

# IFRS News supplement

Changes arising from Improvements Project for existing preparers of IFRS financial statements

January 2005

This is the first in a series of IFRS News supplements assessing the impact of recent changes in IFRS that are relevant to existing preparers. This first edition covers those changes arising from the IASB's December 2003 Improvements Project. Subsequent editions will look at the impact of recent changes on IAS 32 and IAS 39 and on IFRSs 2, 3 4 and 5.

Standard	Significant scope and definition changes	Significant measurement and recognition changes	Significant presentation and disclosure changes
<b>IAS 1 Presentation of Financial Statements</b>	<ul style="list-style-type: none"> <li>• Definition of impracticable introduced (<b>IAS 1.11</b>).</li> <li>• Definition of material included (<b>IAS 1.11</b>).</li> </ul>	<ul style="list-style-type: none"> <li>• Application of IFRS 'presumed' to result in true and fair presentation (<b>IAS 1.13</b>).</li> <li>• Use of true and fair override restricted only to extremely rare circumstances (<b>IAS 1.17</b>).</li> </ul>	<ul style="list-style-type: none"> <li>• Tightening of requirements for the classification and disclosure of current and non-current items on the balance sheet (<b>IAS 1.51, 57-60, 66</b>).</li> <li>• IAS 40, IAS 41 and IFRS 5 assets and liabilities recognised separately on the balance sheet (<b>IAS 1.68</b>).</li> <li>• Deferred tax not included under current assets/liabilities on the balance sheet (<b>IAS 1.70</b>).</li> <li>• Disclosure of extraordinary activities in income statement prohibited (<b>IAS 1.81</b>).</li> <li>• Discontinued operations in income statement (<b>IAS 1.81</b>).</li> <li>• Total income and expense recognised directly in equity shown in statement of changes in equity (<b>IAS 1.96</b>).</li> <li>• Reclassification of comparatives required unless impracticable (<b>IAS 1.40</b>).</li> <li>• Significant judgements to be made in applying accounting policies and key assumptions or uncertainties affecting their estimates (<b>IAS 1.113-124</b>).</li> <li>• Number of employees no longer required (<b>IAS 1.85</b>).</li> <li>• IFRS 5 has imposed several strict requirements over the presentation and disclosure of assets held for sale, disposal groups and discontinued operations. See IFRS News supplement on IFRSs 1-5, due March 2005.</li> </ul>

