the reversal occurs.

Recognition as an expense

6.159 When inventories are sold the carrying amount of those inventories shall be recognised as an expense in the reporting period in which the related revenue is recognised. The amount of any write-down of inventories to fair value less cost to complete and sell and all losses of inventories shall be recognised as an expense in the reporting period in which the write-down or loss occurs.

Discounts

6.160 A trade discount, rebate or a similar item received from a supplier of inventories, which is shown on the original invoice, shall be recognised as a reduction of such inventories acquired.

6.161 A discount that is received from a supplier of inventories subsequent to the recognition of inventories, and therefore not shown on the original invoice, shall be recognised as a reduction of cost of sales in the period it is granted.

Cost formulas

6.162 Techniques for the measurement of the cost of inventories, such as the standard cost method, the retail method or the most recent purchase price, may be used for convenience, if the results approximate cost. Standard costs take into account normal levels of materials and supplies, labour, efficiency and capacity utilisation. They are regularly reviewed and, if necessary, revised in the light of current conditions.

6.163 The retail method is often used in the retail industry for measuring inventories of large numbers of rapidly changing items with similar margins for which it is impracticable to use other costing methods. The cost of the inventory is determined by reducing the sales value of the inventory by the appropriate percentage gross margin. The percentage used takes into consideration inventory that has been marked down to below its original selling price. An average percentage for each retail department is often used.

6.164 The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects shall be assigned by using specific identification of their individual costs.

6.165 The cost of inventories, other than those dealt with in 6.162 to 6.164, shall be assigned by using the first-in, first-out (FIFO) or weighted average cost formula. An entity shall use the same cost formula for all inventories having a similar nature and use to the entity. For inventories with a different nature or use, different cost formulas may be justified.

Disclosure

6.166 An entity shall disclose the total impairment loss recognised on material classes of inventories during the reporting period on the face of the Income Statement (refer to 7.01). A breakdown may be provided for the total impairment loss recognised on material classes of inventories during the reporting period in the notes to the financial statements.

6.167 The financial statements shall disclose for each class of inventory:

(a) the accounting policies adopted in measuring inventories, including the cost formula used;
(b) the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;
(c) where inventory has been provided for as obsolete, slow-moving or otherwise impaired, the balance gross and net of the allowance account (refer to 6.152);
(d) the amount of inventories recognised as an expense during the reporting period;
(e) the amount of any impairment of inventories recognised at the reporting date;
(f) the existence and amounts of restrictions on title or encumbrances,

and inventories pledged as security for liabilities;

(g) the amount of contractual commitments for the development or acquisition of inventories; and

(h) the circumstances or events that led to the reversal of a write-down of inventories.

Investments

Scope

6.168 This Section shall be applied to account for all investments as defined (refer to 6.169).

Definition

6.169 An investment is:

(a) an amount that is initially claimable from another party owing to contractual or other legal rights, with substantially all of the capital amount receivable more than 12 months after the reporting date, such as a loan receivable, or a security issued by a government or an entity (e.g. a bond or debenture); or

(b) an equity instrument of another entity ('an equity instrument').

6.170 Effective interest rate method is a method of calculating the amortised cost of an asset or a liability and of allocating the interest income or interest expense over the relevant period.

6.171 Effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the asset or liability or, when appropriate, a shorter period to the net carrying amount of the asset or liability.

Recognition

6.172 Investments shall be recognised if the recognition criteria of an asset as per 3.23 have been met.

Measurement

Initial measurement

6.173 An investment shall initially be measured at its cost, which is the contractual amount agreed between the parties.

6.174 Transaction costs that are directly attributable to the acquisition of the investment are included in the initial measurement of cost. Examples of transaction costs of investments include the consideration paid, stamp duties and other non-refundable taxes.

Subsequent measurement – loans receivable and interest-bearing financial instruments.

6.175 Subsequent to initial recognition, an investments in loans or interest bearing financial instruments shall be measured at adjusted historical cost, which is its amortised cost (using the effective interest rate method) less any accumulated impairment losses, at each reporting date.

6.176 Investments from related entities with no contractual repayment terms shall be measured at cost, plus any contractual interest accrued, less any accumulated impairment losses, at each reporting date.

6.177 Investments from related entities with no contractual repayment terms shall not be discounted, as they shall be regarded as equity.

Subsequent measurement – equity instruments

6.178 Subsequent to initial recognition, an equity instrument shall be measured at adjusted historical cost, which is its cost less any accumulated impairment losses, at each reporting date.

Derecognition

6.179 An entity shall derecognise an investment when, and only when:

(a) the contractual rights to the cash flows from the investment expire; or

(b) it transfers the investment as set out in 6.180 (a) and (b) and the transfer qualifies for de-recognition in accordance with 6.179(a).

6.180 An entity transfers an investment if, and only if, it either:

(a) transfers the contractual rights to receive the cash flows of the investment; or
(b) retains the contractual rights to receive the cash flows of the investment, but assumes a contractual obligation to pay the cash flows to one or more recipients.

6.181 The gain or loss arising from de-recognition of an investment shall be included in profit or loss when the item is derecognised. A material gain or loss shall be presented separately on the face of the Income Statement. Gains shall not be classified as revenue.

6.182 The gain or loss arising from de-recognition of an investment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the investment.

Disclosure

6.183 All the disclosure below must clearly separate between, and make separate disclosure of:

(a) an interest-bearing financial instrument; and
(b) equity instrument of another entity, distinguishing between:
    (i) listed equity investments; and
    (ii) unlisted equity investments.

6.184 An entity shall provide a description of each material type of investment.

6.185 An entity shall disclose the existence and carrying amounts of investments where title is restricted or encumbered, and the carrying amounts of investments pledged as security.

6.186 An entity shall present a reconciliation of changes in the carrying amount of each material type of investment between the beginning and the end of the current period.

Comparative information is not required for this reconciliation.

6.187 An entity shall disclose the profit or loss on disposal for each material type of investment.

6.188 An entity shall disclose for all listed equity and debt instrument investments their respective fair values as at each reporting date.

Impairment of investments

Definitions

6.189 The recoverable amount of an asset for impairment purposes is the amount the entity is most likely to recover from the asset, based on management's best estimate considering all available facts and circumstances.

6.190 An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount.

Indicators of impairment

6.191 An entity shall assess at each reporting date whether there is any objective evidence that any investment is impaired. If any such evidence exists, the entity shall immediately determine the recoverable amount of the related investment.

6.192 In assessing whether there is any indication that an investment may be impaired, an entity shall consider, as a minimum, the following indicators:

(a) significant financial difficulty of the issuer or obligor;
(b) a breach of contract, such as a default or delinquency in interest or principal payments;
(c) evidence that the obligator may enter bankruptcy or other financial reorganisation;
(d) a recession or other economic instability in the jurisdiction to which the underlying investment is exposed;
(e) a significant decline in the market values or quoted prices of the markets in which the underlying investment is traded; and
(f) any other significant changes with an adverse effect that have taken

place in the technological, market, economic or legal environment in which the obligator operates.

Recognition

6.193 If the recoverable amount is less than the carrying amount of an investment, an impairment loss, equal to the difference, shall be recognised as an expense in the Income Statement immediately.

Assessment

6.194 Any individually material investment shall be assessed for impairment separately.

6.195 Equity investments, regardless of materiality, shall be assessed for impairment individually.

6.196 Other investments may be aggregated, based on risk characteristics, and assessed for impairment collectively.

An example of investments that may be aggregated are all loans receivable from subsidiaries and fellow-subsidiaries.

Measurement – loans receivable and interest-bearing financial instruments

6.197 The recoverable amount of an interest-bearing financial instrument is the present value of estimated future cash flows discounted at the interest-bearing financial instrument's original effective interest rate (i.e. the effective interest rate computed at initial recognition).

Measurement – equity instruments

6.198 The recoverable amount of an equity instrument shall be measured at its historical cost.

Reversals of impairment losses

6.199 An entity may reverse an impairment loss of an investment, in full or partially, if the indicator(s) of impairment no longer exist(s), and it is management's assessment that the part or whole of the investment will almost certainly be recovered.

6.200 The new carrying amount of the asset shall be measured at the lower of its recoverable amount and adjusted historical cost.

6.201 The carrying amount of an investment for which a previously recognised impairment loss is reversed may not exceed the amount, had the adjusted historical cost method (excluding impairment), which is amortised cost using the effective interest rate method, been applied.

6.202 Reversals of previously recognised impairment losses shall be included in profit or loss in the reporting period in which the reversal occurs.

Disclosure

6.203 An entity shall disclose the total impairment loss on investments recognised during the reporting period on the face of the Income Statement (refer to 7.01). A breakdown of such individual impairment losses may be provided in the notes to the financial statements.

6.204 In case of an impairment, or reversal of an impairment loss previously recognised, of an investment during the reporting period, an entity shall disclose the following for each class of investment.

(a) the amount of impairment losses recognised during the reporting period and the line item(s) of the Income Statement in which those impairment losses are included, if not separately presented on the face of the Income Statement in terms of this Standard;
(b) the amount of reversals during the reporting period of previously recognised impairment losses and the line item(s) of the Income Statement in which those impairment losses are included, if not separately presented on the face of the Income Statement in terms of this;
(c) the indicators that caused the impairment or reversal of impairment (the main events and circumstances that led to the recognition of impairment losses);
(d) the basis of determining fair value for estimating the recoverable amount of equity investments; and

(e) the basis of determining the recoverable amount of a loan receivable or an interest-bearing financial instrument, including how future cash flows were estimated and what discount rate was used.

