

# COMPANIES ACT

## (CHAPTER 50, SECTIONS 200A (1) AND 411 (g))

### COMPANIES (ACCOUNTING STANDARDS) REGULATIONS

[1st January 2003]

#### **Citation**

1. These Regulations may be cited as the Companies (Accounting Standards) Regulations.

#### **Accounting Standards applicable to companies**

2. The Accounting Standards applicable to companies shall be known as the Financial Reporting Standards and shall comprise —

(a) the matters set out in the First, Fourth, Fifth and Sixth Schedules;

(b) the International Accounting Standards or International Financial Reporting Standards set out in the second column of the Third Schedule, as modified by the Second Schedule and the third column of the Third Schedule; and

(c) the Interpretations of the Standing Interpretations Committee or Interpretations of the International Financial Reporting Interpretations Committee set out in the second column of the Seventh Schedule, as modified by the Second Schedule and the third column of the Seventh Schedule.

### FIRST SCHEDULE

Regulation 2 (a)

#### **PREFACE TO THE FINANCIAL REPORTING STANDARDS**

1. The Council on Corporate Disclosure and Governance (hereafter referred to as “CCDG”) was established on 16th August 2002 to prescribe accounting standards for Singapore-incorporated companies, and to review and recommend corporate governance and disclosure practices on a continuing basis. The accounting standards prescribed by the CCDG are known as Financial Reporting Standards (hereafter referred to as “FRSs”), which are closely modelled after the International Accounting Standards and International Financial Reporting Standards issued by the International Accounting Standards Board. The CCDG could also issue guidelines on accounting, disclosure and corporate governance matters.

2. FRSs set out recognition, measurement, presentation and disclosure requirements dealing with transactions and events that are important in general purpose financial statements. They also set out such requirements for transactions and events that arise

mainly in specific industries. FRSs are based on the FRS Framework, which addresses the concepts underlying the information presented in general purpose financial statements. The objective of the FRS Framework is to facilitate the consistent and logical formulation of FRSs. The FRS Framework also provides a basis for the use of judgement in resolving accounting issues.

- 3.** FRSs apply to all general purpose financial statements. Such financial statements are directed towards the common information needs of a wide range of users, for example, shareholders, creditors, employees and the public at large. The objective of financial statements is to provide information about the financial position, performance and cash flows of an entity that is useful to those users in making economic decisions.
- 4.** A complete set of financial statements includes a balance sheet, an income statement, a statement showing either all changes in equity or changes in equity other than those arising from capital transactions with owners and distributions to owners, a cash flow statement, and accounting policies and explanatory notes. In the interest of timeliness and cost considerations and to avoid repeating information previously reported, a company may provide less information in its interim financial statements than in its annual financial statements. FRS 34, Interim Financial Reporting, prescribes the minimum content of complete or condensed financial statements for an interim period. The term “financial statements” includes a complete set of financial statements prepared for an interim or annual period, and condensed financial statements for an interim period.
- 5.** In some cases, the CCDG permitted different treatments for given transactions and events. Usually, one treatment is identified as the ‘benchmark treatment’ and the other as the ‘allowed alternative treatment’. The financial statements of an entity may appropriately be described as being prepared in accordance with FRSs whether they use the benchmark treatment or the allowed alternative treatment.
- 6.** The CCDG’s objective is to require like transactions and events to be accounted for and reported in a like way and different transactions and events to be accounted for and reported differently, both within an entity over time and among entities.
- 7.** Standards approved by the CCDG include paragraphs in bold type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles. An individual standard should be read in the context of the objective stated in that standard and this Preface.
- 8.** Interpretations of FRSs (hereafter referred to as “INT FRSs”) are prepared by the CCDG to give authoritative guidance on issues that are likely to receive divergent or unacceptable treatment, in the absence of such guidance.
- 9.** Any limitation of the scope of an FRS is made clear in the standard.
- 10.** If there are references made to FRSs and INT FRSs that have not been prescribed by the CCDG, these references will not take effect. However, the preparer of financial

statements should take into consideration the applicability of the FRS Framework, all existing FRSs and all existing INT FRSs when preparing a financial statement.

### **Timing of application of Financial Reporting Standards**

- 11.** Companies are required to comply with the provisions of the Companies (Accounting Standards) Regulations (Rg 6) in preparing their financial statements covering periods beginning on or after 1st January 2003.
- 12.** Where the operative date of an FRS is before 1st January 2003, the FRS and any relevant transitional provision contained therein shall apply in relation to periods before 1st January 2003 only to determine the carried forward balances of financial statements covering periods beginning on or after 1st January 2003.
- 13.** In respect of an FRS which becomes operative for financial statements covering periods beginning on or after 1st January 2003, it shall apply from the operative date as specified in the FRS.
- 14.** Exposure drafts of new FRSs may be issued for comment and proposals contained therein may be subject to revision. Until the effective date of a new FRS, the requirements of any existing FRS that would be affected by proposals in an exposure draft will remain in force.

