Revised Accounting and Financial Reporting Standard for Small-Sized Entities

Institute of Chartered Accountants of Pakistan

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The Institute of Chartered Accountants of Pakistan

ACCOUNTING AND FINANCIAL REPORTING STANDARD FOR SMALL-SIZED ENTITIES

Framework

Sections

FRAMEWORK

Introduction and Applicability

The Accounting and Financial Reporting Standard for Small Sized Entities (hereinafter referred to as Standard) is applicable to financial statements of Small-Sized Entities (SSEs). A Small Sized Company, defined in the Fifth Schedule to the CO1984, is required to apply this standard while preparing its Financial Statements. This Standard does not restrain a Small-Sized Entity desirous of applying IFRS or IFRS for SMEs for preparing its financial statements from doing so.

An entity is eligible to use this Standard if:

- it is not a public interest entity; and
- meets the above criteria for each of the two consecutive financial reporting periods, or
- is preparing its financial statements for the first period after incorporation.

Objective

The objective of financial statements is to provide information about the reporting entity's financial performance and financial position that will be useful to users in assessing the performance of the entity and the stewardship of the entity's management.

Users and their Needs

The objective of financial statements is to help develop the business by providing useful information to users. Therefore, the statements are designed to reflect user needs. Evidence suggests that the principal users of financial statements of Small Sized Entities are likely to be:

a) Management;
b) Lenders and other creditors;
c) Government; and
d) Taxation authorities.

The following is a summary of the likely needs of these users:

a) **Management:**

i) Ascertain the entity's performance during the year (including the levels of income, *costs* and *revenues*);
ii) For applying for external financing;
iii) For financial management purposes (e.g. deciding what portion of profits to retain etc.); and/or
iv) As a tool for succession planning and management of wealth.

b) **Lenders and Other Creditors:**

i) To assess risk in the credit decision; and
ii) To monitor the performance of entities, which have been given credit.

c) **Government:** for macro and microeconomic planning purposes

d) **Tax Authorities:** for tax assessment purposes.

Qualitative Characteristics

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

a) **Understandability:** It is essential that information provided in financial statements be readily understandable by users.

b) **Relevance:** To be useful, information must be relevant to the decision-making needs of users.

c) **Reliability:** Information is considered to be reliable when it is free from material error and bias and can be depended on by users to represent faithfully that which it purports to represent.

d) **Comparability:** Users must be able to compare the financial statements of an entity over time in order to identify trends in the entity's financial position and performance.

Balance Between Benefit and Cost

The balance between benefit and ***cost*** is a pervasive constraint rather than a qualitative characteristic. The benefits derived from information should exceed the ***cost*** of providing it. The evaluation of benefits and ***costs*** is, however, substantially a judgmental process. The preparers and users of financial statements should be aware of this constraint.

In practice, trade- offs between qualitative characteristics are often necessary. Determining the relative importance of the characteristics in different cases is a matter of professional judgment.

Elements

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.

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.

Equity is the residual interest in the ***assets*** of the entity after all its liabilities have been deducted.

Income encompasses both ***revenue*** and gains. It includes increases in economic benefits during the accounting period in the form of inflows or enhancements of ***assets*** as well as decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.

Expenses encompass losses as well as those expenses that arise in the course of the ordinary activities of the entity. It includes decreases in economic benefits during the accounting period in the form of outflows or curtailments of ***assets*** as well as increases of liabilities that result in decrease in equity, other than those relating to withdrawals made by equity participants.

Recognition

An item that meets the definition of an element shall be recognised if

a) it is probable that any future economic benefit associated with the item will flow to or from the entity, and

b) the item has a ***cost*** or value that can be measured with reliability.

Measurement

Measurement is the process of determining the monetary amounts at which an entity measures liabilities, ***assets***, income and expenses in its financial statement. Measurement involves the selection of a basis of measurement. Two common bases are: ***Historical cost*** and Fair value.

The measurement base most commonly adopted by entities in preparing their financial statements is historical ***cost***.

Defined Terms

All the terms shown in 'italics' in this standard are defined in **Annexure 1.**

Effective Date

Small-Sized Entities shall apply this Standard for annual periods beginning on or after January 01, 2015.

Section 1: Presentation of Financial Statements

Basic Requirements

1.1 The following details the basic guidance for small-sized entities. For material transactions or events not covered by this Standard, management shall use its professional judgment in developing ***accounting policies*** for such transactions or events and these shall be described in the basis for preparing and presenting the information.

Components of Financial Statements

1.2 The minimum set of primary financial statements includes the following components:

a) Statement of Financial Position (Balance Sheet);

b) Income Statement;

c) Accounting policies and explanatory notes.

1.3 Entities may wish to include other statements that are likely to enhance the overall transparency and quality of the entity's ***provision*** of information to users, for example a statement of changes in equity or a statement of ***cash flows.***

Financial Statement Presentation

1.4 Financial statements shall be prepared on a going concern basis unless management either intends to liquidate the entity or cease trading within next twelve months, or has no realistic alternative but to do so.

1.5 Financial statements shall present fairly the financial position and the financial performance of an entity. Fair presentation requires 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 this Standard.

1.6 An entity whose financial statements comply with this Standard shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with this Standard unless they comply with all the requirements of this Standard.

1.7 The entity shall prepare its financial statements using the accrual basis of accounting.

1.8 Financial statements shall be presented at least annually.

1.9 The entity shall retain the presentation and classification of items in the financial statements from one period to the next unless:

a) it is apparent, following a significant change in the nature of the operations of the entity or in management's view another presentation or classification would be more appropriate having regard to the criteria for the selection and application of ***accounting policies***: or
b) a change in presentation is required by this Standard.

1.10 The entity shall disclose comparative information in respect of the previous comparable period for all amounts presented in the current period's financial statements.

1.11 The entity shall present separately each material class of similar items. The entity shall present separately items of a dissimilar nature or function unless they are immaterial.

1.12 The following information shall be prominently displayed:

a) The name of the reporting entity, name of component of financial statement including reporting currency and
b) The statement of financial position date and the period covered by the income statement.

Statement of Financial Position

1.13 The entity shall present current and non-current ***assets*** and current and non-current liabilities as separate classifications on the face of the Statement of Financial Position.

1.14 An ***asset*** shall be classified as a current ***asset*** when it:

a) is expected to be realized in, or is held for sale or consumption in, the normal course of the entity's operating cycle; or

b) is held primarily for trading purposes or for the short term and is expected to be realized within 12 months of the date of statement of financial position; or

c) is ***cash*** on hand and cash equivalent.

All other ***assets*** shall be classified as non-current ***assets***.