6.205 An entity shall disclose for each material type of investment a reconciliation of the gross carrying amount and the accumulated impairment losses at the beginning and end of the period (comparative information is not required for this reconciliation).

Investments with control, joint control or significant influence

Scope

6.206 This Section shall be applied to account for subsidiaries, associates and jointly controlled entities as defined (refer to 6.212, 6.208 and 6.211 respectively).

Definitions

6.207 Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. If an entity has more than 50% of the voting rights of another entity, the rebuttable presumption is that the entity has control.

6.208 An associate is an entity, including an unincorporated entity such as an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

6.209 Joint control is the contractually agreed sharing of control over an economic activity.

6.210 A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity which is subject to joint control.

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

6.212 A subsidiary is an entity, including an unincorporated entity such as a partnership that is controlled by another entity (known as the parent).

6.213 Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

If an investor holds, directly or indirectly through subsidiaries, 20% or more of the voting power of the investee, it is presumed that the investor does have significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds, directly or indirectly through subsidiaries, less than 20% of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an investor from having significant influence.

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

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

Requirements

6.215 An entity shall not consolidate subsidiaries and shall not apply the equity method of accounting or proportionate consolidation for associates and joint ventures.

Recognition, measurement, amortisation and impairment

6.216 The entity shall apply the same recognition, measurement, impairment and de-recognition principles as for investments (refer to 6.172 to 6.182 and 6.189 to 6.202) for subsidiaries, associates and joint ventures in the separate financial statements.

Disclosure

6.217 An entity shall make the following disclosures, in the notes to the financial statements, with regard to controlled entities and entities with significant influence or subject to joint control (e.g. subsidiaries, associates and jointly controlled entities):

(a) All the disclosure requirements of the Investments section (refer to 6.203 to 6.205).

(b) The financial statements shall include a statement that they have not been prepared on a consolidated basis and therefore do not reflect all assets and liabilities under control of the investor.

(c) In respect of each material entity, and in aggregate:

- (i) its name;
- (ii) the nature of the relationship;
- (iii) the percentage shareholding or interest in the entity;
- (iv) the total amount of net assets;
- (v) the total amount of net liabilities;
- (vi) the total amount of net profits;
- (vii) the total amount of net losses;
- (viii) all inter-entity balances owing to and owing from such entities;
- (ix) dividends paid and received; and
- (x) the amount of equity.

6.218 An entity should take particular care to ensure that it discloses all material liabilities and contingent liabilities of entities which the reporting entity controls.

Amounts receivable

Scope

6.219 This Section shall be applied to account for all amounts receivable as defined (refer to 6.220).

Definitions

6.220 An amount receivable is an amount initially claimable from another party owing to contractual or other legal rights. Examples of amounts receivable would include debtors, loans receivable, pre-payments for goods and services still to be received and other short-term receivables.

Recognition

6.221 Amounts receivable shall be recognised if the recognition criteria of an asset as per 3.23 have been met.

6.222 In terms of the general recognition principles, amounts receivable will only be recognised when there is a legally enforceable right to claim the amount. An example is a contract to sell inventory which is only recognised by the seller as a receivable when the legal ownership of the inventory is transferred.

Measurement

Initial measurement

6.223 An amount receivable shall initially be measured at its cost, which is the documented amount agreed between the parties, usually the invoiced amount.

6.224 Any directly related costs relating to the obtaining of the receivable shall be recognised in profit or loss in the reporting period in which the costs are paid or payable.

Subsequent measurement

6.225 Subsequent to initial recognition, an amount receivable shall be measured at adjusted historical cost, which is the amount outstanding at the reporting date; including accrued interest (if applicable) calculated using the contractual interest rate agreed, at each reporting date.

6.226 If an amount receivable is issued at a premium or discount, the premium or discount shall be recognised in the Income Statement spread over the period of the instrument, using the effective interest rate method.

6.227 Pre-payments shall be measured at cost, adjusted for the proportionate delivery of the goods or services, and recognised in profit or loss.

De-recognition

6.228 An entity shall apply the same guidance as for investments in 6.179 to 6.182 to account for a transfer of an amount receivable.

6.229 The gain or loss arising from de-recognition of an amount receivable shall be included in profit or loss when the item is de-recognised.

6.230 The gain or loss arising from de-recognition of amounts receivable shall be determined as the difference between the consideration received for the part derecognised, if any, and the allocated carrying amount of the item.

Disclosure

6.231 An entity shall provide a description of each material type of amount receivable.

6.232 An entity shall disclose separately, either on the face of the Balance Sheet or in the notes to the financial statements, material classes of amounts receivable.

6.233 Where amounts receivable have been provided for as doubtful or uncollectible, the gross and net balances of the amount receivable shall be disclosed as at the reporting date by way of detailing the value of the allowance account.

6.234 The financial statements shall disclose the existence and carrying amounts of amounts receivable, where title is restricted or encumbered, and amounts receivable pledged as security.

6.235 The financial statements shall disclose separately the non-current and current portions of any amounts receivable and in the case of amounts receivable that are non-current, an entity shall present all terms of such non-current amounts receivable.

Derivative

Measurement

Initial measurement

6.236 A derivative shall initially be measured at its cost.

Examples of the cost of a derivative include the upfront premium and subsequent margin calls paid.

Subsequent measurement

6237 Subsequent to initial recognition, a derivative shall be measured at cost until de-recognised.

De-recognition

6.238 An entity shall de-recognise the carrying amount of a derivative (or a part thereof) when the contractual rights or obligations in terms of cash flows related to the derivative are settled, discharged, cancelled or expire.

Cash and cash equivalents

Scope

6.239 This Section shall be applied to account for all cash and cash equivalents as defined.

Definition

6.240 Cash and cash equivalents are cash on hand and demand deposits and other balances with banks, including short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to a risk of changes in value that is not material

Recognition

6.241 Cash and cash equivalents shall be recognised if the recognition criteria of an asset as per 3.23 have been met.

Measurement

Initial measurement

6.242 An item of cash and cash equivalents shall initially be measured at its cost.

Subsequent measurement

6.243 Subsequent to initial recognition, an item of cash and cash equivalents shall be measured at adjusted historical cost, which is its cost plus any accrued interest, where applicable, at each reporting date.

Disclosure

6.244 An entity shall disclose separately, either on the face of the Balance Sheet or in the notes to the financial statements, each material type and currency of cash and cash equivalents.

6.245 The financial statements shall disclose the existence, amounts of restrictions on title or encumbrances of cash and cash equivalents and any interest accrual rate, if applicable.

Classification of financial instruments as amounts payable or equity

Definitions

6.246 An amount payable is a liability that is initially payable to another party owing to contractual or other legal rights.

6.247 Equity is defined below.

Classification

6.248 The issuer of a financial instrument shall classify the instrument as amounts payable or equity in accordance with the legal form of the contractual arrangement.

6.249 A financial instrument issued shall be classified as an amount payable, i.e. as a liability, if it is a contract with agreed repayment terms or if repayment is at the discretion of a counter party. The Section on amounts payable shall be applied to such a financial instrument (refer to 6.257 to 6.268).

6.250 A financial instrument issued shall be a classified as equity if it is evidenced by a contract that establishes a residual interest in the assets of an entity after deducting all of its liabilities. The Section on equity shall be applied to such a financial instrument (refer to 6.252 to 6.256).

6.251 If an entity does not have an unconditional right to avoid delivering cash or another asset to settle a contractual obligation, the obligation meets the definition of a loan payable or amount payable.

An example of the absence of such an unconditional right is a contractual obligation that is conditional on a counter party exercising its right to redeem its amount receivable and the entity does not have a right not to deliver cash to settle its obligation.

Equity

Scope

6.252 This Section shall be applied to account for equity as defined.

Definition

6.253 Equity is the residual interest in the assets of an entity after deducting all of its liabilities. Equity includes shareholder loans payable or receivable with no obligation to repay.

Recognition

6.254 An entity shall recognise amounts as equity as and when it receives cash or other forms of economic benefit from a shareholder/owner representing a shareholder's/owner's interest in the entity.

Subsequent measurement

6.255 Equity shall be reported at historical cost.

Disclosure

6.256 The stated capital of an entity shall be disclosed by note to the Balance Sheet and the attaching rights by way of voting (or similar) or any other potential right in respect of shareholding of the entity, shall be disclosed.

Amounts payable

Scope

6.257 This section shall be applied to account for all amounts payable as defined below.

Definition

6.258 An amount payable is an amount initially owing to another party due to contractual or other legal rights.

Examples of amounts payable include creditors, accruals, payments received in advance for goods and services still to be rendered, and other short-term obligations.

Recognition

6.259 Amounts payable shall be recognised if the recognition criteria of a liability as per 3.15 have been met.

6.260 In terms of the general recognition principles, amounts payable will only be recognised when there is a legal enforceable right to claim the amount. For example, a contract to purchase inventory is only recognised by the purchaser as payable when the legal ownership of the inventory is transferred.