## **SECOND SCHEDULE**

Regulation 2 (*b*)

### **MODIFICATION OF CERTAIN TERMS USED IN INTERNATIONAL ACCOUNTING STANDARDS OR INTERNATIONAL FINANCIAL REPORTING STANDARDS**

Any reference in an International Accounting Standard or International Financial Reporting Standard to —

- (a) “International Accounting Standard” or “International Financial Reporting Standard” shall be read as “Financial Reporting Standard”;
- (b) “IAS” or “IFRS” shall be read as “FRS”;
- (c) “Interpretation of the Standing Interpretations Committee” or “Interpretation of the International Financial Reporting Interpretations Committee” shall be read as “Interpretation of the Financial Reporting Standard”;
- (d) “SIC”, “SIC Interpretation” or “IFRIC Interpretation” shall be read as “INT FRS”;
- (e) “International Accounting Standards Committee Framework” or “International Accounting Standards Board Framework” shall be read as “Financial Reporting Standards Framework”;

- (f) “IASC Framework” or “IASB Framework” shall be read as “FRS Framework”;
- (g) “International Accounting Standards Committee” or “International Accounting Standards Board” shall be read as “Council on Corporate Disclosure and Governance”;
- (h) “IASC” or “IASB” shall be read as “CCDG”;

[S 401/2004, wef 01/07/2004](#)

- (i) “Standing Interpretations Committee” or “International Financial Reporting Interpretations Committee” shall be read as “Council on Corporate Disclosure and Governance”;

[S 401/2004, wef 01/07/2004](#)

[S 521/2004, wef 01/09/2004](#)

- (j) “IFRS 1”, “IFRS 2”, “IFRS 3”, etc., shall be read as “FRS 101”, “FRS 102”, “FRS 103”, etc., respectively; and

[S 401/2004, wef 01/07/2004](#)

[S 521/2004, wef 01/09/2004](#)

- (k) “IFRIC Interpretation 1”, “IFRIC Interpretation 2”, “IFRIC Interpretation 3”, etc., shall be read as “INT FRS 101”, “INT FRS 102”, “INT FRS 103”, etc., respectively.

[S 521/2004, wef 01/09/2004](#)

### THIRD SCHEDULE

Regulation 2 (b)

#### ADOPTION AND MODIFICATION OF INTERNATIONAL ACCOUNTING STANDARDS OR INTERNATIONAL FINANCIAL REPORTING STANDARDS

<i>First column</i>	<i>Second column</i>	<i>Third column</i>
<i>Financial Reporting Standard (“FRS”)</i>	<i>International Accounting Standard/ International Financial Reporting Standard</i>	<i>Modification of International Accounting Standard/ International Financial Reporting Standard for the purposes of FRS</i>
FRS 1 Presentation of Financial Statements	IAS 1 (revised 2003) Presentation of Financial Statements	(i) Delete any reference to paragraph 25 of the Framework for the Preparation and Presentation of Financial Statements and substitute a

reference to paragraph 21 of the FRS Framework.

(ii) Delete paragraph 128 of IAS 1 and substitute the following paragraph:

**“Withdrawal of FRS 1 (issued in 2003)”**

128. This Standard supersedes FRS 1 Presentation of Financial Statements issued in 2003.”.

(iii) Delete paragraph A2 of the Appendix to IAS 1.

(iv) Delete “2003” in paragraph A10 of the Appendix to IAS 1 and substitute “2004”.

(v) Insert, immediately after paragraph 124 of IAS 1, the following paragraphs:

[S 2/2006, wef 03/01/2006](#)

[S 2/2006, wef 03/01/2006](#)

[S 2/2006, wef 03/01/2006](#)

[S 2/2006, wef 03/01/2006](#)

[S 2/2006, wef 03/01/2006](#)

**“Capital**

**124A. An entity shall disclose information that enables users of its financial statements to evaluate the entity’s objectives, policies and processes for managing capital.**

124B. To comply with paragraph 124A, the entity discloses the following:

(a) qualitative information about its objectives, policies and processes for managing capital, including (but not limited to):

[S 2/2006, wef 03/01/2006](#)

(i) a description of what it manages as capital;

[S 2/2006, wef 03/01/2006](#)

(ii) when an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and

[S 2/2006, wef 03/01/2006](#)

(iii) how it is meeting its objectives for managing capital.

[S 2/2006, wef 03/01/2006](#)

(b) summary quantitative data about what it manages as capital. Some entities regard some financial liabilities (e.g. some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (e.g. components arising from cash flow hedges).