1.15 A ***liability*** shall be classified as a current ***liability*** when:

a) it is expected to be settled in the normal course of the entity's operating cycle;

b) it is due to be settled within 12 months of the date of statement of financial position.

1.16 All other liabilities shall be classified as non-current liabilities

1.17 At a minimum, the face of the **Statement of Financial Position (Balance Sheet)** shall include line items presenting the following amounts:

a) ***Property, plant*** and equipment;
b) Intangible ***assets***;
c) Investments;
d) ***Inventories***;
e) Trade and other receivables;
f) ***Cash*** and ***cash equivalents***;
g) Short term borrowing;
h) Trade, accrued and other payables;
i) Tax liabilities and ***assets***;
j) ***Provisions***;
k) Non-current interest-bearing liabilities; and
l) Capital and reserves.

1.18 Additional line items, headings and subtotals shall, if relevant to the entity, be presented on the face of the statement of financial position.

1.19 An entity shall disclose in notes the movement of owner's equity during the financial year.

Income Statement

1.20 At a minimum, the face of the income statement shall include line items that present the following amounts:

a) Turnover
b) Cost of sales
c) Gross profit or loss
d) Distribution costs
e) Administrative expenses
f) Other income
g) Finance costs
h) Profit or loss before taxation
i) Tax expense
j) Profit or loss after taxation
k) Profit or loss for the financial year

Additional line items headings and subtotals shall be presented in the notes to accounts when such presentation is necessary to present fairly the entity's financial performance.

Explanatory Notes

1.21 The notes shall:

a) disclose the domicile and legal form of the entity, the address of its registered office, a description of the nature of the entity's operations and its principal activities;

b) present information about the basis of preparation of the financial statements and the specific ***accounting policies*** used;

c) disclose the information required by this Standard that is not presented elsewhere in the financial statements; and

d) provide information that is not presented elsewhere in the financial statements but is relevant to an understanding of any of them.

1.22 An entity shall, as far as practicable, present the notes in a systematic manner.

1.23 An entity shall cross-reference each item in the financial statements to any related information in the notes.

1.24 An entity normally presents the notes in the following order:

a) A statement that the financial statements have been prepared in compliance with the Standard for SSEs.

b) A summary of significant ***accounting policies*** applied in a single note;

c) Supporting information for items presented in the financial statements, in the sequence in which each statement and each line item is presented; and

d) Any other disclosures.

1.25 Where it is impractical to disclose any information required under this Standard, the entity shall disclose the reasons thereof.

Section 2: Property, Plant and Equipment

Recognition

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

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

b) the cost of the item can be measured reliably

Measurement at Initial Recognition

2.2 An item of ***property, plant and equipment*** shall initially be measured at its ***cost***. The ***cost*** of an item of ***property, plant and equipment*** comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable ***costs*** of bringing the ***asset*** to working condition for its intended use; any trade discounts and rebates are deducted in arriving at the purchase price.

Measurement Subsequent to Initial Recognition

2.3 An entity shall choose either the ***cost*** model or the revaluation model as its accounting policy and shall apply that policy to an entire class of ***property, plant and equipment***.

Cost Model

2.4 Any entity shall measure all items of ***property, plant and equipment*** after initial recognition at ***cost*** less any accumulated ***depreciation*** and any accumulated impairment losses.

Revaluation Model

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

2.6 The ***fair value*** of property, plant and equipment is usually the market value. This value is determined by appraisal, which is normally undertaken by professionally qualified valuers.

2.7 When an item of ***property, plant and equipment*** is revalued, any accumulated ***depreciation*** at the date of the revaluation is eliminated against the gross ***carrying amount*** of the *asset* and the net amount restated to the revalued amount of the ***asset***.

The amount of the adjustment arising on the elimination of accumulated ***depreciation*** forms part of the increase or decrease in ***carrying amount***, in accordance with paragraph 2.9 and 2.11.

2.8 When an item of ***property, plant and equipment*** is revalued, the entire class of ***property, plant and equipment*** to which that ***asset*** belongs shall be revalued.

2.9 When an ***asset's carrying amount*** is increased as a result of revaluation, the increase shall be credited directly to the 'Surplus on Revaluation of Fixed ***Assets*** Accounts' and disclosed in the **Statement of Financial Position** of the entity after Capital and Reserves, except to the extent that they reverse revaluation losses on the same asset that were previously recognised in the profit and loss account. The adjustment for subsequent depreciation is to achieve the same overall effect that would have been reached had the original downward revaluation reflected in the profit and loss account not occurred.

2.10 Except and to the extent actually realised on disposal of the ***assets*** which are revalued, the surplus on revaluation of fixed ***assets*** shall not be applied to set-off or reduce any deficit or loss, whether past, current or future, or in any manner applied, adjusted or treated so as to add to the income, profit or surplus of the entity, or utilised directly or indirectly by way of dividend or bonus.

2.11 When an ***asset's carrying amount*** is decreased as a result of a revaluation, the decrease shall be recognised as an expense. However, the decrease shall be charged to Surplus on revaluation of fixed assets account to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The surplus on revaluation of fixed ***assets*** may be applied by the entity in setting off or in diminution of any deficit arising from the revaluation of any other fixed ***assets*** of the entity.

2.12 ***Depreciation*** on ***assets*** which are revalued shall be determined with reference to the value assigned to such ***assets*** on revaluation and ***depreciation*** charge for the period shall be taken to the Profit and Loss Account.

2.13 An amount equal to incremental ***depreciation*** for the period may be transferred directly from 'Surplus on Revaluation of Fixed ***Assets*** Account' to unappropriated profit / accumulated loss in balance sheet to record realisation of surplus to the extent of the incremental ***depreciation***.

2.14 An entity shall recognize the ***costs*** of day-to-day servicing of an item of ***property, plant and equipment*** in profit or loss in the period in which the ***costs*** are incurred. Subsequent cost, which meets the recognition criteria shall be included in the asset's carrying amount or recognized as a separate asset.

2.15 The ***depreciable amount*** (***cost*** less expected proceeds from disposal) of an item of ***property, plant and equipment*** with finite life shall be allocated on a systematic basis over its ***useful life*** *using an appropriate method.* Straight-line ***depreciation*** is the simplest method.

Derecognition

2.16 An entity shall derecognize an item of ***property, plant and equipment***:

(a) on disposal, or

(b) when no future economic benefits are expected from its use or disposal.

2.17 The gain or loss arising from derecognition of an item of property, plant and equipment shall be included in profit or loss when the item is derecognized (unless section **11** '*Leases*' requires otherwise on a sale and leaseback transaction). In any case, gains shall not be classified as revenue.