Measurement

Initial measurement

6.261 An amount payable shall initially be measured at its cost, which is the documented amount agreed between the parties, usually the invoiced amount.

6.262 Any directly related costs relating to obtaining an amount payable shall be recognised in profit or loss in the reporting period in which the amount payable was obtained.

Subsequent measurement

6.263 Subsequent to initial recognition, an amount payable shall be measured at adjusted historical cost, which is the amount outstanding at the reporting date; including accrued interest (if applicable) calculated using the contractual interest rate agreed, at each reporting date.

De-recognition

6.264 An entity shall derecognise the carrying amount of an amount payable (or a part thereof) when the obligation specified in the contract is discharged, cancelled or expires.

6.265 The gain or loss arising from derecognising an amount payable shall be included in profit or loss when the item is derecognised.

6.266 The gain or loss arising from de-recognition of amounts payable shall be determined as the difference between the consideration received for the part derecognised, if any, and the allocated carrying amount of the item.

Disclosure

6.267 An entity with current amounts payable shall disclose each significant type of payable(s) by way of a note to the Balance Sheet.

6.268 An entity with non-current amounts payable shall disclose each significant type of payable(s) by way of a note to the Balance Sheet including, but not limited to, the following (if applicable):

(a) interest rate and repayment terms;
(b) the existence and terms of rolling options and escalation clauses;
(c) restrictions imposed by payables arrangements, such as those concerning dividends and additional debt; and
(d) description of the carrying amounts of assets pledged as security in respect of such amounts payable.

Provisions, contingent liabilities, commitments under derivative contracts and contingent assets.

Scope

6.269 This Section shall be applied to account for all provisions, contingent liabilities and contingent assets as defined below.

Definitions

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

6.271 A contingent liability is:

(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or

(b) a present obligation that arises from past events but is not recognised because:

(i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

(ii) the amount of the obligation cannot be measured with sufficient reliability.

6.272 A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

Recognition

6.273 Provisions shall be recognised if the recognition criteria of a liability as per 3.15 have been met. Further guidance on specific situations is provided below.

6.274 An event is probable if it is more likely to happen than not.

Provisions

6.275 A provision shall be recognised when:

(a) an entity has a present obligation (legal or constructive) as a result of a past event;

(b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

(c) a reliable estimate can be made of the amount of the obligation.

6.276 If these conditions are not met, no provision shall be recognised.

Probable outflow of resources embodying economic benefits.

6.277 For a liability to qualify for recognition there shall be not only a present obligation but also the probability of an outflow of resources embodying economic benefits to settle that obligation. For the purpose of this Section, an outflow of resources or other event is regarded as probable if the event is more likely than not to occur, i.e. the probability that the event will occur is greater than the probability that it will not. Where it is not probable that a present obligation exists and where the possibility of an outflow of resources embodying economic benefits is remote, an entity does not recognise but must discloses a contingent liability (refer to 6.280).

Reliable estimate of the obligation

6.278 The use of estimates is an essential part of the preparation of financial statements and does not undermine their reliability. This is especially true in the case of provisions, which by their nature are more uncertain than most other Balance Sheet items. Except in extremely rare cases, an entity will be able to determine a range of possible outcomes and can therefore make an estimate of the obligation that is sufficiently reliable to use in recognising a provision.

6.279 In the extremely rare case where no reliable estimate can be made, a liability exists that cannot be recognised. That liability is disclosed as a contingent liability (refer to 6.280).

Contingent liabilities

6.280 A contingent liability is disclosed as required by 6.277, but not recognised if the possibility of an outflow of resources embodying economic benefits is remote.

Examples of contingent liabilities are certain guarantees and pending litigation.

6.281 The amount disclosed as a contingent liability shall be management's best estimate of the possible undiscounted cash outflows.

Contingent assets

6.282 A contingent asset is not recognised in the financial statements, since this may result in the recognition of income that may never be realised. However, when the realisation of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.

6.283 A contingent asset is disclosed, as required by 6.301 where an inflow of economic benefits is probable, but not certain.

6.284 The amount disclosed as a contingent asset shall be management's best estimate of the possible undiscounted cash inflows.

Measurement

6.285 A provision shall initially, and at each reporting date, be measured at the best estimate of the expenditure required to settle the present obligation.

6.286 A contingent liability shall initially, and at each reporting date, be measured and disclosed, but not recognised as a liability, at the best estimate of the possible undiscounted cash outflows.

6.287 A contingent asset shall initially, and at each reporting date, be measured and disclosed, but not recognised as an asset, at the best estimate of the possible undiscounted cash inflows.

Risks and uncertainties

6.288 The risks and uncertainties that inevitably surround many events and circumstances shall be taken into account in reaching the best estimate of a provision, contingent liability and contingent asset.

Reimbursements

6.289 Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when the reimbursement is received.

6.290 In the Income Statement, the income recognised for a reimbursement may be set-off against the expense relating to a provision, and the net amount presented or disclosed.

6.291 In the Balance Sheet, the reimbursement asset may not be set-off against the related provision.

Changes and de-recognition of provisions

6.292 Provisions shall be reviewed at each reporting date and adjusted to reflect the current best estimate.

6.293 If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the carrying amount of the provision shall be derecognised and included in profit or loss when the item is derecognised.

6.294 If the estimate of the outflow of resources embodying economic benefits which will be required to settle the obligation changes, the provision shall be adjusted accordingly and included in profit or loss when the item is adjusted.

Use of provisions

6.295 A provision shall be used only for the expenditure for which the provision was originally recognised.

Future operating losses

6.296 A provision shall not be recognised for future operating losses.

Disclosure

Provisions

6.297 For each class of provision, and individually significant provisions an entity shall disclose:

(a) the carrying amount at the beginning and end of the period;
(b) additional provisions made in the reporting period, including increases to existing provisions;

(c) amounts used (i.e. incurred and charged against the provision) during the reporting period;

(d) unused amounts reversed during the reporting period; and

(e) the increase during the reporting period in the discounted amount arising from the passage of time and the effect of any change in the discount rate.

6.298 Comparative information is not required for this reconciliation.

6.299 An entity shall disclose the following for each class of provision, and any individually significant provision, at the reporting date:

(a) a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits; and

(b) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

Contingent liabilities

6.300 An entity shall disclose the following for each class of contingent liability, and any individually significant contingent liability, at the reporting date:

(a) a brief description of the nature of the contingent liability and the expected timing of any resulting outflows of economic benefits;

(b) an estimate of the contingent liability financial effect, measured under 6.285

(c) an indication of the uncertainties relating to the amount or timing of any outflow; and

(d) the possibility of any reimbursement.

Contingent assets

6.301 An entity shall disclose the following for each class of contingent asset, and any individually significant contingent asset, at the reporting date:

(a) a brief description of the nature of the contingent asset and the expected timing of any resulting inflow of economic benefits;

(b) an estimate of the contingent asset's financial effect; and

(c) an indication of the uncertainties relating to the amount or timing of any inflow.

Derivatives

Scope

6.302 Derivatives are as defined (refer to 6.303).

Definitions

6.303 A derivative is a financial instrument whose value depends on the value of an underlying asset, an index or a reference rate (the 'underlying'). Examples of derivatives include swaps, forwards, futures and options.

6.304 An underlying is the variable item that determines the value of a derivative.

Examples of underlying items include changes in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, or credit index, or other variable.

Commitment under derivative contracts

6.305 The following information relating to all derivative instruments issued or acquired by an entity shall be disclosed:

(a) description of the derivative, including the:
   (i) underlying asset, index or reference rate; and
   (ii) associated risks, including trigger events (if applicable);

(b) quantity or amount of the derivative;

(c) exercise or strike price of the derivative;

(d) exercise date (or period) of the derivative; and

(e) gains or losses due to settlement, sale or transfer of derivatives during the reporting period.

Onerous contracts

Scope

6.306 This Section shall be applied to account for all onerous contracts as defined (refer to 6.307).

Definitions

6.307 An onerous contract is a contract in which the unavoidable costs of meeting obligation(s) under the contract exceed the economic benefits expected to be received under it.

An example of an onerous contract is where an entity may be contractually required under an operating lease to make payments to lease an asset for which it no longer has any use.

6.308 The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the net cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

Recognition

6.309 If an entity has a contract that is onerous as defined (refer to 6.307) no provision shall be recognised. It shall be paid when the occasion arises.

Measurement

6.310 An onerous contract provision shall initially, and at each reporting date, be measured at its adjusted historical cost being the lower of the present obligation under the contract and the cost to exit the contract (i.e. the unavoidable costs).

6.311 The present obligation under the contract shall be measured at the amount by which the costs of meeting obligations under the contract exceed the economic benefits expected to be received under it.

6.312 The cost to exit the contract shall be measured at any compensation, penalties or other costs directly related to the failure to fulfil it.

Income taxes

Scope

6.313 This Section, as well as the following sections, shall be applied to account for all income taxes, as defined (refer to 6.314)

Definitions

6.314 Income tax is all domestic and foreign taxes that are based on taxable profits.

Examples of income taxes include statutory taxes on the reporting entity's profits and other taxes, such as withholding taxes, which are payable by a subsidiary, associate or joint venture on distributions to the reporting entity.

6.315 Tax expense or income is the aggregate amount included in the determination of profit or loss for the reporting period in respect of current tax. Tax expense (income) comprises current tax expense (income).