[S 2/2006, wef 03/01/2006](#)

(c) any changes in (a) and (b) from the previous period.

[S 2/2006, wef 03/01/2006](#)

(d) whether during the period it complied with any externally imposed capital requirements to which it is subject.

[S 2/2006, wef 03/01/2006](#)

(e) when the entity has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

These disclosures shall be based on the information provided internally to the entity's key management personnel.

[S 2/2006, wef 03/01/2006](#)

124C. An entity may manage capital in a number of ways and be subject to a number of different capital requirements. For example, a conglomerate may include entities that undertake insurance activities and banking activities, and those entities may also operate in several jurisdictions. When an aggregate disclosure of capital requirements and how capital is managed would not provide useful information or distorts a financial statement user's understanding of an entity's capital resources, the entity shall disclose separate information for each capital requirement to which the entity is subject.".";

[S 2/2006, wef 03/01/2006](#)

FRS 2  
Inventories

IAS 2  
(revised 2003)  
Inventories

(i) Delete the words "revised in 1993" in paragraph 41 of IAS 2 and substitute the words "issued in 2003".

(ii) Delete "2003" in paragraph A1 of IAS 2 and substitute "2004".

(iii) Delete paragraph A3 of the Appendix to IAS 2.

FRS 7  
Cash Flow Statements

IAS 7  
(revised 1992)  
Cash Flow Statements

(i) Delete paragraph 2 of IAS 7.

(ii) Delete paragraph 53 of IAS 7 and substitute the following paragraph:

FRS 8  
Accounting Policies,  
Changes in Accounting  
Estimates and Errors

IAS 8  
(revised 2003)  
Accounting Policies,  
Changes in Accounting  
Estimates and Errors

“53. FRS 7, Cash Flow Statements, is operative for financial statements covering periods beginning on or after *1st January 1995*.”.

(i) Delete any reference to paragraph 25 of the Framework for the Preparation and Presentation of Financial Statements and substitute a reference to paragraph 21 of the FRS Framework.

(ii) Delete the words “the IASB has concluded” in paragraph 8 of IAS 8.

(iii) Delete the words “revised in 1993” in paragraph 55 of IAS 8 and substitute the words “issued in 2003”.

(iv) Delete paragraph A9 of the Appendix to IAS 8 and substitute the following paragraph:

“A9. In FRS 35 Discontinuing Operations, paragraphs 41 and 42 are deleted.”.

(v) Delete paragraph A10 of the Appendix to IAS 8 and substitute the following paragraph:

“A10. In FRS 36 Impairment of Assets, paragraphs 120 and 121 are deleted.”.

(vi) Delete paragraph A13 of the Appendix to IAS 8 and substitute the following paragraph:

“A13. In INT FRS 12 Consolidation — Special Purpose Entities, the effective date paragraph is amended to read as follows:

**Effective Date:** INT FRS 12 comes into effect on *1st February 2003*. Changes in accounting policies shall be accounted for in accordance with FRS 8.”.

(vii) Delete paragraph A14 of the Appendix to IAS 8 and substitute the following paragraph:

“A14. In INT FRS 13 Jointly Controlled Entities — Non-Monetary Contributions by Venturers, the effective date paragraph is amended to read as follows:

**Effective Date:** INT FRS 13 comes into effect on *1st February 2003*. Changes in accounting policies shall be accounted for in accordance with FRS 8.”.

(viii) Delete paragraph A15 of the Appendix to IAS 8 and substitute the following paragraph:

“A15. In INT FRS 21 Income Taxes — Recovery of Revalued Non-Depreciable Assets, the effective date paragraph is amended to read as follows:

**Effective Date:** INT FRS 21 comes into effect on *1st February 2003*. Changes in accounting policies shall be accounted for in accordance with FRS 8.”.

(ix) Delete “2003” in paragraph A16 of the Appendix to IAS 8 and substitute “2004”.

(x) Delete paragraph A17 of the Appendix to IAS 8 and substitute the following paragraph:

“A17. In INT FRS 25 Income Taxes —Changes in the Tax Status of an Entity or its Shareholders, the effective date paragraph is amended to read as follows:

**Effective Date:** INT FRS 25 comes into effect on *1st February 2003*. Changes in accounting policies shall be accounted for in accordance with FRS 8.”.

(xi) Delete paragraph A18 of the Appendix to IAS 8 and substitute the following paragraph:

“A18. In INT FRS 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease, the effective date paragraph is amended to read as follows:

**Effective Date:** INT FRS 27 comes into effect on *1st February 2003*. Changes in accounting policies shall be accounted for in accordance with FRS 8.”.