Disclosure

2.18 The financial statements shall disclose for each class of ***property, plant and equipment,*** useful life or rate of depreciation and a reconciliation of the ***carrying amount*** at the beginning and end of the period showing:

(a) Additions;

(b) Effect of revaluation, if any

(c) Disposals; and

(d) Transfer from / to lease assets, if any;

(e) **Amounts w**ritten-off / adjustments / **impairments**, if any; and

(f) Depreciation for the year.

2.19 If an item of property, plant and equipment is stated at revalued amount, the following shall be disclosed:

(a) the effective date of the revaluation; and

(b) whether an independent valuer was involved.

Section 3: Intangible Assets

Recognition

3.1 The entity shall recognize an ***intangible asset*** as an ***asset*** if, and only if:

a) It is probable that the expected future economic benefits that are attributable to the ***asset*** will flow to the entity; and

b) the ***cost*** or value of the ***asset*** can be measured reliably

Measurement at Initial Recognition

3.2 The entity shall measure an ***intangible asset*** initially at ***cost***. Cost includes purchase price and directly attributable costs. In case of exchange of another asset the fair value of the asset given up or the fair value of the acquired asset , whichever is more evident should be taken as cost and if fair values of any assets are not available then carrying amount of asset given up should be taken as cost.

Measurement Subsequent to Initial Recognition

3.3 An entity shall subsequently measure intangible ***assets*** at ***cost*** less any accumulated amortization and any accumulated impairment losses.

3.4 An entity shall allocate the ***amortizable amount*** of an ***intangible asset*** over its useful life using straight line method. The ***amortization*** charge for each period shall be recognized as an expense, unless another section of this standard requires the ***cost*** to be recognized as part of the ***cost*** of an ***asset*** such as ***inventories*** or ***property, plant*** and equipment.

3.5 Internally Generated research costs, goodwill, brands, training costs are always expensed out, however, development costs, which is the next step after research phase, can be capitalized if all of the following conditions are fulfilled: (a) the technical feasibility of completing the asset, (b) the intention to complete the asset exists, (c) the ability to use or sell the asset, d) how the asset will generate the future economic benefit and ability to demonstrate the existence of market, (e) the availability of adequate resources to complete and (f) the entity's ability to reliably measure the cost of development of the asset.

3.6 Website costs are categorized into five basic stages that are planning stage (stage 1), application and infrastructure development (stage 2), the graphical design development (stage3), content development (stage 4) and operating (stage5). Costs incurred in stage 1 and stage 5 are always expensed however costs incurred from stage 2 to 4 can be capitalized if it fulfills the criteria of development asset discussed in preceding paragraph, particularly (d) above.

3.7 Expenditure on intangible item that was initially recognized as an expense shall not subsequently be capitalized as part of the cost of an intangible asset.

Derecognition

3.8 The entity shall derecognize an intangible ***asset***, and shall recognize a gain or loss in profit or loss:

a) On disposal, or

b) When no future economic benefits are expected from its use or disposal.

3.9 The entity shall disclose the following

a) useful lives or the amortization rates used

b) gross carrying amount and any accumulated amortization (aggregated with accumulated impairment losses) at the beginning and end of the reporting period

c) line item(s) in the income statement in which any amortization of intangible ***assets*** is included.

d) A reconciliation of the carrying amount at the beginning and end of the reporting period showing separately:

(i) Additions;

(ii) Disposals;

(iii) Amortization;

(iv) Impairment losses; and

(v) Other changes.

This reconciliation need not be presented for prior periods.

Section 4: Investment Property

4.1 Investment property is Land or building (or both, or part of building) held by the owner or lessee under finance lease to earn rentals or for capital appreciation or both, rather than being used in production or supply of goods or services or for administrative purposes or sale in ordinary course of business.

4.2 An investment property must initially be measured at cost. Subsequent measurement can be made through cost model or fair value model. Any of the models chosen then must be applied to all the investment property.

4.3 Initial costs include the purchase price, the construction costs if self developed and any directly attributable expenses.

4.4 Subsequent measurement for Investment properties to be measured at cost is same as the cost model used in property, plant & equipment i.e. at cost less accumulated depreciation less accumulated impairment loss, if any.

4.5 Subsequent measurement in fair value model requires entity to re-measure the investment property at the end of each reporting period with changes in ***fair value are*** recognized in profit or loss.

4.6 If the fair value model had previously been used to measure investment properties a change from the fair value model to the cost model would not be allowed.

Disclosure

4.7 The following will be disclosed:

a) An accounting policy note for investment properties should state which model (cost or fair value) is used.

b) In case of fair value model the reconciliation between opening balance and closing balance of property must show; additions, subsequent expenditure that was capitalized, transfer to and from Investment property and fair value adjustments.

c) In case of cost model the disclosure is same as described for property, plant and equipment section.

Section 5: Impairment of Assets

5.1 At each ***reporting date***, the entity shall assess whether there is any indication that an ***asset*** may be impaired. If there is any such indication, the entity shall determine the ***recoverable amount*** of the ***asset***, or group of ***assets*** forming a cash generating unit.

5.2 If, and only if, the ***recoverable amount*** of an ***asset*** (other than inventory) is less than its carrying amount the entity shall reduce the carrying amount of the ***asset*** to its recoverable amount. That reduction is an impairment loss. The entity shall recognize an ***impairment loss*** immediately in profit or loss. The impairment loss relating to a cash generating unit should first be allocated to goodwill of that unit and the remaining loss be allocated to other assets of cash generating unit on prorate basis of carrying amounts of such assets.

5.3 An entity shall make a new assessment of recoverable amount at each subsequent reporting date. When the circumstances that previously caused ***assets*** to be impaired no longer exist or when there is clear evidence of an increase in recoverable amount because of change in economic circumstances the entity shall reverse the amount of impairment loss and must be re-measured at lower of:

a) Its carrying amount had there been no impairment loss; and

b) Its recoverable amount.

Section 6: Non Current Assets held for Sale

6.1 This section covers the accounting treatment and disclosures regarding noncurrent assets and ***disposal group*** held for sale.

6.2 The criteria for non-current assets to be classified as held for sale is that the asset is available for sale immediately at normal terms, the sale of the asset is highly probable and significant changes to the plan to dispose asset are not foreseeable.

6.3 The entity shall measure its noncurrent assets or ***disposal group*** held for sale at lower of its carrying amount and fair value less costs to sell. If the newly acquired asset is held for sale then its cost will be taken as its fair value. Once an asset is classified as held for sale, no further depreciation should be charged.

6.4 If noncurrent asset or ***disposal group*** that was previously classified as held for sale no longer meets the criteria the asset must immediately cease to be classified as held for sale and must be re-measured at lower of:

a) Its carrying amount had the non current asset never been classified as held for sale; and

b) Its recoverable amount.