Tax rate

6.316 The changes in tax rates and tax laws shall be applied to the reporting period to which they relate.

An example of this is a change in tax rates announced during a tax year as being applicable to the following year, in which case the current tax balances in the Balance Sheet would be based on the previous tax rate.

Income taxes –current taxation

Definition

6.317 Tax is the amount of income taxes payable (receivable) in respect of the taxable profit (tax loss) for a period.

Recognition

6.318 Current income tax payable for the current and any prior period shall, to the extent unpaid, be recognised as a current liability. If the amount already paid in respect of the current and any prior period exceeds the amount due for those periods, the excess shall be recognised as a current asset.

6.319 Any over- or under-provision for current income taxes is accounted for as a change in estimate and is adjusted for when the taxation authorities have made an assessment of the amount of income tax payable or as soon as the entity becomes aware of the change in estimate.

Recognition of current tax income or expense

6.320 Tax shall be recognised as an expense or income in the Income Statement.

6.321 This Standard does not require the accounting for deferred tax. Since there is no accounting for deferred tax all taxes are to be referred to as "Tax".

Measurement

6.322 Current income tax liabilities (assets) for the current and any prior periods shall initially, and at each subsequent reporting date, be measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) enacted (or substantively enacted) at the reporting date, applicable to the profits of the entity. An entity shall accrue tax liabilities for penalties and interest, if applicable.

Presentation

6.323 An entity shall offset current tax assets and current tax liabilities if, and only if, the entity has a legally enforceable right to set off current tax assets against current tax liabilities.

Disclosure

6.324 An entity shall disclose the current income tax carrying amount separately, either on the face of the Balance Sheet or in the notes to the financial statements.

6.325 The major components of tax expense shall be disclosed separately, either on the face of the Income Statement or in the notes to the financial statements.

6.326 An entity shall disclose a reconciliation of the current income tax carrying amount at the beginning and at the end of the reporting period. In that reconciliation, the entity shall identify separately each significant type of change in the current income tax carrying amount.

6.327 An entity shall disclose any assessed or estimated tax losses and credits available. A reconciliation should be presented reflecting movement on the assessed loss balance including losses lost due to expiration of time.

6.328 An entity shall disclose an analysis of the material types of taxes separately. Examples of the different types of taxes include current income tax, capital gains tax and taxes on dividends.

6.329 If the profit reported in the financial statements is significantly different to that reported to the taxation authorities the entity should present in the notes to the financial statements a reconciliation of the two amounts

Government grants and designated funds

Scope

6.330 This Section shall be applied to account for all government grants and designated funds as defined (refer to 6.332 and 6.334 respectively) in the Balance Sheet. Refer to Chapter 7 Income Statement for the required treatment in profit or loss.

6.331 This section does not cover assistance that is provided for an entity in the form of benefits that are available in determining taxable profit or tax loss, or are determined or limited on the basis of income tax liability.

Examples of such benefits are income tax holidays, investment tax credits, accelerated depreciation allowances and reduced income tax rates.

Definitions

6.332 A grant is assistance by government and / or other institutions in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities or a specific asset of the entity.

6.333 A government grant excludes those forms of government and / or other institutions' assistance which cannot reasonably have a value placed upon them and transactions with government and / or institutions which cannot be distinguished from the normal trading transactions of the entity.

6.334 A designated fund is an amount received that may only be used for a specific purpose, i.e. activity and/or asset.

Examples of designated funds include amounts received by non-governmental entities for the construction of a specific asset or to be used for specified activities.

Recognition

6.335 Grant obligations and designated fund liabilities shall be recognised if the recognition criteria of a liability as per 3.15 have been met.

6.336 Such amounts shall not be recognised as equity, unless it is equity as defined (refer to 6.253). and meets the recognition criteria for equity (refer to 6.254).

6.337 Grant obligations and designated fund liabilities shall be recognised in the Balance Sheet to the extent that the specific purpose has not yet been completed or to the extent that the entity is yet to comply with the specified future performance conditions.

6.338 Refer to 7.42 to 7.51 for detailed guidance on the treatment of grant income and disignated fund income in the Income Statement.

Measurement

6.339 A grant obligation and designated fund liability shall be measured at cost, which is the amount received or receivable.

Subsequent measurement

6.340 Subsequent to initial recognition, a grant obligation and a designated fund liability shall be measured at adjusted historical cost, which is cost less the extent to which the specific purpose (for designated fund liability) has been completed or the entity has complied with the specified future performance conditions for grants.

Disclosure

6.341 An entity with a grant obligation and/or a designated fund liability shall disclose, for each material grant obligation and designated fund liability, a reconciliation of the liability at the beginning and at the end of the period. In that reconciliation, the entity shall identify separately each significant type of change in the liability.

Comparative information is not required for this reconciliation.

6.342 A general description of material grants and designated fund arrangements is required, including, but not limited to, the following:

(a) terms of the arrangement, including details of specified future performance conditions, or the specific purpose for which the amount received needs to be used;

(b) restrictions imposed by the arrangements, for example those concerning dividends and additional debt.

Retained earnings and reserves

Scope

6.343 This Section shall be applied to account for all retained earnings and reserves as defined (refer to 6.344 and 6.345 respectively).

Definition

6.344 Retained earnings is the net profit or loss that an entity generates and has not distributed to owners.

6.345 Reserves are any amounts an entity generates and retains for a specific future purpose.

Recognition

6.346 An entity shall recognise retained earnings in the reporting period in which amounts are generated. An entity may transfer certain amounts for a specific future purpose as reserves. These amounts shall be classified as equity.

6.347 A reserve shall not be recognised for potential future operating losses or other general future contingencies.

Measurement

Initial measurement

6.348 An entity shall initially measure retained earnings at its cost, which is the amounts generated (incurred) in profit or loss.

6.349 An entity shall initially measure a reserve at its cost, which is the carrying amount of the retained earning transferred to the reserve.

Subsequent measurement

6.350 Subsequent to initial recognition, retained earnings and reserves shall be measured at adjusted historical cost, which is initial cost less amounts distributed to owners or applied for a specific purpose, at each reporting date.

Presentation and disclosure

6.351 An entity shall present a reconciliation of retained earnings at the beginning and at the end of the period on the face of the Income Statement.

Comparative information is not required for this reconciliation.

6.352 If an entity has reserves in its financial statements it shall disclose:

(a) the nature, purpose and conditions, if any, relating to amounts recognised as reserves; and

(b) a reconciliation of reserves at the beginning and at the end of the period.

Chapter 7
Income Statement

Presentation

7.01 As a minimum, the face of the Income Statement shall include line items that present:

(a) material categories of revenue, distinguished from other income;
(b) material categories of other income;
(c) cost of sales;
(d) tax expense;
(e) interest expense;
(f) other expenses;
(g) interest income;
(h) dividend income gross of any taxes withheld;
(i) total material impairment losses;
(j) total material reversals of impairment losses;
(k) goodwill credited or charged to income;
(l) profit or loss before and after tax for the reporting period;
(m) retained earnings at the beginning of the reporting period;
(n) the effect of changes in accounting policies;
(o) correction of material prior period errors;
(p) transfer to reserves;
(q) dividends paid; and
(r) retained earnings at the end of the reporting period.

7.02 A reconciliation of opening and closing retained income shall be presented on the face of the Income Statement.

7.03 Additional line items, headings and subtotals shall be presented on the face of the Income Statement when such presentation is relevant to an understanding of the entity's financial performance.

Presentation

7.04 Items or events that are wholly outside of the control of the entity shall be separated from operational items, either on the face of the Income Statement or in the notes to the financial statements. These items will be described as 'exceptional'.

Examples of exceptional items include governmental expropriation and natural disasters.

7.05 Exceptional items shall be shown after (below) profit or loss after tax for the reporting period and the tax on exceptional items, if any, shall be shown as separate line items.

Revenue

Scope

7.06 This Section shall be applied in accounting for revenue as defined (refer to 7.07) arising from the following transactions and events:

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

Definitions

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

7.08 Amounts collected on behalf of third parties such as sales taxes, goods and services taxes, and value added taxes are not economic benefits which flow to the entity and do not result in increases in equity. Therefore, they are excluded from revenue. Similarly, in an agency relationship, the gross inflows of economic benefits include amounts collected on behalf of the principal and which do not result in increases in equity for the entity. The amounts collected on behalf of a principal are not revenue. Instead, revenue is the consideration paid by the principal to the agent – for example commission.

Recognition

7.09 Revenue shall be recognised if the recognition criteria of income as per 3.25 have been met.

7.10 Revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the entity. However, when an uncertainty arises about the collectability of an amount already included in revenue, the uncollectible amount, or the amount in respect of which recovery has ceased to be probable, is recognised as an expense, rather than as an adjustment of the amount of revenue originally recognised.

Identification of the transaction

7.11 The recognition criteria in this Section are applied separately to each transaction, or to two or more transactions together, as follows:

(a) The recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction.

For example, when the selling price of a product includes an identifiable amount for subsequent servicing, that amount is deferred and recognised as revenue over the period during which the service is performed;

(b) The recognition criteria are applied to two or more transactions together when they are linked in such a way that the commercial effect cannot be understood without reference to the series of transactions as a whole.