(xii) Delete paragraph A19 of the Appendix to IAS 8 and substitute the following paragraph:

“A19. In INT FRS 31 Revenue — Barter Transactions Involving Advertising Services, the effective date paragraph is amended to read as follows:

FRS 10  
Events after the Balance  
Sheet Date

IAS 10  
(revised 2003)  
Events after the Balance  
Sheet Date

**Effective Date:** INT FRS 31 comes into effect on *1st February 2003*. Changes in accounting policies shall be accounted for in accordance with FRS 8.”.

(xiii) Delete the words “and the Basis for Conclusions” in paragraphs A21 and A22 of the Appendix to IAS 8.

(xiv) Delete the words “or is accompanied by a Basis for Conclusions” in the accompanying footnote to paragraphs A21 and A22.

(xv) Delete the words “but retain the IASC format of the Standard when it was adopted by the IASB” in paragraph A22 of the Appendix to IAS 8.

(i) Delete paragraph 24 of IAS 10 and substitute the following paragraph:

**“Withdrawal of FRS 10  
(issued in 2003)**

24. This Standard supersedes FRS 10 Events After the Balance Sheet Date (issued in 2003).”.

(ii) Delete paragraph A3 of the Appendix to IAS 10 and substitute the following paragraph:

“A3. In FRS 37 Provisions, Contingent Liabilities and Contingent Assets, paragraph 75 is amended to read as follows:

75. A management or board decision to restructure taken

before the balance sheet date does not give rise to a constructive obligation at the balance sheet date unless the entity has, before the balance sheet date:

(a) started to implement the restructuring plan; or

(b) announced the main features of the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will carry out the restructuring.

If an entity starts to implement a restructuring plan, or announces its main features to those affected, only after the balance sheet date, disclosure is required under FRS 10 Events after the Balance Sheet Date, if the restructuring is material and non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.”.

FRS 11  
Construction Contracts

IAS 11  
(revised 1993)  
Construction Contracts

(i) Delete paragraph 2 of IAS 11.

(ii) Delete paragraph 46 of IAS 11 and substitute the following paragraph:

“46. FRS 11, Construction Contracts, is operative for financial statements covering periods beginning on or after ***1st January 1997***.”.

FRS 12  
Income Taxes

IAS 12  
(revised 2000)  
Income Taxes

Delete paragraphs 89, 90 and 91 of IAS 12 and substitute the following paragraph:

FRS 14  
Segment Reporting

IAS 14  
(revised 1997)  
Segment Reporting

“89. FRS 12, Income Taxes, is operative for financial statements covering periods beginning on or after *1st April 2001*.”.

Delete paragraph 84 of IAS 14 and substitute the following paragraph:

“84. FRS 14, Segment Reporting, is operative for financial statements covering periods beginning on or after *1st January 2000*.”.

FRS 16  
Property, Plant and  
Equipment

IAS 16  
(revised 2003)Property,  
Plant and Equipment

(i) Insert, immediately after paragraph 81 of IAS 16, the following paragraph:

“For an enterprise which had:

(a) revalued its property, plant and equipment before 1st January 1984 (in accordance with the prevailing accounting standard at that time); or

(b) performed any one-off revaluation on its property, plant and equipment between 1st January 1984 and 31st December 1996 (both dates inclusive), there will be no need for the enterprise to revalue its assets in accordance with paragraph 31 of this Standard.

In this paragraph, “one-off revaluation” means any instance where an item of property, plant and equipment was revalued only once between 1st January 1984 and 31st December 1996 (both dates inclusive). Where an item of property, plant and equipment has been revalued

more than once between 1st January 1984 and 31st December 1996 (both dates inclusive), the company should explain why the particular item of property, plant and equipment should be exempted, and the auditor's concurrence of the explanation is required.”.

(ii) Delete the words “revised in 1998” in paragraph 82 of IAS 16 and substitute the words “issued in 2003”.

(iii) Delete the following words in paragraph A1 of the Appendix to IAS 16:

“In the Basis for Conclusions, paragraph BC45 is amended to read as follows:

BC45 Under the revaluation model in IAS 16 Property, Plant and Equipment, if an entity revalues an asset, it must revalue all assets in that class. This restriction prevents selective revaluation of only those assets whose revaluation would lead to a particular result. Some suggested a similar restriction on the use of fair value as deemed cost. However, IAS 36 Impairment of Assets requires an impairment test if there is any indication that an asset is impaired.

Thus, if an entity uses fair value as deemed cost for assets whose fair value is above cost, it cannot ignore indications that the recoverable amount of other

assets may have fallen below their carrying amount. Therefore, the IFRS does not restrict the use of fair value as deemed cost to entire classes of asset.”.