6.5 **Disclosures**

a) Non-current assets that are held for sale must be shown separately in balance sheet.

b) If a disposal group includes liabilities, these liabilities must be shown separately from other liabilities in the balance sheet and may not be set off against the assets in the disposal group.

Section 7: Inventories

Measurement

7.1 ***Inventories*** shall be measured at the lower of ***cost*** and ***net realizable value.***

7.2 Inventories may be classified under the following categories:

a) Raw material

b) Stores and supplies

c) Work in progress; and

d) Finished goods.

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

7.4 The ***cost*** of ***inventories*** shall be assigned by using specific identification of the individual ***costs*** of items whenever possible. The ***cost*** of other ***inventories*** shall be assigned by using the first-in, first-out (FIFO) or weighted average ***cost*** formulas.

7.5 When ***inventories*** are sold the entity shall recognize the carrying amount as an expense in the period in which the related ***revenue*** is recognized.

Disclosure

7.6 The entity shall disclose the following:

a) the accounting policies adopted in measuring inventories, including the cost formula used; and

b) the carrying amount of inventories pledged as security for liabilities.

Section 8: Construction / Long-term Contracts

8.1 This Standard shall be applied in accounting for construction contracts in the financial statements of contractors. Construction contracts include:

a) contracts for the rendering of services which are directly related to the construction of the asset, for example, those for the services of project managers and architects; and

b) contracts for the destruction or restoration of assets, and the restoration of the environment following the demolition of assets.

Contract revenue

8.2 Contract revenue shall comprise:

a) the initial amount of revenue agreed in the contract; and

b) variations in contract work, claims and incentive payments:

(i) to the extent that it is probable that they will result in revenue; and

(ii) they are capable of being reliably measured.

Contract costs

8.3 Contract costs shall comprise:

a) costs that relate directly to the specific contract like material, labour, costs of hiring equipment;

b) costs that are attributable to contract activity in general and can be allocated to the contract like insurance and borrowing costs; and

c) such other costs as are specifically chargeable to the customer under the terms of the contract.

Recognition of contract revenue and cost

8.4 When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract shall be recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of the reporting period. Stage of completion can be determined by dividing the sum of costs to date by the total expected costs. However, an expected loss on the construction contract shall be recognised as an expense immediately in the profit and loss account irrespective of the stage of completion of contract activity.

8.5 In the case of a fixed price contract, the outcome of a construction contract can be estimated reliably when all the following conditions are satisfied:

a) total contract revenue can be measured reliably;

b) it is probable that the economic benefits associated with the contract will flow to the entity;

c) both the contract costs to complete the contract and the stage of contract completion at the end of the reporting period can be measured reliably; and

d) the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.

8.6 In the case of a cost plus contract, the outcome of a construction contract can be estimated reliably when all the following conditions are satisfied:

a) it is probable that the economic benefits associated with the contract will flow to the entity; and

b) the contract costs attributable to the contract, whether or not specifically reimbursable, can be clearly identified and measured reliably.

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

a) revenue shall be recognised only to the extent of contract costs incurred that it is probable will be recoverable; and

b) contract costs shall be recognised as an expense in the period in which they are incurred.

Presentation in the Balance Sheet

8.8 An entity shall present the following in the Statement of Financial Position:

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.

The gross amount due from customers for contract work is the net amount of:

a) costs incurred plus recognised profits; less

b) the sum of recognised losses and progress billings for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings.

The gross amount due to customers for contract work is the net amount of:

a) costs incurred plus recognised profits; less

b) the sum of recognised losses and progress billings for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

Disclosures

8.9 An entity shall disclose:

a) the amount of contract revenue recognised as revenue in the period;

b) the methods used to determine the contract revenue recognised in the period; and

c) the amount of advances received; and

d) the amount retained until satisfaction of conditions specified in the contract.

Section 9: Events After the End of the Reporting Period

9.1 An entity shall adjust the amounts recognized in its financial statements, including related disclosures, to reflect adjusting events occurring after the end of the reporting period.

9.2 An entity shall not adjust the amounts recognized in its financial statements to reflect non-adjusting events occurring after the end of the reporting period.

9.3 An entity shall disclose the date when the financial statements were authorized for issue and who gave that authorization.

9.4 If non-adjusting events occurring after the balance sheet 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 balance sheet date:

a) The nature of the event; and

b) An estimate of its financial effect or a statement that such an estimate cannot be made.

Section 10: Provisions and Contingencies

Recognition

10.1 The entity shall recognize a ***provision*** only when:

a) The entity has a present obligation at the reporting date as a result of a past event;

b) It is probable (i.e. more likely than not) that the entity will be required to transfer economic benefits in settlement of the obligation; and

c) The amount of the obligation can be estimated reliably.

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

10.2 The entity shall recognize the ***provision*** as a ***liability*** in the statement of financial position and shall recognize the amount of the ***provision*** as an expense.

Measurement

10.3 The entity shall measure a ***provision*** at the best estimate of the amount required to settle the obligation at the reporting date. Where the effect of the time value of money is material, the amount of provision shall be the present value of obligation and unwinding of discount shall be shown as part of finance costs.

10.4 The entity shall charge against a ***provision*** only those expenditures for which the ***provision*** was originally recognized.

10.5 An entity shall review ***provisions*** at each reporting date and adjust them to reflect the current best estimate of the amount that would be required to settle the obligation at that reporting date. If it is no longer probable that outflow of resources embodying economic benefits will be required to settle the obligation, the provision shall be reversed.

10.6 Provisions shall not be recognized for future operating losses.

10.7 If an entity has a contract that is onerous, the entity recognises and measures the present obligation under the contract as a provision. An onerous contract is one in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. For example, 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.

10.8 Where some or all of the expenditure required to settle a ***provision*** may be reimbursed by another party (e.g. through an insurance claim), the reimbursement shall be recognized, as a separate asset, only when it is virtually certain to be received if the entity settles the obligation. In the profit and loss account, the expense relating to the provision may be presented net of the recovery. Gains from the expected disposal of assets shall be excluded from the measurement of a provision.

Contingent Liabilities

10.9 The entity shall not recognize a ***contingent liability***. Disclosure of a ***contingent liability*** is required unless the possibility of an outflow of resources is remote. Disclosure includes brief description of contingent liability and where practicable an estimate of its financial effect.

10.10 The entity shall not recognize a contingent ***asset*** as an ***asset***. Disclosure of a contingent ***asset*** is required when an inflow of economic benefits is probable. Disclosure includes brief description of contingent asset and where practicable an estimate of its financial effect.