For example, an entity may sell goods and, at the same time, enter into a separate agreement to repurchase the goods at a later date, thus negating the substantive effect of the transaction; in such a case, the two transactions are dealt with together.

Sale of goods

7.12 In addition to the general probability and measurability criteria (refer to 3.21), an entity shall recognise revenue from the sale of goods only when all the following conditions are also satisfied:

(a) The entity has transferred to the buyer the significant risks and rewards of ownership of the goods; and

(b) The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

Rendering of services

7.13 In addition to the general probability and reliable measurement criteria (refer to 3.21), an entity shall recognise revenue from the rendering of services only when the outcome of the transaction can be estimated reliably.

Interest, royalties and dividends

7.14 Revenue arising from the use by others of entity assets yielding interest, royalties, and dividends shall be recognised on the bases set out in 7.15 when the recognition criteria of income as per 3.25 have been met.

7.15 Such revenue shall be recognised on the following bases:

(a) Interest shall be recognised using the effective interest rate method;

(b) Royalties shall be recognised on an accrual basis in accordance with the substance of the relevant agreement; and

(c) Dividends shall be recognised when rights are established (usually the date on which the dividends are authorised).

Measurement

Sale of goods

7.16 The amount of revenue arising on a transaction is usually determined by agreement between the entity and the customer or client. It is measured at the invoiced value, net of Value Added Tax (VAT).

Rendering of services

7.17 An entity shall measure the amount of revenue of contracts to render services calculated using the stage of completion method.

7.18 An entity shall determine the stage of completion of a transaction or contract using the method that measures most reliably the work performed. Depending on the nature of the contract, the methods may include:

(a) the proportion that costs incurred for work performed to date bear to the estimated total costs;
(b) surveys of work performed; or
(c) completion of a physical proportion of the service transaction or contract work.

7.19 Progress payments and advances received from customers often do not reflect the work performed and these should be recognised on the Balance Sheet as liabities to the extent that they do not reflect the work performed to date.

7.20 An entity shall recognise costs that relate to future activity on the transaction or contract, such as for materials or prepayments, as an asset if it is probable that the costs will be recovered.

7.21 An entity shall recognise as an expense immediately any costs whose recovery is not probable.

7.22 When the outcome of a transaction or contract cannot be estimated reliably:

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

7.23 When it is probable that total transaction or contract costs will exceed total contract revenue on a transaction or contract, the expected loss shall be recognised as an expense immediately, with a corresponding provision for an onerous contract (refer to 6.306 to 6.312).

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

Discounts

7.25 A trade discount, rebate or other similar item granted relating to a sale of goods or rendering of services shown on the original invoice shall be recognised as a reduction in the measurement of the related revenue.

7.26 Discounts granted related to a sale of goods or rendering of services, extended subsequent to the recognition of the related revenue, i.e. therefore not shown on the original invoice, shall be recognised as a reduction of revenue in the period the discount is utilised by the customer or client.

Pre-invoicing

7.27 If the amount invoiced is for services to be rendered or goods to be delivered after the reporting date (pre-invoicing), these amounts shall not be recognised as revenue, but rather as amounts received in advance and accounted for as amounts payable (refer to 6.259).

Exchange of goods

Classification

7.28 When goods or services are exchanged or swapped for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction which generates revenue.

Examples include commodities like oil or milk, where suppliers exchange or swap inventories in various locations to fulfil demand on a timely basis in a particular location.

7.29 When goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction which generates revenue.

Measurement

7.30 The revenue in an exchange transaction is measured at the net realisable value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred.

7.31 When the net realisable value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

7.32 In an exchange transaction an entity shall apply the guidance in 6.39 to 6.41 in determining the fair values of acquired or given up goods and services.

Disclosure

7.33 An entity shall disclose:

(a) the accounting policies adopted for the recognition of revenue, including the methods adopted to determine the stage of completion of transactions involving the rendering of services;

(b) the amount of each material category of revenue recognised during the reporting period, including revenue arising from:

- (i) the sale of goods;
- (ii) the rendering of services;
- (iii) interest;
- (iv) royalties;
- (v) dividends; and

(c) the amount of revenue arising from exchanges of goods or services included in each material category of revenue.

Construction contracts

Scope

7.34 This Section shall be applied to account for all construction contracts as defined (refer to 7.35).

Definition

7.35 A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

A fixed price contract is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which is, in some cases, subject to cost escalation clauses.

A cost plus contract is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs, plus a percentage of these costs or a fixed fee.

7.36 The services may be rendered within a single period or over more than one period. Some contracts for the rendering of services are directly related to construction contracts, for example for contractors, project managers, and architects.

Recognition

7.37 Construction contract revenue shall be recognised if the recognition criteria of income as per 3.25 have been met.

Measurement

7.38 The entity shall recognise revenue from construction contracts based on an objective measurement of work completed, which shall be either:

(a) accumulated value of invoices raised or

(b) accumulated value of work certified during the reporting period.

Contracts costs shall comprise:

(a) costs that relate directly to the specific contract;
(b) costs that are attributable to contract activity in general and can be allocated to the contract; and
(c) such other costs as are specifically chargeable to the customer under the terms of the contract and shall be accounted for on the accrual basis.

Disclosure

7.39 An entity shall disclose:

(a) the amount of contract revenue recognised as revenue in the period and;
(b) the methods used to determine the contract revenue recognised in the period.

7.40 An entity shall disclose each of the following for contracts in progress at the end of the reporting period:

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

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

7.41 An entity shall present:

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

Government grants and designated funds

Scope

7.42 This Section shall be applied to account for all government grants and designated funds as defined (refer to 7.44 and 7.45 respectively) in the Income Statement.

7.43 This section does not cover government assistance that is provided for an entity in the form of benefits that are available in determining taxable profit or tax loss, or are determined or limited on the basis of income tax liability.

Definitions

7.44 A government grant is assistance by government in the form of transfers of resources to an entity in return for past or future compliance with specified performance conditions.

7.45 A designated fund is an amount received that may only be used for a specific purpose, i.e. activity and/or asset, or imposes specified future performance conditions on the entity.

7.46 A government grant excludes those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity.

Recognition and measurement

7.47 Government grant income and designated fund income shall be recognised if the recognition criteria of income as per 3.25 have been met.

7.48 Government grant income and designated fund income shall be recognised in profit or loss to the extent that the specific purpose for designated funds has been completed, or the entity has complied with the specified performance conditions for government grants.

7.49 A government grant or designated fund that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognised in the profit or loss of the reporting period in which it becomes receivable.

7.50 If there are no specified performance conditions, or specific purpose for which the amount received needs to be used, the government grant income or designated fund income is recognised in profit or loss when the proceeds are receivable.

Disclosure

7.51 If an entity recognises government grant income and designated fund income it shall disclose a general description of material government grants and designated funds, including, but not limited to, the following:

(a) government grant or designated fund liability income recognised in the Income Statement during the reporting period;
(b) the terms of the government grant and designated fund, including details of specified future performance conditions, or specific purpose for which the amounts received need to be used; and
(c) restrictions imposed by the arrangements, for example concerning dividends and additional debt.

Borrowing costs

7.52 An entity shall expense all borrowing costs in the period in which they are incurred.

Employee benefits

Scope

7.53 This Section shall be applied to account for employee benefits, including termination benefits, as defined (refer to 7.54 and 7.55).

Definitions

7.54 Employee benefits are all forms of consideration given by an entity in exchange for services rendered by employees.

Examples of employee benefits include salaries, wages, performance bonuses, contributions to employee post-employment benefit funds, cost of Botswana labour law legislated severance pay, contributions to employee medical aids and vacation pay accruals.

7.55 Termination benefits are employee benefits payable as a result of either:

(a) an entity's decision to terminate an employee's employment before the normal retirement date, or
(b) an employee's decision to accept voluntary redundancy in exchange for those benefits. Examples of termination benefits include the cost of retrenchment and dismissal of employees.

Recognition

7.56 Employee benefits shall be recognised if the recognition criteria of expense as per 3.26 have been met. This is typically when the services are received.

7.57 Because termination benefits do not provide an entity with future economic benefits, an entity shall recognise them as an expense in profit or loss immediately.

7.58 An entity shall recognise termination benefits as a liability and an expense only when the entity is demonstrably committed either:

(a) to terminate the employment of an employee or group of employees before the normal retirement date; or
(b) to provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

7.59 An entity is demonstrably committed to a termination only when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal from the plan.

Measurement

7.60 Employee benefits, including termination benefits, are measured at the amounts paid or payable.

Disclosure

7.61 Material types of employee benefits, including termination benefits, shall be disclosed, either on the face of the Income Statement or in the notes to the financial statements. Such material types may include:

(a) salaries;

(b) wages;

(c) termination benefits:

(d) medical aid contributions; and

(e) retirement plan contributions.

The effects of changes in foreign exchange rates

Scope

7.62 This Section shall be applied to account for all foreign currency transactions and balances or to a presentation currency other than the entity's functional currency (refer to 7.63 to 7.67).

Definitions

7.63 A foreign currency is a currency other than the functional currency of the entity.

7.64 A foreign currency transaction is a transaction that is denominated in or requires settlement in a foreign currency.

7.65 A foreign operation is an entity that is a subsidiary, associate, joint venture or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.