(iv) Delete the following words in paragraph A4 of the Appendix to IAS 16:

“In the IASC Basis for Conclusions, in paragraph B14 (b) (ii) a footnote is inserted after “incurred” at the end of the penultimate sentence, as follows:

*\*IAS 16 Property, Plant and Equipment* as revised by the IASB in 2003 requires all subsequent costs to be covered by its general recognition principle and eliminated the requirement to reference the originally assessed standard of performance. IAS 36 was amended as a consequence of the change to IAS 16.”.

(v) Delete the following words in paragraph A6 of the Appendix to IAS 16:

**“Introduction**

Paragraph 7 is deleted.”; and

**“IAS 38/IAS 22 Basis for Conclusions**

In paragraphs 31 and 35, a footnote is inserted after “dissimilar asset”, as follows:

*\*IAS 16 Property, Plant and Equipment* as revised by the IASB in 2003 requires an

entity to measure an item of property, plant and equipment acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets, at fair value unless the exchange transaction lacks commercial substance.

Previously, an entity measured such an acquired asset at fair value unless the exchanged assets were similar.

The IASB concluded that the same measurement criteria should apply to intangible assets acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.”.

(vi) Delete paragraph A11 of the Appendix to IAS 16 and substitute the following paragraph:

“A11. In December 2002 the CCDG published an Exposure Draft of Proposed Amendments to FRS 36 *Impairment of Assets* and FRS 38 *Intangible Assets*. The proposed amendments to FRS 36 and FRS 38 reflect changes related to the decisions in the Business Combinations project. Because that project is still under way, those proposed changes are not reflected in the amendments to FRS 36 and FRS 38 included in this appendix.”.

(vii) Delete paragraph A12 of the Appendix to IAS 16 and

FRS 17  
Leases

IAS 17  
(revised 2003)  
Leases

substitute the following paragraph:

“A12. In August 2003 the CCDG published ED FRS Disposal of Non-current Assets and Presentation of Discontinued Operations in which it proposed amendments to FRS 38 and to FRS 40 Investment Property. Those proposed changes are not reflected in the amendments to FRS 38 and FRS 40 included in this appendix.”.

(viii) Delete “2003” in paragraphs A7, A9 and A10 of the Appendix to IAS 16 and substitute in each case “2004”.

(i) Delete the words immediately after the first sentence in paragraph 14 of IAS 17.

(ii) Delete the words immediately after the first sentence in paragraph 15 of IAS 17.

(iii) Delete the words “revised 1997” in paragraph 68 of IAS 17 and substitute the words “issued in 2003”.

(iv) Delete paragraph 70 of IAS 17 and substitute the following paragraph:

**“Withdrawal of FRS 17  
(ISSUED IN 2003)**

70. This Standard supersedes FRS 17 Leases (issued in 2003).”.

(v) Delete references to paragraphs 22 and 35 of the Framework and substitute references to paragraphs 18

FRS 18 Revenue	IAS 18 (revised 1993) Revenue	<p>and 31 of the FRS Framework, respectively.</p> <p>(vi) Delete “2003” in paragraph A1 of the Appendix to IAS 17 and substitute “2004”.</p> <p>(i) Delete paragraph 2 of IAS 18.</p> <p>(ii) Delete paragraph 37 of IAS 18 and substitute the following paragraph:  “37. FRS 18, Revenue, is operative for financial statements covering periods beginning on or after <b><i>1st January 1997</i></b>.”</p>
FRS 19 Employee Benefits	IAS 19 (2005)  <a href="#"><u>S 326/2005, wef 01/06/2005</u></a> <a href="#"><u>S 546/2005, wef 01/09/2005</u></a> Employee Benefits <a href="#"><u>S 326/2005, wef 01/06/2005</u></a>	<p>(i) Delete paragraphs 157 and 158 of IAS 19 and substitute the following paragraph:  “157. FRS 19, Employee Benefits, is operative for financial statements covering periods beginning on or after <b><i>1st October 2000</i></b>, except as specified in paragraph 159 of this Standard.”</p> <p>(ii) Delete paragraphs 159 and 159A of IAS 19 and substitute the following paragraphs:  “159. The following become operative for annual financial statements* covering periods beginning on or after <b><i>1st April 2001</i></b>:    (a) the revised definition of plan assets in paragraph 7 of</p>

this Standard and the related definitions of assets held by a long-term employee benefit fund and qualifying insurance policy; and

( b) the recognition and measurement requirements for reimbursements in paragraphs 104A, 128 and 129 of this Standard and related disclosures in paragraph 120A (f) (iv), (g) (iv), (m) and (n) (iii) of this Standard.

[S 326/2005, wef 01/06/2005](#)

159A. The amendment in paragraph 58A of this Standard becomes operative for annual financial statements\* covering periods ending on or after **1st October 2002**. Earlier adoption is encouraged. If earlier adoption affects the financial statements, an enterprise should disclose that fact.