Disclosure

10.11 For each class of ***provision***, an entity shall disclose all of the following:

a) The amount of the provision at the beginning and the end of the financial year;

b) Any amounts transferred to or from the provision during the year;

c) The source and application of the amounts transferred; and

d) Particulars of each material provision included under ‘other provisions’ in the company’s balance sheet in any case where the amount of that provision is material.

Comparative information for prior periods is not required.

Section 11: Leases

Classification of leases

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

Recognition

11.2 A finance lease shall be recorded in the balance sheet of a lessee as an asset and as an obligation to pay future rentals. At the inception of the lease, the sum to be recorded both as an asset and as a liability shall normally be the fair value of the asset or, if lower, the present value of the ***minimum lease payments***. In calculating the present value of the ***minimum lease payments***, the discount factor is the ***interest rate implicit in the lease***, if this is practicable to determine; if not, the lessee's incremental borrowing rate shall be used. Any initial direct ***costs*** of the lessee are added to the amount recognised as an ***asset***. An asset leased under a finance lease shall be depreciated over the shorter of the lease term or its useful life, which depreciation will be charged to Profit and Loss Account.

The total finance charge under a finance lease shall be allocated to accounting periods during the lease term so as to produce a constant periodic rate of charge on the remaining balance of the obligation for each accounting period, or a reasonable approximation thereto. The straight-line method may provide such a reasonable approximation.

11.3 The rental under an ***operating lease*** shall be recognised as an expense in the income statement on a straight-line basis over the ***lease term.***

Disclosure by lessee

11.4 Lessees shall make the following disclosures for ***finance leases***:

a) for each class of ***asset***, the net ***carrying amount*** at the reporting date

b) reconciliation between the total of future ***minimum lease payments*** at the reporting date, and their present value. In addition, an entity shall disclose the total of future ***minimum lease payments*** at the reporting date, and their present value, for each of the following periods:

(i) not later than one year;

(ii) later than one year

Sale and leaseback

11.5 A sale and leaseback transaction involves the sale of an ***asset*** by the seller lessee and the leasing of the same ***asset*** back to the seller lessee. The ***lease*** payment and the sale price are usually interdependent since they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends on the type of ***lease*** involved.

11.6 If a sale and leaseback transaction results in a ***finance lease***, any excess of sales proceeds over the carrying amount shall not be immediately recognised as income in the financial statements of a seller-lessee. Instead, it shall be deferred and ***amortised*** over the ***lease term***.

11.7 If a sale and leaseback transaction results in an ***operating lease*** and it is clear that the transaction is established at fair value, any profit or loss shall be recognised immediately. If the sale price is below ***fair value***, loss shall be recognised immediately. If the sale price is above ***fair value***, the excess of sales price over ***fair value*** shall be deferred and ***amortised*** over the period for which the ***asset*** is expected to be used.

Section 12: Government Grants

Recognition

12.1 An entity shall recognize ***government grants*** as follows:

a) A grant that does not impose specified future performance conditions on the recipient is recognized in income when the grant proceeds are receivable.

b) A grant that imposes specified future performance conditions on the recipient is recognized in income only when the performance conditions are met.

c) Grants received before the ***revenue*** recognition criteria are satisfied are recognized as a ***liability***.

12.2 To the extent that the grant is made as a contribution towards expenditure on a depreciable fixed asset, it may either be disclosed separately in the Balance Sheet or deducted from the purchase price or production cost of that asset to report the net amount, if any.

12.3 The entity shall measure grants received in kind at the ***fair value*** of the ***asset*** received or receivable.

12.4 Potential liabilities to repay grants either in whole or in part in specified circumstances shall be provided for only to the extent that repayment is probable. The repayment of a government grant shall be accounted for by setting off the repayment against any unamortised deferred income relating to the grant. Any excess shall be charged immediately to the profit and loss account.

Disclosure

12.5 The entity shall disclose the following about ***government grants***:

a) The nature and amounts of ***government grants*** recognized in the financial statements.

b) Unfulfilled conditions and other contingencies attaching to ***government grants*** that have not been recognized in income.

c) An indication of other forms of ***government assistance*** from which the entity has directly benefited.

Section 13: Borrowing Costs

Recognition

13.1 The entity shall recognize all ***borrowing costs*** as an expense in profit or loss in the period in which they are incurred, except to the extent that they are capitalised in accordance with paragraph 13.3.

13.2 ***Borrowing costs*** that are directly attributable to the acquisition, construction or production of a ***qualifying asset*** shall be capitalised as part of the ***cost*** of that ***asset***.

13.3 Examples of qualifying ***assets*** are ***inventories*** that require a substantial period of time to bring them to a saleable condition, manufacturing plants, power generation facilities and ***investment*** properties. The assets which are recognized on fair value and those ***inventories*** that are routinely manufactured or otherwise produced in large quantities on a repetitive basis over a short period of time, are not qualifying ***assets***. ***Assets*** that are ready for their intended use or sale when acquired also are not ***qualifying assets***.

Suspended operation

13.4 Capitalisation of directly attributable costs, including finance costs, shall be suspended during extended periods in which active development is interrupted. Capitalisation shall cease when substantially all the activities that are necessary to get the qualifying assets ready for use are complete, even if they have not yet been brought into use.

Disclosure

13.5 Where applicable, the notes to the accounts must disclose the total amount of finance costs including those capitalized as part of cost of an asset.

Section 14: Basic Financial Instruments

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

14.2 A financial instrument, or its component parts, shall be classified as a ***financial liability***, a ***financial asset*** or an equity instrument in accordance with the substance of the contractual arrangement rather than its legal form. Some financial instruments take the legal form of equity but are liabilities in substance and others may combine features associated with equity instruments and features associated with financial liabilities. For example a preference share that provides for mandatory redemption by the issuer for a fixed or determinable amount at a fixed or determinable future date, or gives the holder the right to require the issuer to redeem the instrument at or after a particular date for a fixed or determinable amount, is a ***financial liability***.

14.3 The entity initially measures its ***financial assets and financial liabilities*** at fair value, except for certain non-arm's length transactions.

14.4 The entity subsequently measures all its ***financial assets*** and ***financial liabilities*** at amortized cost, except for investments in equity instruments. Investments in equity instruments that are quoted in an active market shall be measured at fair value and investments in equity instruments that do not have active market shall be carried at cost less impairment, if any. Changes in fair value are recognized in net income.

14.5 ***Financial assets*** measured at amortized cost include cash, investment, accounts receivable and term deposits.

14.6 ***Financial liabilities*** measured at amortized cost include, the bank loan, accounts payable, amounts due to directors and officers and long-term debt.

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

14.8 ***Financial assets*** measured at cost are tested for impairment when there are indicators of impairment. The amount of the write-down is recognized in net income. The previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance account, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in net income.