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<b>IAS 2 Inventories</b>	<ul style="list-style-type: none"> <li>Reference to inventories ‘held under historical cost system’ deleted (<b>IAS 2.IN5</b>).</li> <li>Scope exclusion for commodity broker-trader inventories included (<b>IAS 2.3</b>).</li> <li>IAS 2 measurement requirements not applied to agricultural produce and minerals/mineral products (<b>IAS 2.3</b>).</li> <li>Incorporates and supersedes SIC-11 requirement to use same cost formula for inventories of similar nature and use (<b>IAS 2.25</b>).</li> </ul>	<ul style="list-style-type: none"> <li>Inclusion of exchange costs suffered on purchase in carrying amount of inventory prohibited (<b>IAS 2.10-11</b>) (result of IAS 21 change to capitalisation of forex difference option).</li> <li>Difference between cost of inventory acquired under deferred purchase and normal purchase price is interest expense (<b>IAS 2.18</b>).</li> <li>LIFO method prohibited (<b>IAS 2.IN13</b>).</li> <li>Matching principle eliminated (<b>IAS 2.IN14</b>).</li> <li>Circumstances triggering a write-down of opening inventories included (<b>IAS 2.34</b>).</li> <li>Difference between net realisable value and fair value less costs to sell clarified (<b>IAS 2.6</b>).</li> </ul>	<ul style="list-style-type: none"> <li>Inventories held at fair value less cost to sell (<b>IAS 2.36</b>).</li> <li>Inventories held at net realisable value eliminated (<b>IAS 2.17</b>).</li> <li>Amount of any write-down of inventories included as an expense in the period (<b>IAS 2.36</b>).</li> </ul>
<b>IAS 8 Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies</b>	<ul style="list-style-type: none"> <li>Name of standard changed to ‘Accounting policies, Changes in Accounting Estimates and Errors’.</li> <li>Incorporates and supersedes SIC-2 and SIC-18.</li> <li>Changes to accounting policies from adopting IFRS scoped out of IAS 8 (<b>IFRS 1.42</b>).</li> <li>Definitions given in <b>IAS 8.5</b> for materiality, impracticable, and change in an accounting estimate.</li> <li>Hierarchy of IASB sources introduced to assist in determining policies where IFRS guidance not available (<b>IAS 8.7-12, 21</b>).</li> </ul>	<ul style="list-style-type: none"> <li>Selection of accounting policies transferred from IAS 1 (<b>IAS 8.7-8.12</b>).</li> <li>Guidance on the effects of materiality in application of IFRSs introduced (<b>IAS 8.41-48</b>).</li> <li>Allowed alternative of prospective application of changes in accounting policies and correction of errors removed. Retrospective application mandatory (<b>IAS 8.41-48</b>).</li> <li>Prospective application only used when determination of retrospective effect of a change in policy is impracticable (<b>IAS 8.27</b>). Detailed guidance in <b>IAS 8.50-53</b>.</li> <li>Concept of fundamental error eliminated (<b>IAS 8.IN12</b>).</li> <li>Changes to estimates that create assets or liabilities, or affect equity, to be recognised in period of change (<b>IAS 8.37</b>).</li> <li>Clarification of difference between retrospective application (change in policy) and retrospective restatement (correction of error) (<b>IAS 8.22-23, 41</b>).</li> </ul>	<ul style="list-style-type: none"> <li>Extraordinary items no longer allowed in income statement (<b>IAS 1.81</b>).</li> <li>Impact of new standard or interpretation now required (<b>IAS 8.30-31</b>).</li> <li>More detailed disclosures of effect of changes to policies and errors required (effect on each line item and on basic and diluted EPS) (<b>IAS 8.28-31, 49</b>).</li> </ul>

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<b>IAS 10</b> <b>Events After the Balance Sheet Date</b>	No change	<ul style="list-style-type: none"> <li>Clarification that dividends declared after the balance sheet date not to be recorded as liability at balance sheet date <b>(IAS 10.12)</b>.</li> </ul>	No change
<b>IAS 16</b> <b>Property, Plant and Equipment</b>	<ul style="list-style-type: none"> <li>Assets used to develop or maintain biological assets, mineral rights and mineral reserves fall within scope of IAS 16 <b>(IAS 16.3)</b>.</li> <li>Incorporates and supersedes SIC-6, SIC-14 and SIC-23 <b>(IAS 16.IN1-3)</b>.</li> <li>PPE that meets IFRS 5 criteria as held for sale are scoped out <b>(IAS 16.3(a))</b>.</li> </ul>	<ul style="list-style-type: none"> <li>Subsequent expenditure recognised only if it meets general recognition criteria <b>(IAS 16.IN6)</b>.</li> <li>Dismantling, removal and restoration costs included in carrying amount of PPE <b>(IAS 16.16,18)</b>.</li> <li>Concept of commercial substance introduced for recognition of exchanged assets <b>(IAS 16.24-25)</b>.</li> <li>Use of revaluation method depends on ability to measure fair value reliably <b>(IAS 16.31)</b>.</li> <li>Component approach to depreciation of PPE introduced <b>(IAS 16.43-47)</b>.</li> <li>Residual value based on expected future circumstances measured at current prices, ie, no adjustment made for effect of changing prices <b>(IAS 16.6)</b>.</li> <li>Depreciation commences when asset made available for use <b>(IAS 16.55)</b>.</li> <li>Depreciation continues through idle periods; ceases only when asset derecognised <b>(IAS 16.55)</b>.</li> <li>IAS 18 revenue recognition criteria acts as trigger for derecognition of PPE <b>(IAS 16.69)</b>.</li> <li>Recognition of a replacement component of PPE item results in derecognition <b>(IAS 16.70)</b>.</li> <li>Classification of gain on disposal as revenue prohibited <b>(IAS 16.68)</b>.</li> </ul>	<ul style="list-style-type: none"> <li>Prior-year comparatives for PPE mandatory <b>(IAS 16.73(e))</b>.</li> <li>Additional disclosures for revalued assets <b>(IAS 16.77)</b>.</li> <li>Held-for-sale PPE separately classified in financial statements <b>(IFRS 5.38)</b>. See IFRS News supplement on IFRSs 1-5, due March 2005).</li> </ul>