\*Paragraphs 159 and 159A of this Standard refer to “annual financial statements” in line with the more explicit language for writing effective dates adopted in 1998. Paragraph 157 of this Standard refers to “financial statements”.”.

“(iii) Delete “2003” wherever it appears in paragraph 93B of, and paragraphs A1 and A2 of Appendix F to, IAS 19 and substitute “2004”.”;

[S 546/2005, wef 01/09/2005](#)

Delete paragraph 41 of IAS 20 and substitute the following paragraph:

FRS 20  
Accounting for  
Government Grants and  
Disclosure of Government

IAS 20 (1983)  
(reformatted 1994)  
Accounting for  
Government Grants and

Assistance

Disclosure of  
Government Assistance

“41. FRS 20, Accounting for Government Grants and Disclosure of Government Assistance, is operative for financial statements covering periods beginning on or after ***1st January 1985***.”

FRS 21  
The Effects of Changes in  
Foreign Exchange Rates

IAS 21  
(revised 2003)  
The Effects of Changes in  
Foreign Exchange Rates

(i) Delete the words “revised in 1993” in paragraph 61 of IAS 21 and substitute the words “issued in 2003”.

(ii) Delete paragraph A5 of the Appendix to IAS 21.

(iii) Delete “2003” in paragraphs A3 and A8 of the Appendix to IAS 21 and substitute in each case “2004”.

(iv) Delete the words “revised 1999” in paragraph A8 of the Appendix to IAS 21 and substitute the words “issued in 2003”.

(v) Delete the words “1 June 1998” in paragraph A8 of the Appendix to IAS 21 and substitute the words “1 February 2003”.

(vi) Delete the following words in paragraph A2 of the Appendix to IAS 21:

“Paragraph 1 of the Introduction (now numbered paragraph IN2) is amended to read as follows:

IN2. . .

Furthermore, there are some temporary differences which are not timing differences, for example those temporary differences that arise when:

(a) the non-monetary assets and liabilities of an entity are measured in its functional currency but the taxable profit or tax loss (and, hence, the tax base of its non-monetary assets and liabilities) is determined in a different currency);

(b) . . .”.

(viii) Insert, immediately after paragraph 15 of IAS 21, the following paragraph:

[S 45/2006, wef 01/02/2006](#)

“15A. The entity that has a monetary item receivable from or payable to a foreign operation described in paragraph 15 may be any subsidiary of the group. For example, an entity has two subsidiaries, A and B. Subsidiary B is a foreign operation. Subsidiary A grants a loan to Subsidiary B. Subsidiary A’s loan receivable from Subsidiary B would be part of the entity’s net investment in Subsidiary B if settlement of the loan is neither planned nor likely to occur in the foreseeable future. This would also be true if Subsidiary A were itself a foreign operation.”.

[S 45/2006, wef 01/02/2006](#)

(viii) Delete paragraph 33 of IAS 21 and substitute the following paragraph:

[S 45/2006, wef 01/02/2006](#)

“33. When a monetary item forms part of a reporting

entity's net investment in a foreign operation and is denominated in the functional currency of the reporting entity, an exchange difference arises in the foreign operation's individual financial statements in accordance with paragraph 28. If such an item is denominated in the functional currency of the foreign operation, an exchange difference arises in the reporting entity's separate financial statements in accordance with paragraph 28. If such an item is denominated in a currency other than the functional currency of either the reporting entity or the foreign operation, an exchange difference arises in the reporting entity's separate financial statements and in the foreign operation's individual financial statements in accordance with paragraph 28. Such exchange differences are reclassified to the separate component of equity in the financial statements that include the foreign operation and the reporting entity (i.e. financial statements in which the foreign operation is consolidated, proportionately consolidated or accounted for using the equity method).”

[S 45/2006, wef 01/02/2006](#)

(ix) Insert, immediately after paragraph 58 of IAS 21, the following paragraph:

[S 45/2006, wef 01/02/2006](#)

**“58A. *Net Investment in a Foreign Operation***

**(Amendment to FRS 21), issued in 2006, added paragraph 15A and amended paragraph 33. An entity shall apply those amendments for annual periods beginning on or after 1 January 2006. Earlier application is encouraged.”.**

[S 45/2006, wef 01/02/2006](#)

FRS 23  
Borrowing Costs

IAS 23  
(revised 1993)  
Borrowing Costs

Delete paragraphs 1 to 31 of IAS 23 and substitute the following paragraphs:

[S 375/2007, wef 31/07/2007](#)

### **Core Principle**

**1. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset formed part of the cost of that asset. Other borrowing costs are recognised as an expense.**

[S 375/2007, wef 31/07/2007](#)

### **Scope**

**2. An entity shall apply this Standard in accounting for borrowing costs.**

[S 375/2007, wef 31/07/2007](#)

3. The Standard does not deal with the actual or imputed cost of equity, including preferred capital not classified as a liability.