14.9 For the share capital of the company the following information should be disclosed;

a) The number and aggregate nominal value of shares of each class.

b) In case of redeemable shares the earliest and latest dates when the company has power to redeem those shares and whether the redemption is based on certain event or are liable to be redeemed at the option of the company or the shareholder.

c) The amount of authorized share capital and paid up share capital.

Section 15: Employee Benefits

Recognition

15.1 The entity shall recognize the ***cost*** of all ***employee benefits*** to which its employees have become entitled as a result of service rendered to the entity during the reporting period as a ***liability*** and as an expense.

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

Measurement

15.3 An entity shall measure termination benefit at the best estimate of expenditure that would be required to settle the obligation at the reporting date.

15.4 In respect of retirement benefits in the form of provident fund and other ***defined contribution schemes***, the contribution payable by the employer for a year shall be charged to profit or loss for the year unless another section requires or permits the inclusion of the contribution in the cost of an asset. If the contribution paid is in excess of the amount payable for the year, the excess shall be treated as a prepayment.

15.5 An entity shall disclose the amount recognized as expense for defined contribution plan.

15.6 In respect of gratuity benefit and other ***defined benefit schemes***, whether funded or unfunded, an appropriate charge to the statement of profit and loss for the year shall be made through a ***provision*** for the accruing ***liability***. The accruing ***liability*** may be calculated according to actuarial valuation. However, entity may opt to calculate the accrued ***liability*** by reference to any other rationale method e.g. a method based on the assumption that such benefit are payable to all employees at the end of the accounting year.

15.7 The assumptions underlying the valuation should be mutually compatible and lead to the best estimate of the future cash flows that will arise under the scheme liabilities. Any assumptions that are affected by economic conditions (financial assumptions) should reflect market expectations at the balance sheet date.

Disclosure

15.8 An entity shall disclose the amount recognized as expense for defined contribution plan:

a) accounting policy for recognizing actuarial gains and losses;

b) general description of the type of plan;

c) present value of the defined benefit obligations, fair value of the plan asset and the surplus or deficit in the plan

d) the amount of actuarial gain or loss recognized in the profit and loss account or in equity

Section 16: Foreign currency translation

16.1 Where sums originally denominated in foreign currencies have been brought into account under any items shown in the balance sheet or profit and loss account, the basis on which those sums have been translated into local currency must be disclosed.

16.2 Subject to the provisions of paragraphs 16.4 and 16.6, each asset, liability, revenue or cost arising from a transaction denominated in a foreign currency shall be translated into the local currency at the exchange rate in operation on the date on which the transaction occurred; if the rates do not fluctuate significantly, an average rate for a period may be used as an approximation. Where the transaction is to be settled at a contracted rate, that rate shall be used. Where a trading transaction is covered by a related or matching forward contract, the rate of exchange specified in that contract may be used.

16.3 Subject to the special provisions of paragraph 16.6, which relate to the treatment of foreign equity investments financed by foreign currency borrowings, no subsequent translations shall normally be made once non-monetary assets have been translated and recorded.

16.4 At each balance sheet date, monetary assets and liabilities denominated in a foreign currency shall be translated by using the closing rate or, where appropriate, the rates of exchange fixed under the terms of the relevant transactions. Where there are related or matching forward contracts in respect of trading transactions, the rates of exchange specified in those contracts may be used.

16.5 All exchange gains or losses on settled transactions and unsettled monetary items shall be reported as part of the profit or loss for the period.

16.6 Where a company has used foreign currency borrowings to finance, or to provide a hedge against, its foreign equity investments and the conditions set out in this paragraph apply, the equity investments may be denominated in the appropriate foreign currencies and the carrying amounts translated at the end of each accounting period at closing rates for inclusion in the investing company's financial statements. Where investments are treated in this way, any exchange differences arising shall be taken to reserves and the exchange gains or losses on the foreign currency borrowings shall then be offset, as a reserve movement, against these exchange differences. The conditions that must apply are as follows:

a) in any accounting period, exchange gains or losses arising on the borrowings may be offset only to the extent of exchange differences arising on the equity investments;

b) the foreign currency borrowings, whose exchange gains or losses are used in the offset process, shall not exceed, in the aggregate, the total amount of cash that the investments are expected to be able to generate, whether from profits or otherwise; and

c) the accounting treatment adopted shall be applied consistently from period to period.

Section 17: Taxation

Accounting Policy

17.1 An entity shall apply the taxes payable method to account for its income taxes. The taxes payable method is a method of accounting under which an entity reports as an expense only the current income taxes for that period, determined in accordance with the Tax Law.

Recognition

17.2 Current income taxes, to the extent unpaid or recoverable, shall be recognized as a liability or asset as the case may be.

17.3 The liability for current income taxes included in the balance sheet is the cost of current income taxes for current and prior periods less amounts already paid in respect of these income taxes. When the amount already paid in respect of the cost of current income taxes for a period exceeds the liability for that period, any excess amount is shown as an asset.

Measurement

17.4 Income tax liabilities and income tax assets shall be measured using the income tax rates prescribed by the Tax Law, at the **reporting date**, which are normally those enacted at the **reporting** date.

Disclosure

17.5 The financial statements shall disclose the following:

a) the amount of unused income tax losses carried forward and unused income tax credits; and

b) the portion of income tax expense related to transactions charged (or credited) directly to equity.

Section 18: Revenue

Recognition

18.1 Revenue from sales and service transactions shall be recognized when the requirements as to performance set out in paragraphs 18.2 - 18.3 are satisfied, provided that at the time of performance ultimate collection is reasonably assured.

Sale of goods

18.2 In a transaction involving the sale of goods, performance shall be regarded as having been achieved when the following conditions have been fulfilled:

a) the seller of the goods has transferred to the buyer the significant risks and rewards of ownership, in that all significant acts have been completed and the seller retains no continuing managerial involvement in, or effective control of, the goods transferred to a degree usually associated with ownership; and

b) reasonable assurance exists regarding the measurement of the consideration that will be derived from the sale of goods, and the extent to which goods may be returned.

Services and long term contracts

18.3 In the case of rendering of services and long-term contracts, performance shall be determined using either the percentage of completion method, unless there is higher level uncertainty involved as regards to achieving performance and as such completed contract method is more appropriate. Such performance shall be regarded as having been achieved when reasonable assurance exists regarding the measurement of the consideration that will be derived from rendering the service or performing the long-term contract.

18.4 Performance would be regarded as being achieved under paragraphs 18.2 - 18.3 when all of the following criteria have been met:

a) persuasive evidence of an arrangement exists;

b) delivery has occurred or services have been rendered; and

c) the sellers' price to the buyer is fixed or determinable.