7.66 A functional currency is the currency of the primary economic environment in which the entity operates.

7.67 A presentation currency is the currency in which the financial statements are presented.

7.68 Monetary items are units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.

7.69 The essential feature of a monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency.

7.70 Examples of monetary items include:

(a) retirement and other employee benefits to be paid in cash;

(b) provisions that are to be settled in cash; and

(c) cash dividends that are recognised as a liability.

7.71 Non-monetary items are assets and liabilities to be received or paid in an undeterminable number of units of currency.

7.72 The essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency.

7.73 Examples of non-monetary items include:

(a) amounts prepaid for goods and services (e.g. prepaid rent);

(b) intangible assets;

(c) plant and equipment; and

(d) provisions that are to be settled by the delivery of a non-monetary asset.

Functional currency

Determination of the functional currency

7.74 An entity shall determine its functional currency when this Standard is applied for the first time.

7.75 An entity considers the following factors in determining its functional currency:

(a) the currency that mainly influences sale prices for goods and services; and

(b) the currency that mainly influences labour, material and other costs of providing goods or services.

Measurement

Initial measurement

Foreign currency transactions

7.76 A transaction denominated in a foreign currency shall be measured, on initial recognition, in the functional currency by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction, or where such transaction is hedged through a forward exchange contract or similar instrument at the exchange rate specified in such contract or instrument.

7.77 For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used; for example, an average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.

Subsequent measurement

7.78 At each reporting date, for all balances denominated in a foreign currency:

(a) foreign currency monetary items shall be translated using the closing rate; and

(b) non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated, using the exchange rate at the date of the transaction.

Recognition of exchange differences

7.79 Exchange differences arising on the settlement of monetary items or on reporting an entity's monetary items at rates different from those at which they were initially recorded during the reporting period, or reported in previous financial statements, shall be recognised as income or as expenses in the reporting period in which they arise.

Disclosure

7.80 An entity shall disclose the amount of exchange differences included in the profit or loss for the reporting period.

Chapter 8
Notes to the Financial Statements

Presentation and disclosure

8.01 The notes to the financial statements shall:

(a) present information about the basis of preparation of the financial statements and the specific accounting policies selected and applied for material transactions and events;
(b) disclose the information required by this Standard that is not presented on the face of the financial statements; and
(c) provide additional information that is not presented on the face of the financial statements, but is relevant to an understanding of them.

8.02 Notes to the financial statements shall, as far as possible, be presented in a systematic manner. Each item on the face of the financial statements shall be cross-referenced to any related information in the notes to the financial statements.

8.03 Comparative amounts are required for all amounts and descriptive information disclosed in the notes to the financial statements, except where indicated otherwise.

8.04 An entity shall disclose in the summary of significant accounting policies:

(a) the measurement basis used in preparing the financial statements; and
(b) the other accounting policies used that are relevant to an understanding of the financial statements.

8.05 An entity shall disclose the following, if not disclosed elsewhere in information published with the financial statements:

(a) the name, domicile and legal form of the entity, its country of incorporation, its registration number and the address of its registered office (or principal place of business, if different from the registered office);
(b) a description of the nature of the entity's operations and its principal activities;
(c) names of directors or controllers of the entity and
(d) the name of the parent and ultimate parent of the group.

Events after the reporting date

Scope

8.06 This Section shall be applied to account for all events after the reporting date as defined (refer to 8.07).

Definitions

8.07 Events after the reporting date are those events, favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue.

8.08 Adjusting events are events that provide evidence of conditions that existed at the reporting date.

8.09 Non-adjusting events are events that are indicative of conditions that arose after the reporting date.

Adjusting events

8.10 An entity shall adjust the amounts recognised in its financial statements to reflect adjusting events after the reporting date.

Examples of adjusting events

8.11 The following are examples of adjusting events after the reporting date that require an entity to adjust the amounts recognised in its financial statements, or to recognise items that were not previously recognised:

(a) the settlement after the reporting date of a court case that confirms that the entity had a present obligation at the reporting date. The entity adjusts the amount of any previously recognised provision related to this court case (i.e. re-measure the provision) or recognises a new provision;

(b) the receipt of information after the reporting date indicating that an asset was impaired at the reporting date, or that the amount of a previously recognised impairment loss for that asset needs to be adjusted. For example:

(i) the bankruptcy of a customer that occurs after the reporting date usually confirms that a loss existed at the reporting date on a trade receivable and that the entity needs to adjust the carrying amount of the trade receivable; and

(ii) the sale of inventory after the reporting date may give evidence about its net realisable value less cost to complete and sell at the reporting date;

(c) the determination after the reporting date of the cost of assets purchased, or the proceeds from assets sold, before the reporting date;

(d) the determination after the reporting date of the amount of profit-sharing or bonus payments, if the entity had a present legal or constructive obligation at the reporting date to make such payments as a result of events before that date;

(e) the discovery of fraud or errors that show that the financial statements are incorrect; and

(f) a legal obligation to perform a review, audit or other service that relates to the reporting period.

Non-adjusting events

8.12 An entity shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting date.

Example of a non-adjusting event

8.13 An example of a non-adjusting event after the reporting date is a decline in market value of investments between the reporting date and the date when the financial statements are authorised for issue. The decline in market value does not normally relate to the condition of the investments at the reporting date, but reflects circumstances that have arisen subsequently. Therefore, an entity does not adjust the amounts recognised in its financial statements for the investments. However, the entity should report in the notes to the financial statements any significant deterioration in value of assets between the reporting date and the date of finalisation of the financial statements.

Dividends

8.14 Dividends shall be recognised once declared (i.e. the dividends are appropriately authorised and no longer at the discretion of the entity), as a reduction to retained earnings.

8.15 If dividends are declared (i.e. the dividends are appropriately authorised and no longer at the discretion of the entity) after the reporting date but before the financial statements are authorised for issue, the dividends are only disclosed in the notes to the financial statements, and not recognised as a liability at the reporting date.

Going concern

8.16 An entity shall prepare its financial statements on the going concern basis unless management determines either before or after the reporting date either that it intends to liquidate the entity or to cease trading, or curtail materially the scale of its operations.

Disclosure

Date of authorisation for issue

8.17 An entity shall disclose the date when the financial statements were authorised for issue and who gave that authorisation. If the entity's owners or others have the power to amend the financial statements after issue, the entity shall disclose that fact.

8.18 It is important for users to know when the financial statements were authorised for issue, because the financial statements do not reflect events after this date.

Updating disclosure about conditions at the reporting date

8.19 If an entity receives information after the reporting date about conditions that existed at the reporting date, it shall update disclosures that relate to those conditions, in the light of the new information.

Non-adjusting events after the reporting date

8.20 If non-adjusting events after the reporting date are material, non-disclosure could influence the economic decisions of users taken on the basis of the financial statements. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the reporting date:

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

Deemed values

Scope

8.21 This Section shall only be applied to amounts disclosed in the notes to the financial statements.

8.22 Deemed values may not be presented in the primary financial statements.

Definition

8.23 The deemed value of an asset or liability is a reasonable value attributed to the asset by management.

8.24 Examples of deemed values include fair value, fair value less cost to complete and sell (also known as the 'net realisable value'), insured value but excludes tax value where this is allowed as a measurement basis.

Disclosure

8.25 For ease of reference, an entity may choose to disclose deemed values in the notes to the financial statements, but not on the face of the primary financial statements

8.26 An entity shall clearly state:

(a) that the deemed value is only for information;
(b) the basis of determining the deemed value; and
(c) that the disclosed deemed value does not form an integral part of the financial statements.

Effective Date:

8.27 The effective date of this standard is annual periods beginning 1st January 2019.

Appendix

Defined Terms

This Appendix is an integral part of the Standard.

The following terms are used in the Standard with the meanings as specified.

Amount payable	An amount that is initially owing to another party arising out of contractual or other legal rights, which is substantially due to be paid within 12 months after initial recognition.
Amount receivable	An amount that is initially claimable from another party arising from contractual or other legal rights, which is substantially due to be received within 12 months after initial recognition.
Accounting policies	The specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.
Accounting profit or loss	The profit or loss for a period before deducting tax expense.
Acquisition date	The date the acquirer obtains control of the acquiree.
Acquisition of a business	A transaction or other event in which an acquirer obtains control of one or more businesses.
Active market	A market in which all the following conditions exist: (a) the items traded within the market are homogeneous; (b) willing buyers and sellers can normally be found at any time; and (c) prices are available to the public.
Adjusted historical cost	Cost adjusted for, for instance, depreciation, amortisation, or impairment, and adjustments for interest and fair value less cost to complete and sell adjustments etc., as required by the recognition and measurement criteria included in this Standard.
Adjusting events (after the reporting date)	Events that provide evidence of conditions that existed at the reporting date.
Agricultural activity	The management by an entity of the biological transformation and harvest of livestock and growing crops for sale, into agricultural produce, or into additional livestock and growing crops.
Agricultural produce	The harvested product of the entity's livestock and growing crops.
Amortised cost	The amortised cost of a loan payable or loan receivable is the amount at which the loan receivable or loan payable is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between that initial amount and the maturity amount.
Anticipated future cash flows	Amounts that an entity expects or is committed to make, but which are not recognised as liabilities in terms of this Standard.
Arm's length transaction	A transaction conducted strictly on a commercial basis, unaffected by abnormal pressure or by the absence of normal competitive negotiation as might be true in the case of a transaction between related parties.
Asset	A resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.