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<b>IAS 17</b> <b>Leases</b>	<ul style="list-style-type: none"> <li>Investment properties held under finance leases initially measured using IAS 17 <b>(IAS 17.19)</b>.</li> <li>Initial direct costs defined as incremental costs directly attributable to negotiating/arranging a lease <b>(IAS 17.4)</b>.</li> <li>Amendment of definition of implicit interest rate to consider initial direct costs <b>(IAS 17.4)</b>.</li> <li>Clarification of distinction between inception of lease (classification) and commencement of lease (recognition) <b>(IAS 17.4)</b>.</li> <li>Definitions for unearned finance income and net investment in the lease simplified <b>(IAS 17.4)</b>.</li> </ul>	<ul style="list-style-type: none"> <li>Leases of land and buildings split into land component and buildings component <b>(IAS 17.14-18)</b>.</li> <li>Leases of land treated as operating leases unless title passes to lessee <b>(IAS 17.15)</b>.</li> <li>Lessor's initial direct costs on finance lease are part of finance lease receivables <b>(IAS 17.38)</b>.</li> <li>Lessor's indirect costs on capitalised operating lease are part of carrying value of asset and realised over lease term <b>(IAS 17.38)</b>.</li> <li>Initial direct costs only expensed in case of manufacturer/dealer lessor <b>(IAS 17.38)</b>.</li> </ul> <p><b>Note: all amendments to be applied retrospectively</b></p>	No change
<b>IAS 21</b> <b>The Effects of Changes in Foreign Exchange Rates</b>	<ul style="list-style-type: none"> <li>Requirements for hedge accounting and foreign currency derivatives moved to IAS 39 <b>(IAS 21.IN5)</b>.</li> <li>Introduction of functional currency as primary currency of the entity's operating environment <b>(IAS 21.8)</b>.</li> <li>Introduction of presentation currency as the currency used to present financial statements <b>(IAS 21.8)</b>.</li> <li>'Reporting currency' no longer used <b>(IAS 21.IN6)</b>.</li> <li>Incorporates and supersedes SIC-11, SIC-19 and SIC-30 <b>(IAS 21.IN1)</b>.</li> </ul>	<ul style="list-style-type: none"> <li>Greater emphasis on currency of economic environment in determining functional currency <b>(IAS 21.9)</b>.</li> <li>Distinction between integral foreign operations and foreign entities eliminated. Foreign entities method now used to translate all foreign operations <b>(IAS 21.11)</b>.</li> <li>Option to capitalise foreign exchange differences incapable of being hedged removed <b>(IAS 21.IN10)</b>.</li> <li>Change in functional currency accounted for prospectively <b>(IAS 21.35)</b>.</li> <li>Presentation of financial statements permitted in any currency <b>(IAS 21.38)</b>.</li> <li>Goodwill and fair value adjustments on acquisition of foreign entity now expressed in acquiree's currency and translated at closing rate <b>(IAS 21.47)</b>.</li> </ul>	<ul style="list-style-type: none"> <li>Reason required for using different currency from the functional currency for presentation of items in financial statements <b>(IAS 21.53)</b>.</li> <li>New requirement to disclose details of and reason for any change in presentation currency <b>(IAS 21.54)</b>.</li> </ul>