Revenue from other sources

18.5 Revenue arising from the use by others of entity's resources yielding interest, royalties and dividends shall be recognized when reasonable assurance exists regarding measurement and collectability. These revenues shall be recognized on the following bases:

a) interest: on a time proportion basis;

b) royalties: as they accrue, in accordance with the terms of the relevant agreement;

c) dividends: when the shareholder's right to receive payment is established.

d) rental income should be accounted for on accrual basis.

18.6 If sales transactions have multiple elements, such as a product and service, the entity shall clearly state the accounting policy for each element as well as how multiple elements are determined and valued. If an entity has different policies for different types of revenue transactions, including non-monetary (barter) sales, the policy for each material type of revenue transaction shall be disclosed.

18.7 If sales transactions have multiple elements, the policy may contain items such as a description and nature of such an arrangement, including performance, cancellation, termination or refund-type provisions.

Disclosure

18.8 An entity shall disclose separately, either on the face of the income statement or in the notes to the financial statements, the major categories of revenue recognized during the period.

Section 19: Accounting Policies, Changes in Accounting Estimates and Errors

19.1 Accounting policies and estimation techniques shall be consistent with the requirements of this Standard for SSEs and of Companies Ordinance, 1984. Where this permits a choice, an entity shall select the policies and techniques most appropriate to its particular circumstances for the purpose of giving a true and fair view, taking account of the objectives of relevance, reliability, comparability and understandability.

19.2 Accounting policies must be applied consistently within the same accounts and from one financial year to the next. They shall be reviewed regularly to ensure that they remain the most appropriate to the entity's particular circumstances for the purpose of giving a true and fair view. However, in judging whether a new policy is more appropriate than the existing policy, due weight shall be given to the impact on consistency and comparability.

19.3 A change in an accounting policy shall be ***applied retrospectively***. The opening balance of retained earnings for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented shall be adjusted, where applicable, as if the new accounting policy had always been in use.

19.4 When it is impracticable to apply accounting policy retrospectively, the entity shall adjust the comparative information to apply the new accounting policy prospectively from the earliest date practicable.

19.5 When a change in an accounting policy has an effect on the current period or any prior period presented, or may have an effect in subsequent periods, an entity shall disclose the following:

a) the nature and reasons for the change;

b) the amount of the adjustment for the current period and for each ***prior period*** presented;

c) the amount of the adjustment relating to periods prior to those presented; and

d) that the comparative information has been restated.

Changes in Accounting Estimates

19.6 The effect of a ***change in an accounting estimate*** shall be recognised ***prospectively*** by including it in profit or loss in:

a) The period of the change, if the change affects that period only, or

b) The period of the change and future periods, if the change affects both.

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

19.8 The nature and amount of a change in an accounting estimate that has an effect on the current period or is expected to have an effect in subsequent periods shall be disclosed. If it is impractical to quantify that amount, this fact shall be disclosed.

Errors

19.9 To the extent practicable, an entity shall correct a material ***prior period error retrospectively*** in the first financial statements authorized for issue after its discovery by:

a) restating the comparative amounts for the prior period(s) presented in which the error occurred, or

b) If the error occurred before the earliest prior period presented, restating the opening balances of ***assets***, liabilities and equity for the earliest prior period presented.

Limitations on Retrospective Restatement

19.10 A ***prior period error*** shall be corrected by ***retrospective restatement.*** When it is impracticable to correct the error retrospectively, the entity shall adjust the comparative information prospectively from the earliest date practicable.

Disclosure

19.11 An entity shall disclose:

a) the nature of the error; and

b) the amount of the correction for each prior period presented.

Section 20: Related Party Disclosures

20.1 Where the reporting entity:

a) purchases, sells or transfers goods and other assets or liabilities; or

b) renders or receives services; or

c) provides or receives finance or financial support; (irrespective of whether a price is charged) to, from or on behalf of a related party, then such material transactions shall be disclosed, including:

(i) a description of the relationship between the parties;

(ii) a description of the transactions;

(iii) the amounts involved;

(iv) any other elements of the transactions necessary for an understanding of the financial statements;

(v) the amounts due to or from related parties at the balance sheet date and provisions for doubtful debts due from such parties at that date; and

(vi) amounts written off in the period in respect of debts due to or from related parties.

20.2 Personal guarantees given by directors in respect of borrowings by the reporting entity shall be disclosed in the notes to the financial statements.

20.3 Similarly, the guarantees given by the entity on behalf of directors and other related parties should also be disclosed.

Section 21: Fair Value

21.1 Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

21.2 Fair value of a particular asset and liability is the exit price determined by taking into account the transactions in active market of identical assets and liabilities and if that are not available then take into account transactions of similar assets and liabilities. If the transactions regarding the active identical assets and liabilities and similar assets and liabilities are not available, then valuation techniques may be used by market participants that they deem reasonable.

Section 22: Transition to the Accounting Standards for SSEs

22.1 An entity makes an unreserved and explicit statement of compliance with this Standard for the first time when;

a) It did not present financial statements for previous periods, or
b) Presented its previous financial statements under requirements that are not consistent with this Standard, or
c) Presented its previous financial statements under IFRS for SMEs, or
d) Presented its previous financial statements under full IFRS.

22.2 An entity shall in its opening balance sheet as of its date of transition (beginning of the earliest period presented in financial statements) to this Standard:

a) Recognize all assets and liabilities whose recognition is required by to this Standard;
b) Not recognize items as assets or liabilities if to this Standard do not permit such recognition;
c) Reclassify items that it recognized under its previous financial reporting framework as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity under to this Standard; and
d) Apply to this Standard in measuring all recognized assets and liabilities.

The financial effect of above actions should be reflected in opening balance sheet by adjusting the amount of retained earnings as at the date of transition.

22.3 An entity shall disclose, in its financial statements using this Standard, comparative information in respect of the previous comparable period for all monetary amounts presented in the financial statements, as well as specified comparative narrative and descriptive information.

22.4 An entity's first time financial statements shall include reconciliations of its equity reported under previous framework to its equity in accordance with this Standard for both of the following dates:

a) The date of transition to this Standard; and
b) The end of the latest period presented in the entity's most recent annual financial statements in accordance with previous framework.

22.5 A reconciliation to its profit or loss in accordance with this Standard for the latest period in the entity's most recent annual financial statements to the profit and loss that would have been in accordance with previous framework. The starting point for that reconciliation shall be profit or loss in accordance with previous framework for the same period.

Annexure: Definitions

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

An ***active market*** is a market where 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.

Amortisation is the systematic allocation of the depreciable amount of an intangible asset over its useful life.