Associate	An entity, including an unincorporated entity, over which the investor has significant influence and that, is neither a subsidiary nor an interest in a joint venture.
Biological transformation	The processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in livestock and growing crops.
Business	An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.
Carrying amount	The amount at which an asset or liability is initially presented in the Balance Sheet, being the initial cost adjusted for depreciation (amortisation), impairment, interest etc., as required by the respective sections of this Standard.
Cash	Cash on hand and demand deposits.
Cash equivalents	Short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to a risk of changes in value that is not material.
Cash flows	Inflows and outflows of cash and cash equivalents.
Change in accounting estimate	An adjustment of the carrying amount of an asset or a liability that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors. For example revision of depreciation charges, taxation provisions etc.
Class of assets	A grouping of assets of a similar nature and use in an entity's operations.
Class of livestock and growing crops	An aggregate of similar living animals or plants.
Closing rate	The spot exchange rate at the reporting date,
Commencement of the lease term	The date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease (i.e. the recognition of the assets, liabilities, income or expenses resulting from the lease, as appropriate).
Construction contract	A contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.
Constructive obligation	An obligation that derives from an entity's actions, where: (a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and (b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.
Contingent asset	A possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

Contingent liability	(a) Apossible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or (b) a present obligation that arises from past events but is not recognised because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or (ii) the amount of the obligation cannot be measured with sufficient reliability.
Contingent rental	That portion of the lease payments that is not fixed in amount but is based on the future amount of a factor those changes other than with the passage of time (e.g. percentage of future sales, amount of future use, future price indices, and future market rates of interest).
Control (of an entity)	The power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. If an entity has more than 50% of the voting rights of another entity, the rebuttable presumption is that the entity has control.
Cost	• For assets, the amount of cash or cash equivalents paid or payable, or the net realizable value (refer to 6.39 to 6.41) of the consideration given, to acquire them at the time of their acquisition. • For liabilities, the amount of proceeds received or receivable in exchange for the obligation, or, in some instances (for example, income taxes and provisions), at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business. • For equity, the amount of proceeds received or receivable in exchange for the rights in the profits or losses, and any residual interests in an entity after deducting all of its liabilities.
Cost (of a business acquisition)	The cash or fair value of other assets transferred, or the amounts of liabilities incurred.
Costs of disposal	Incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.
Current tax	The amount of income taxes payable (receivable) in respect of the taxable profit (tax loss) for a period.
Deemed value	A reasonable value attributed to the asset by management.
Deferred tax (liability or asset)	Income tax payable (receivable) in respect of taxable profit (tax loss) for future reporting periods as a result of past transactions or events.
Depreciable amount	The cost of an asset, or adjusted historical cost, less its residual value, if any.
Depreciable asset	An asset that is required to be depreciated or amortised in terms of this Standard.
Depreciation/ amortisation*	The systematic allocation of the cost of an asset on a straight-line basis over its useful life as determined by the entity or on another systematic basis such as the units of production or the diminishing balance methods. * In the case of an intangible asset, the term 'amortisation' is generally used instead of 'depreciation'. The two terms have the same meaning.
De-recognition	The removal of a previously recognised asset or liability from an entity's Balance Sheet.

Derivative instrument (derivative)	A type of financial instrument whose value depends on the value of an underlying asset, an index or a reference rate.
Designated fund (liability)	An amount received that may only be used for a specific purpose, i.e. activity or asset.
Development	The application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.
Dividends	Distributions from retained earnings to owners of an entity.
Economic life	(a) The period over which an asset is expected to be economically usable by one or more users; or (b) the number of production or similar units expected to be obtained from the asset by one or more users.
Effective interest rate	The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the asset or liability or, when appropriate, a shorter period to the net carrying amount of the asset or liability.
Effective interest rate method	A method of calculating the amortised cost of an asset or a liability and of allocating the interest income or interest expense over the relevant period.
Effective tax rate	Effective tax rate is the taxation charge in the Income Statement expressed as a percentage of accounting profit.
Elements of the financial statements (element)	Elements of the financial statements can be assets, liabilities, equity, income or expenses.
Employee benefits	Employee benefits are all forms of consideration given by an entity in exchange for services rendered by employees.
Encumbrance	Any guarantee, cession, suretyship or notarial bond, for the benefit of a third party.
Entity	Any association, business, company, cooperative, corporation, country, governmental unit, group, institution, organisation, partnership, sole proprietorship, trust, union or other establishment.
Equity	The residual interest in the assets of an entity after deducting all of its liabilities.
Equity instrument or right	Any financial instrument or other right that evidences a residual interest in the assets of an entity after deducting all of its liabilities.
Events after the reporting date	Events, favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified: (a) those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and (b) those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).
Exceptional items	Items or events that are wholly outside of the control of the entity, such as acts of a government or nature.
Exchange difference	The difference resulting from translating a given number of units of one currency into another currency at different exchange rates.
Exchange rate	The ratio of exchange for two currencies.

Expense	Decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.
Fair presentation	The faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in Chapter 3 Principles, recognition and measurement.
Fair value	The amount for which an asset could be exchanged, or a liability settled, or an equity instrument granted could be exchanged between knowledgeable, willing parties in an arm's length transaction. The best evidence of fair value is a quoted price in an active market.
Fair value less cost to complete and sell	The estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. This value is sometimes referred to as the 'net realisable value' or NRV.
Fair value less cost to sell	The estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale. This value is sometimes referred to as the 'net realisable value' or NRV.
Finance lease	A lease that transfers substantially all the risks and rewards incidental to ownership to the lessee. Title may or may not eventually be transferred.
Finance lease obligation	The lessee's liability associated with a finance lease agreement.
Financial instrument	A financial instrument is either : ● cash or cash equivalents held by an entity; ● ownership interest in another entity; ● a contractual right to receive cash or another asset; or ● a contractual obligation to deliver cash or another asset.
Financial position	The relationship of the assets, liabilities, and equities of an entity, as reported in the Balance Sheet.
Financing activities	Activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.
First-in, first-out (FIFO) (method of expensing inventory)	The assumption that the items of inventory that were purchased or produced first are sold first, and consequently the items remaining in inventory at the reporting date are those most recently purchased or produced.
Foreign currency	A currency other than the functional currency of the entity.
Foreign currency transaction	A transaction that is denominated in or requires settlement in a foreign currency.
Foreign operation	An entity that is a subsidiary, associate, joint venture or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.
Functional currency	The currency of the primary economic environment in which the entity operates.
Gains	Increases in economic benefits, which as such are no different in nature from revenue.
Going concern	The entity is normally viewed as a going concern; that is, as continuing in operation for the foreseeable future. It is assumed that the entity has neither the intention nor the necessity to liquidate or to curtail materially the scale of its operations.

Goodwill	Future economic benefits arising from assets that are not capable of being individually identified and separately recognised.
Government	Government, government agencies and similar bodies whether local, national or international.

Government grants	Assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity.
Gross investment in a lease	The aggregate of: (a) the minimum lease payments receivable by the lessor under a finance lease; and (b) any unguaranteed residual value accruing to the lessor.
Group	A parent and all its subsidiaries.
Guaranteed residual value	• For a lessee, that part of the residual value that is guaranteed by the lessee or by a party related to the lessee (the amount of the guarantee being the maximum amount that could, in any event, become payable); and • for a lessor, that part of the residual value that is guaranteed by the lessee or by a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.
Harvest	The detachment of produce from livestock and growing crops, or the cessation of a plant or animal's life processes.
Identifiability criterion (in definition of an intangible asset)	(a) It is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or (b) it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.
Impairment loss	The amount by which the carrying amount of an asset exceeds its recoverable amount.
Impracticable (impracticability)	Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.
Inception of the lease	The earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease.
Income	Increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.
Income tax	All domestic and foreign taxes which are based on taxable profits.
Incremental borrowings rate (of a lessee)	The rate of interest the lessee would incur to borrow over a similar term, and with a similar security, the funds necessary to purchase the leased asset.
Initial direct costs of a lease	Incremental costs that are directly attributable to negotiating and arranging a lease, except for such costs incurred by manufacturers or dealers,
Instalment sale	The sale of an asset in exchange for a specified series of payments (the instalments),

Intangible asset	The amount by which the carrying amount of an asset exceeds its recoverable amount.
Impracticable (impracticability)	Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.
Inception of the lease	The earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease.
Income	Increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.
Income tax	All domestic and foreign taxes which are based on taxable profits.
Incremental borrowings rate (of a lessee)	The rate of interest the lessee would incur to borrow over a similar term, and with a similar security, the funds necessary to purchase the leased asset.
Initial direct costs of a lease	Incremental costs that are directly attributable to negotiating and arranging a lease, except for such costs incurred by manufacturers or dealers,
Instalment sale	The sale of an asset in exchange for a specified series of payments (the instalments),
Intangible asset	An identifiable non-monetary asset without physical substance,
International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)	The International Financial Reporting Standard for Small and Medium-sized Entities issued by the IASB.
International Financial Reporting Standards (full IFRS)	International Financial Reporting Standards are Standards and Interpretations adopted by the International Accounting Standards Board (IASB). They comprise: (a) International Financial Reporting Standards (IFRS); (b) International Accounting Standards; and (c) Interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).
Inventory	Assets that are: (a) held for sale in the ordinary course of business; (b) in the process of production for such sale; or (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.
Investing activities	The acquisition and disposal of long-term assets and other investments not included in cash equivalents.
Investment	(a) An amount that is initially claimable from another party owing to contractual or other legal rights, with substantially all of the capital account receivable more than 12 months after the reporting date, such as a loan payable, or a security issued by a government or entity; or (b) An equity instrument of another entity.
Joint control	The contractually agreed sharing of control over an economic activity.
Joint venture	A contractual arrangement whereby two or more parties undertake an economic activity which is subject to joint control.