[S 375/2007, wef](#)  
[31/07/2007](#)

4. An entity is not required to apply the Standard to borrowing costs directly attributable to the acquisition, construction or production of:

[S 375/2007, wef](#)  
[31/07/2007](#)

(a) a qualifying asset measured at fair value, for example a biological asset; or

[S 375/2007, wef](#)  
[31/07/2007](#)

(b) inventories that are manufactured, or otherwise produced, in large quantities on a repetitive basis.

[S 375/2007, wef](#)  
[31/07/2007](#)

#### **Definition**

**5. This Standard uses the following terms with the meanings specified:**

[S 375/2007, wef](#)  
[31/07/2007](#)

***Borrowing costs* are interest and other costs that an entity incurs in connection with the borrowing of funds.**

[S 375/2007, wef](#)  
[31/07/2007](#)

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

[S 375/2007, wef](#)  
[31/07/2007](#)

6. Borrowing Costs may include:

(a) interest on bank overdrafts and short-term and long-term borrowings;

(b) amortisation of discounts or premiums relating to borrowings;

(c) amortisation of ancillary costs incurred in connection with the arrangement of borrowings;

(d) finance charges in respect of finance leases recognised in accordance with FRS 17 Leases; and

(e) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

[S 375/2007, wef](#)  
[31/07/2007](#)

[S 375/2007, wef](#)  
[31/07/2007](#)

[S 375/2007, wef](#)  
[31/07/2007](#)

[S 375/2007, wef](#)  
[31/07/2007](#)

[S 375/2007, wef](#)  
[31/07/2007](#)

[S 375/2007, wef](#)

7. Depending on the circumstances, any of the following may be qualifying assets:

(a) inventories

(b) manufacturing plants

(c) power generation facilities

(d) intangible assets

[31/07/2007](#)

[S 375/2007, wef](#)  
[31/07/2007](#)

[S 375/2007, wef](#)  
[31/07/2007](#)

[S 375/2007, wef](#)  
[31/07/2007](#)

(e) investment properties.

Financial assets, and inventories that are manufactured, or otherwise produced, over a short period of time, are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

### **Recognition**

**8. An entity shall capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. An entity shall recognise other borrowing costs as an expense in the period in which it incurs them.**

9. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are included in the cost of that asset. Such borrowing costs are capitalised as part of the cost of the asset when it is probable that they will result in future economic benefits to the entity and the costs can be measured reliably. When an entity applies FRS 29 Financial Reporting in

Hyperinflationary Economies, it recognises as an expense the part of borrowing costs that compensates for inflation during the same period in accordance with paragraph 21 of that Standard.

[S 375/2007, wef](#)  
[31/07/2007](#)

### **Borrowing costs eligible for capitalisation**

10. The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are those borrowing costs that would have been avoided if the expenditure on the qualifying asset had not been made. When an entity borrows funds specifically for the purpose of obtaining a particular qualifying asset, the borrowing costs that directly relate to that qualifying asset can be readily identified.

[S 375/2007, wef](#)  
[31/07/2007](#)

11. It may be difficult to identify a direct relationship between particular borrowings and a qualifying asset and to determine the borrowings that could otherwise have been avoided. Such a difficulty occurs, for example, when the financing activity of an entity is co-ordinated centrally. Difficulties also arise when a group uses a range of debt instruments to borrow funds at varying rates of interest, and lends those funds on various bases to other entities in the

group. Other complications arise through the use of loans denominated in or linked to foreign currencies, when the group operates in highly inflationary economies, and from fluctuations in exchange rates. As a result, the determination of the amount of borrowing costs that are directly attributable to the acquisition of a qualifying asset is difficult and the exercise of judgement is required.

[S 375/2007, wef](#)  
[31/07/2007](#)

**12. To the extent that an entity borrows funds specifically for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.**

[S 375/2007, wef](#)  
[31/07/2007](#)

13. The financing arrangements for a qualifying asset may result in an entity obtaining borrowed funds and incurring associated borrowing costs before some or all of the funds are used for expenditures on the qualifying asset. In such circumstances, the funds are often temporarily invested pending their expenditure on the

qualifying asset. In determining the amount of borrowing costs eligible for capitalisation during a period, any investment income earned on such funds is deducted from the borrowing costs incurred.

[S 375/2007, wef](#)  
[31/07/2007](#)

**14. To the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that an entity capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.**

[S 375/2007, wef](#)  
[31/07/2007](#)

15. In some circumstances, it is appropriate to include all borrowings of the parent and its subsidiaries when computing a weighted average of the borrowing costs; in other circumstances, it is

appropriate for each subsidiary to use a weighted average of the borrowing costs applicable to its own borrowings.