Amortised cost *of an investment* is the amount at which an investment is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the *Effective Interest Method* of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

An ***asset*** is a resource

(a) controlled by an entity as a result of past events; and
(b) from which future economic benefits are expected to flow to the entity.

Borrowing costs are interest and other costs incurred by an entity in connection with the borrowing of funds.

The ***carrying amount*** *(value)* is the amount at which an asset is recognised in the balance sheet after deduction of any accumulated depreciation and accumulated impairment losses thereon.

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

A ***cash-generating unit*** is the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash flows from other assets or groups of assets.

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

A ***construction contract*** is a long term 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. Such contracts may either be fixed price contracts in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses or cost plus contracts in which the contractor is reimbursed for allowable or otherwise defined costs, plus a percentage of these costs or a fixed fee.

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.

Contingent rent is that portion of the lease payments which is not fixed in amount but is based on a factor other than the passage of time (e.g. percentage of sales, amount of usage, price indices and market rates of interest).

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition, production or construction.

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

Defined benefit schemes are post-employment benefit plans other than defined contribution plans.

Defined contribution schemes are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Depreciable amount is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Disposal Group is a group of assets to be disposed of, by sale or otherwise together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in a transaction.

Effective interest method is a method of calculating the amortised cost of an investment and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of an investment or, when appropriate, a shorter period to the net carrying amount of an investment. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of an investment but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar investment can be estimated reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of an investment, the entity shall use the contractual cash flows over the full contractual term of an investment.

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

Events after the Balance Sheet are events, both favourable and unfavourable, that occur between the balance sheet date and the date when the financial statements are authorised for issue. Two types of events can be identified:

a) those providing evidence of conditions that existed at the balance sheet date (adjusting events after the balance sheet date); and
b) those indicative of conditions that arose after the balance sheet date (nonadjusting events after the balance sheet date).

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

A ***Finance lease*** is a lease that transfers substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred.

Financial Asset is any asset that is:
a) cash;
b) an equity instrument of another entity;
c) a contractual right:
    i) to receive cash or another financial asset from another entity; or
    ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favorable to the entity; or
d) a contract that will or may be settled in the entity's own equity instruments and is:
    i) a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
    ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

Financial Liability is any liability that is:
a) a contractual obligation:
    (i) to deliver cash or another financial asset to another entity; or
    (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity; or
b) a contract that will or may be settled in the entity's own equity instruments and is:
    i) a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or
    ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

Material errors are errors discovered in the current period that are of such significance that the financial statements of one or more prior periods can no longer be considered to have been reliable at the date of their issue.

Government refers to government, government agencies and similar bodies, whether local, national or international.

Government assistance is action by government designed to provide an economic benefit specific to an entity or range of entities qualifying under certain criteria. Government assistance for the purpose of this section does not include benefits provided only indirectly through action affecting general trading conditions, such as the provision of infrastructure in development areas or the imposition of trading constraints on competitors.

Government grants are assistance by government in the form of transfer 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 on them and transactions with government which cannot be distinguished from the normal trading transactions of the entity.

Historical cost assets are recorded at the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire them at the time of their acquisition. Liabilities are recorded at the amount of proceeds received in exchange for the obligation, or, in some circumstances (for example, income taxes), at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.

IFRS *are a set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements. IFRS are issued by the International Accounting Standards Board.*

IFRS for SMEs *are a set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements of SMEs. IFRS for SMEs are issued by the International Accounting Standards Board.*

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

Impracticable means when the entity can not apply a policy after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error if:

(a) the effect of the retrospective application or retrospective restatement are not determinable;

(b) the retrospective application or retrospective restatement requires assumptions about what management's intend would have been in that period; or

(c) the retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:

   i) provide evidence of circumstances that existed on the date(s) as at which those amounts are to be recognized, measured or disclosed; and

   ii) would have been available when the financial statements for that prior year period were authorized for issue from other information.

An ***intangible asset*** is an identifiable non-monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.

The ***interest rate implicit in the lease*** is the discount rate that, at the inception of the lease, causes the aggregate present value of

a) the minimum lease payments; and
b) the unguaranteed residual value to be equal to the fair value of the leased asset.

Inventories are assets:

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

Investment is an asset held by an entity for the accretion of wealth through distribution (such as interest, royalties and dividends), for capital appreciation or for other benefits to investing entity such as those obtained through trading relationships. Inventories and Property, plant and equipment as defined in Annexure 1 of the standard are not investments

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.

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, which option at the inception of the lease it is reasonably certain that the lessee will exercise.

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

Minimum lease payments are 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, in the case of the lessee, any amounts guaranteed by the lessee or by a party related to the lessee. However, if the lessee has an option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable, and if, at the inception of the lease, it is reasonably certain that the option will be exercised, then the minimum lease payments comprise the minimum payments payable over the lease term and the payment required to exercise this purchase option.

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

An ***operating lease*** is a lease other than a finance lease.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

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.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Property, plant and equipment are tangible assets that:

a) are held by an entity for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
b) are expected to be used during more than one period.

Prospective application (prospectively) 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.

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

A ***qualifying asset*** is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Recoverable Amount of an asset is the higher of the amounts that can be obtained from selling the asset (i.e. net realizable value) or continuing to use the asset in the business (i.e. value in use). Value in use is calculated as the present value of the future cash flows obtainable as a result of the asset's continued use (including those resulting from its ultimate disposal), or a reasonable estimate thereof.

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

Related party is a person or entity that is related to the entity that is preparing its financial statements (reporting entity):

a) A person or a close member of that person's family is related to a reporting entity if that person:
    i) has control or joint control over the reporting entity;
    ii) has significant influence over the reporting entity; or
    iii) is the member of the key management personnel of reporting entity.

b) An entity is a related to reporting entity if any one of the following conditions applies:
    i) the entity and reporting entity are members of the same group;
    ii) one entity is an Associate or Joint venture of other entity;
    iii) both entities are joint ventures of the same third party;
    iv) one entity is joint venture of a third entity and the other entity is an Associate of the third entity;
    v) the entity is a post employment benefit plan for the benefits of employees of either the reporting entity or entity related to the reporting entity;
    vi) the entity is controlled or jointly controlled by a person identified in (a);
    vii) a person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity.

Retrospective application (retrospectively) is applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied. ***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.

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

Tax expense (tax income) is the aggregate amount included in the determination of net profit or loss for the period in respect of current tax and deferred tax.

Taxable profit (tax loss) is the profit (loss) for a period, determined in accordance with the rules established by the taxation authorities, on which income taxes are payable (recoverable).

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of an investment.

Useful life is either:

a) the period of time over which an asset is expected to be used by the entity; or
b) the number of production or similar units expected to be obtained from the asset by the entity.