Jointly controlled entity	A joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity.
Land and buildings	Land along with anything permanently affixed to the land, such as buildings, specifically property that is stationary or fixed in location. This includes land and buildings used by the entity to produce goods and services, for administration purposes, held for capital appreciation or to earn rental income.
Lease	An agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.
Lease term	The non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.
Legal obligation	A legal obligation is an obligation that derives from: (a) a contract (through its explicit or implicit terms); (b) legislation; or (c) other operation of law.
Lessee	The entity which has the right of use of an asset, gained through a lease agreement with the actual owner (lessor) of the asset.
Lessor	The entity which is the actual owner (lessor) of the asset and has transferred the right of use of an asset to another entity (lessee) through a lease agreement.
Liability	A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.
Livestock and growing crops	Living animals or plants.
Loan payable	An amount that is initially payable to another party owing to contractual or other legal rights, with agreed repayment terms, of the capital amount and/or interest, or where repayment is at the discretion of a third party, with substantially all of the capital amount due or expected to be paid more than 12 months after initial recognition.
Loan receivable	An amount that is initially receivable from another party owing to contractual or other legal rights, with agreed repayment terms, of the capital amount and/or interest, with substantially all of the capital account receivable more than 12 months after initial recognition.
Materiality	Omissions or misstatements of elements or items in the financial statements are material if they could, individually or collectively; influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances.
Measurement	The process of determining the monetary amounts at which the elements of the financial statements are to be recognised and carried in the financial statements.

Minimum lease payments	The payments over the lease term that the lessee is or can be required to make, excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor, together with: (a) for a lessee, any amounts guaranteed by the lessee or by a party related to the lessee; or (b) for a lessor, any residual value guaranteed to the lessor by: (i) the lessee; (ii) a party related to the lessee; or (iii) a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.
Monetary asset (as in the definition of an intangible asset)	Money held and assets to be received in fixed or determinable amounts of money.
Monetary items	Units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.
Negative goodwill	The deficit, if the cost of an acquisition of a business is less than the net value of the assets and liabilities acquired.
Net investment in a lease	The gross investment in the lease discounted at the incremental borrowing rate of the entity.
Net realisable value (NRV)	The estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.
Non-adjusting events (after the reporting date)	Events that are indicative of conditions that arose after the reporting date.
Non-controlling interest	The equity in a subsidiary not attributable to a parent (the reporting entity).
Non-current asset	An asset that does not meet the definition of a current asset.
Notes to the financial statements	Information in addition to that presented in the financial statements. notes to the financial statements provide narrative descriptions or disaggregations of items disclosed in those statements and information about items that do not qualify for recognition in those statements.
Offsetting	See 'set-off', 'legal right of'
Onerous contract	A contract in which the unavoidable costs of meeting obligations under the contract exceed the economic benefits expected to be received under it.
Operating activities	The principal revenue-producing activities of an entity and other activities that are not investing or financing activities.
Operating lease	A lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset.
Parent	An entity that has one or more subsidiaries.
Permanent differences	The differences between taxable profit and accounting profit for a period that originate in the current period and will not reverse in subsequent periods.
Plant and equipment	Tangible items, other than real estate, that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.
Present value	A current estimate of the present discounted value of the future net cash flows in the normal course of business.
Presentation currency	The currency in which the financial statements are presented

Primary financial statements	The Balance Sheet, Income Statement and Cash Flow Statement.
Prior period errors	Omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that: (a) was available when financial statements for those periods were authorised for issue; and (b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.
Probable	More likely than not.
Property investment entity	An entity (whether incorporated or not) whose primary business is to hold a portfolio of properties (land and/or building, or part thereof) to earn rentals or for capital appreciation, or both.
Prospective application	Prospective application of a change in accounting policy and of recognising the effect of a change in an accounting estimate, respectively, are: (a) applying the new accounting policy to transactions, other events and conditions occurring after the date as at which the policy is changed; and (b) recognising the effect of the change in the accounting estimate in the current and future periods affected by the change.
Provision	A liability of uncertain timing or amount.
Quoted price	The last price at which a financial instrument or commodity traded, meaning the most recent price on which a buyer and seller agreed and at which some amount of the asset was transacted.
Real estate	Land along with anything permanently affixed to the land, such as buildings, specifically property that is stationary or fixed in location. This includes land and buildings used by the entity to produce goods and services, for administration purposes, held for capital appreciation or to earn rental income.
Recoverable amount (of an asset for impairment purposes)	The amounts the entity is most likely to recover from the asset, based on management's best estimate considering all available facts and circumstances.

Related party (including a related entity)	A person or entity that is related to the entity that is preparing its financial statements (the reporting entity). (a) A person or a related individual is related to a reporting entity if that person: (i) is a member of the Board of Directors or equivalent management body of the reporting entity or of a parent of the reporting entity; (ii) has control over the reporting entity; or (iii) has joint control or significant influence over the reporting entity or has significant voting power in it. (b) An entity is related to a reporting entity if any of the following conditions applies: (i) the entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others); (ii) either entity is an associate or joint venture of the other entity; (iii) both entities are joint ventures of a third entity; (iv) the entity is controlled or jointly controlled by a person identified in (a); (v) a person identified in (a)(i) has significant voting power in the entity; (vi) a person identified in (a)(ii) has significant influence over the entity or significant voting power in it; (vii) a person or a related individual has both significant influence over the entity or significant voting power in it and joint control over the reporting entity; (viii) a member of the Board of Directors or equivalent management body of the entity or of a parent of the entity, or a related individual, has control or joint control over the reporting entity or has significant voting power in it.
Research	Original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.
Reserve	Any amounts an entity generates and retains for a specific future purpose.
Residual value (of a depreciable asset)	The estimated amount that an entity will obtain from disposal of an asset, after deducting the estimated costs of disposal at the end of its useful life.
Retained earnings	Amounts an entity generates and has not distributed to owners.
Revenue	The gross inflow of economic benefits during the reporting period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from owners
Set-off (legal right of set-off)	A debtor's legal right, by contract or otherwise, to settle or otherwise eliminate all or a portion of an amount due to a creditor by applying against that amount an amount due from the creditor.

Significant influence	The power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. If an investor holds, directly or indirectly through subsidiaries, 20% or more of the voting power of the investee, it is presumed that the investor does have significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds, directly or indirectly through subsidiaries, less than 20% of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an investor from having significant influence. The existence of significant influence by an investor is usually evidenced in one or more of the following ways: (a) representation on the Board of Directors or equivalent governing body of the investee; (b) participation in policy-making processes; (c) material transactions between the investor and the investee; (d) interchange of managerial personnel; or (e) provision of essential technical information.
Spot exchange rate	The exchange rate for immediate delivery.
Strike rate (of a hedging instrument)	The exercise price of a foreign exchange derivative instrument.
Subsidiary	An entity, including an unincorporated entity such as a partnership that is controlled by another entity (known as the parent).
Tax expense (income)	The aggregate amount included in the determination of profit or loss for the reporting period in respect of current tax and deferred tax. Tax expense (income) comprises current tax expense (income) and deferred tax expense (income).
Taxable profit (tax loss)	The profit (loss) for a period, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable (recoverable)
Tax-deductible asset	An asset for which a wear and tear allowance is granted by the tax authorities
Timing differences	Timing differences are the differences between taxable profit and accounting profit that arise because certain items of income and expense are included in taxable profit in periods different from those in which they are included in accounting profit.
Underlying (of a derivative)	The variable item that determines the value of a derivative.
Unearned finance income (of a lease)	The difference between: (a) the gross investment in the lease; and (b) the net investment in the lease.
Unearned interest income	The amount of interest income receivable over the period of the lease arrangement.
Unguaranteed residual value	The portion of the residual value of the leased asset, the realisation of which by the lessor is not assured or is guaranteed solely by a party related to the lessor
Unit of production method of depreciation	Depreciation is calculated at a fixed rate per unit of product, based on an estimate of the total number of units the asset will produce during its service life.

Useful life	(a) The period over which an asset is expected to be available for use by an entity; or (b) the number of production or similar units expected to be obtained from the asset by an entity.
Useful life (leases)	The estimated remaining period, from the commencement of the lease term, without limitation by the lease term, over which the economic benefits embodied in the asset are expected to be consumed by the entity.
Venturer	A party to a joint venture that has joint control over that joint venture.
Weighted average cost formula	Under this method, the cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period and the cost of similar items purchased or produced during the reporting period. The average may be calculated on a periodic basis, or as each additional shipment is received, depending upon the circumstances of the entity.

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