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<b>IAS 22 Business Combinations</b>	Replaced by IFRS 3, Business Combinations, with effect from 1 January 2005. See IFRS News supplement on IFRSs 1-5, due March 2005.		
<b>IAS 24 Related Party Disclosures</b>	<ul style="list-style-type: none"> <li>• Definition of related party expanded to include:               <ul style="list-style-type: none"> <li>(a) parties with joint control,</li> <li>(b) joint ventures,</li> <li>(c) employees' post-employment benefit plans,</li> <li>(d) post-employment benefit plans of another related entity <b>(IAS 24.9)</b>.</li> </ul> </li> <li>• Venturers sharing joint control not related <b>(IAS 24.11(b))</b>.</li> <li>• 'Close members of the family of an individual' defined <b>(IAS 24.9)</b>.</li> </ul>	No change	<ul style="list-style-type: none"> <li>• Key management personnel to be disclosed <b>(IAS 24.19)</b>.</li> <li>• Profit-oriented state companies required to apply the standard <b>(IAS 24.2-4)</b>.</li> <li>• Explanation of pricing and inter-company related disclosures removed. Arm's length disclosure only included if possible to substantiate <b>(IAS 24.21)</b>.</li> <li>• New disclosures include:               <ul style="list-style-type: none"> <li>(a) amount of transactions and outstanding balances with related parties <b>(IAS 24.17(a-b))</b>,</li> <li>(b) amount expensed as bad or doubtful debts with related parties <b>(IAS 24.17(c-d))</b>,</li> <li>(c) separate classification of amounts receivable and payable to related parties by type of related party <b>(IAS 24.16, 19)</b>, and</li> <li>(d) name of parent and ultimate controlling party or name of senior parent preparing consolidated financial statements <b>(IAS 24.15)</b>.</li> </ul> </li> </ul>

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<b>IAS 27</b> <b>Consolidated Financial Statements and Accounting for Investments in Subsidiaries</b>	<ul style="list-style-type: none"> <li>• Name of standard amended to 'Consolidated and Separate Financial Statements'.</li> <li>• Applies to accounting for investments in subsidiaries, jointly controlled entities and associates in separate financial statements of the parent/venturer/investor <b>(IAS 27.3)</b>.</li> <li>• Unincorporated entities included in definition of subsidiary <b>(IAS 27.4)</b>.</li> <li>• Applies to venture capital organisations, mutual funds, unit trusts and similar entities <b>(IAS 27.19)</b>.</li> <li>• Incorporates and supersedes SIC-33 <b>(IAS 27.14-15)</b>.</li> <li>• Subsidiaries where intention is to dispose within 12 months is considered under <b>IFRS 5</b>. See IFRS News supplement on IFRSs 1-5, due March 2005.</li> </ul>	<ul style="list-style-type: none"> <li>• Clarification and expansion of criteria for exemption from preparing consolidated financial statements <b>(IAS 27.10)</b>: <ul style="list-style-type: none"> <li>(a) wholly owned or partially owned subsidiary and minority have given permission;</li> <li>(b) capital instruments not traded;</li> <li>(c) not in process of listing; and</li> <li>(d) ultimate or intermediate parent prepared IFRS financial statements.</li> </ul> </li> <li>• Exclusion of a subsidiary from consolidation on grounds of severe long-term restrictions prohibited <b>(IAS 27.IN9)</b>.</li> <li>• Use of uniform policies required. Exception on grounds of impracticality withdrawn <b>(IAS 27.IN11)</b>.</li> <li>• New requirement that investments in separate financial statements accounted for at cost or as IAS 39 financial asset <b>(IAS 27.37)</b>.</li> <li>• Basis of accounting for investments in associates, jointly controlled entities and unconsolidated subsidiaries in separate financial statements to be consistent with that used in consolidated financial statements <b>(IAS 27.39)</b>.</li> <li>• Clarification that accounting treatment for reverse acquisitions to follow substance of arrangement rather than legal form <b>(IFRS 3.21, B8)</b>. See IFRS News supplement on IFRSs 1-5, due March 2005).</li> </ul>	<ul style="list-style-type: none"> <li>• Allocation of profit or loss between minority interest and equity holders of parent required <b>(IAS 1.81)</b>.</li> <li>• Minority interest presented on balance sheet within equity, but separate from shareholders' equity <b>(IAS 27.33)</b>.</li> <li>• Summary information for assets, liabilities, operating income and profit or loss of unconsolidated subsidiaries is required <b>(IAS 27.40(b))</b>.</li> <li>• Details of nature and extent of severe long-term restrictions affecting consolidated subsidiaries <b>(IAS 27.40(f))</b>.</li> </ul>

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<b>IAS 28</b> <b>Accounting for Investments In Associates</b>	<ul style="list-style-type: none"> <li>• Does not apply to qualifying investments if held for trading under IAS 39 <b>(IAS 28.1)</b>.</li> <li>• Incorporates and supersedes SIC-3 <b>(IAS 28.IN1)</b>, SIC-20 <b>(IAS 28.29)</b>, and SIC-33 <b>(IAS 28.8)</b>.</li> <li>• Unincorporated entities included in definition of associate <b>(IAS 28.2)</b>.</li> <li>• Investments in associates where intention is to dispose within 12 months now covered by <b>IFRS 5</b>. See IFRS News supplement on IFRSs 1-5, due March 2005.</li> </ul>	<ul style="list-style-type: none"> <li>• IAS 27 criteria used for exemption of equity accounting for investments in associates <b>(IAS 28.13)</b>.</li> <li>• Equity method not applied in separate financial statements <b>(IAS 28.35)</b>.</li> <li>• Clarification that equity method to be applied whether or not subsidiaries exist <b>(IAS 28.13)</b>.</li> <li>• Investments in associates where there is intention to dispose within 12 months covered by <b>IFRS 5</b>. See IFRS News supplement on IFRSs 1-5, due March 2005.</li> <li>• Equity method applied even where influence is severely restricted <b>(IAS 28.IN10)</b>.</li> <li>• Introduction of three-month restriction for associate's non-coterminous year-end. <b>(IAS 28.24-25)</b></li> <li>• Use of uniform policies now required. Exception on grounds of impracticality withdrawn. <b>(IAS 28.IN13)</b>.</li> <li>• Clarification that interests held by jointly controlled entities or other associates ignored when determining group's total interest in an associate <b>(IAS 28.21)</b>.</li> </ul>	<ul style="list-style-type: none"> <li>• Goodwill included in carrying value of the investment <b>(IAS 28.23)</b>.</li> <li>• Investor's share of changes in associate equity disclosed as separate line item in statement of changes in equity <b>(IAS 28.39)</b>.</li> <li>• New disclosures <b>(IAS 28.37)</b>: <ul style="list-style-type: none"> <li>(a) fair value of quoted investments in associates,</li> <li>(b) summary of assets liabilities, revenues and profit or loss of associate,</li> <li>(c) amount of investor's share of associate's losses not recognised, and</li> <li>(d) nature and extent of long-term restrictions placed on associate.</li> </ul> </li> </ul>
<b>IAS 29</b> <b>Financial Reporting in Hyperinflationary Economies</b>	<p>No change</p>	<ul style="list-style-type: none"> <li>• Hyperinflationary functional currency translated into different presentation currency <b>(IAS 21.42-43)</b>.</li> <li>• Translation of prior-period balances based on original amounts presented as current on prior-period financial statements, ie, before any adjustments for current year price levels <b>(IAS 21.42(b))</b>.</li> </ul>	<p>No change</p>

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<b>IAS 31</b> <b>Financial Reporting of Interests in Joint Ventures</b>	<ul style="list-style-type: none"> <li>Does not apply to qualifying investments if held for trading under IAS 39 <b>(IAS 31.1)</b>.</li> <li>Investments in joint ventures where intention is to dispose within 12 months is considered under <b>IFRS 5</b>. See IFRS News supplement on IFRSs 1-5, due March 2005.</li> </ul>	<ul style="list-style-type: none"> <li>IAS 27 criteria applied to exemption of proportionate consolidation/equity accounting for investments in joint ventures <b>(IAS 31.2(b-c))</b>.</li> <li>Equity method applied even where influence severely restricted <b>(IAS 31.IN8)</b>.</li> <li>IAS 27 guidance applied on recognition of investment in separate financial statements <b>(IAS 31.46) (IAS 27.37)</b>.</li> <li>Proportionate consolidation/equity method applied whether or not subsidiaries exist <b>(IAS 31.31)</b>.</li> <li>Where joint control ceases, investment in associate accounted for under IAS 39; IAS 27 if control is obtained; IAS 28 if significant influence is held <b>(IAS 31.45)</b>.</li> </ul>	<ul style="list-style-type: none"> <li>Disclosure of method used, ie, either proportionate consolidation or equity method <b>(IAS 31.57)</b>.</li> </ul>
<b>IAS 33</b> <b>Earnings Per Share</b>	<p>No change</p>	<ul style="list-style-type: none"> <li>Guidance on calculation of EPS where there is a transaction involving entity's preference shares and equity instruments <b>(IAS 33.12-18, IE1)</b>.</li> <li>Requirement for ordinary shares issued on conversion of mandatorily convertible instrument to be included in basic EPS <b>(IAS 33.23)</b>.</li> <li>Dilutive element independently computed at end of each period without regard to interim computations <b>(IAS 33.37, IE7)</b>.</li> <li>Illustrative examples provided for effect of: <ul style="list-style-type: none"> <li>(a) potential ordinary shares in subsidiaries, joint ventures and associates <b>(IAS 33 AGA11, IE10)</b>;</li> <li>(b) participating securities <b>(IAS 33 AGA13, IE11)</b>;</li> <li>(c) contingently issuable shares <b>(IAS 33.52-57, IE7-8)</b>;</li> <li>(d) contracts for repurchase of own shares <b>(IAS 33.63, AGA10)</b>; and</li> <li>(e) options warrants and equivalents <b>(IAS 33.45-48, IE5, 9, 12)</b>.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>EPS for discontinuing operations in income statement or notes <b>(IAS 33.66)</b>.</li> <li>Parent-only EPS prohibited in consolidated financial statements <b>(IAS 33.4)</b>.</li> </ul>

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<b>IAS 40</b> <b>Investment Property</b>	<ul style="list-style-type: none"> <li>• Definition of investment properties expanded to include investment properties held under operating lease <b>(IAS 40.6)</b>.</li> <li>• Initial measurement of investment properties held under finance leases scoped out <b>(IAS 40.6)</b>.</li> <li>• Investment property that meets IFRS 5 criteria as held for sale is scoped out <b>(IFRS 5.2)</b>. See IFRS News supplement on IFRSs 1-5, due March 2005).</li> </ul>	<ul style="list-style-type: none"> <li>• Option to recognise individual investment properties obtained under operating lease if fair value method used <b>(IAS 40.6)</b>.</li> <li>• Clarification that use of operating lease option will require adoption of fair value model for all investment properties <b>(IAS 40.6)</b>.</li> <li>• Commercial substance criteria used recognising fair value of asset obtained on exchange <b>(IAS 40.27-28)</b>.</li> <li>• Compensation for impairment of investment property not recognised until received <b>(IAS 40.72)</b>.</li> <li>• IAS 16 principle whereby replacement component is a trigger for derecognition <b>(IAS 40.19)</b>.</li> </ul>	<ul style="list-style-type: none"> <li>• IAS 40 assets and liabilities re disclosed separately on balance sheet <b>(IAS 1.68)</b>.</li> <li>• Disclosure of choice of model (fair value or cost) applied in financial statements <b>(IAS 40.70-79)</b>.</li> <li>• Reconciliation of any difference between professional valuation obtained and amount included in financial statements <b>(IAS 40.77)</b>.</li> <li>• Comparative information now required for all disclosures <b>(IAS 40.IN10)</b>.</li> <li>• Investment property that meets criteria as held for sale to be separately classified in financial statements <b>(IFRS 5.38)</b>. See IFRS News supplement on IFRSs 1-5, due March 2005).</li> </ul>
<b>IAS 41</b> <b>Agriculture</b>	<ul style="list-style-type: none"> <li>• Clarification that IAS 2 measurement requirements not applied to agricultural produce <b>(IAS 2.3)</b>.</li> </ul>	No change	<ul style="list-style-type: none"> <li>• IAS 41 assets and liabilities disclosed separately on balance sheet <b>(IAS 1.68)</b>.</li> </ul>