[S 375/2007, wef](#)  
[31/07/2007](#)

**Excess of the carrying amount of the qualifying asset over recoverable amount**

16. When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or net realisable value, the carrying amount is written down or written off in accordance with the requirements of other Standards. In certain circumstances, the amount of the write-down or write-off is written back in accordance with those other Standards.

[S 375/2007, wef](#)  
[31/07/2007](#)

**Commencement of capitalisation**

**17. An entity shall begin capitalising borrowing costs as part of the cost of a qualifying asset on the commencement date. The commencement date for capitalisation is the date when the entity first meets all of the following conditions:**

[S 375/2007, wef](#)  
[31/07/2007](#)

**(a) it incurs expenditures for the asset;**

[S 375/2007, wef](#)  
[31/07/2007](#)

**(b) it incurs borrowing costs;  
and**

[S 375/2007, wef](#)  
[31/07/2007](#)

**(c) it undertakes activities  
that are necessary to  
prepare the asset for its  
intended use or sale.**

[S 375/2007, wef](#)  
[31/07/2007](#)

18. Expenditures on a qualifying asset include only those expenditures that have resulted in payments of cash, transfers of other assets or the assumption of interest-bearing liabilities. Expenditures are reduced by any progress payments received and grants received in connection with the asset (see FRS 20 Accounting for Government Grants and Disclosure of Government Assistance). The average carrying amount of the asset during a period, including borrowing costs previously capitalised, is normally a reasonable approximation of the expenditures to which the capitalisation rate is applied in that period.

[S 375/2007, wef](#)  
[31/07/2007](#)

19. The activities necessary to prepare the asset for its intended use or sale encompass more than the physical construction of the asset. They include technical and administrative work prior

to the commencement of physical construction, such as the activities associated with obtaining permits prior to the commencement of the physical construction. However, such activities exclude the holding of an asset when no production or development that changes the asset's condition is taking place. For example, borrowing costs incurred while land is under development are capitalised during the period in which activities related to the development are being undertaken. However, borrowing costs incurred while land acquired for building purposes is held without any associated development activity do not qualify for capitalisation.

[S 375/2007, wef](#)  
[31/07/2007](#)

### **Suspension of capitalisation**

**20. An entity shall suspend capitalisation of borrowing costs during extended periods in which it suspends active development of a qualifying asset.**

[S 375/2007, wef](#)  
[31/07/2007](#)

21. An entity may incur borrowing costs during an extended period in which it suspends the activities necessary to prepare an asset for its intended use or sale. Such costs are costs of holding partially completed assets and do not qualify for

capitalisation. However, an entity does not normally suspend capitalising borrowing costs during a period when it carries out substantial technical and administrative work. An entity also does not suspend capitalising borrowing costs when a temporary delay is a necessary part of the process of getting an asset ready for its intended use or sale. For example, capitalisation continues during the extended period that high water levels delay construction of a bridge, if such high water levels are common during the construction period in the geographical region involved.

[S 375/2007, wef](#)  
[31/07/2007](#)

### **Cessation of capitalisation**

**22. An entity shall cease capitalising borrowing costs when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.**

[S 375/2007, wef](#)  
[31/07/2007](#)

23. An asset is normally ready for its intended use or sale when the physical construction of the asset is complete even though routine administrative work might still continue. If minor modifications, such as the decoration of a property to the purchaser's or user's specification, are all that are

outstanding, this indicates that substantially all the activities are complete.

[S 375/2007, wef](#)  
[31/07/2007](#)

**24. When an entity completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity shall cease capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.**

[S 375/2007, wef](#)  
[31/07/2007](#)

25. A business park comprising several buildings, each of which can be used individually, is an example of a qualifying asset for which each part is capable of being usable while construction continues on other parts. An example of a qualifying asset that needs to be complete before any part can be used is an industrial plant involving several processes which are carried out in sequence at different parts of the plant within the same site, such as a steel mill.

[S 375/2007, wef](#)  
[31/07/2007](#)

## **Disclosure**

**26. An entity shall disclose:**

[S 375/2007, wef](#)  
[31/07/2007](#)

[S 375/2007, wef](#)  
[31/07/2007](#)

[S 375/2007, wef](#)  
[31/07/2007](#)

[S 375/2007, wef](#)  
[31/07/2007](#)

[S 375/2007, wef](#)  
[31/07/2007](#)

**(a) the amount of borrowing costs capitalised during the period; and**

**(b) the capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation**

### **Transitional provisions**

**27. When application of this Standard constitutes a change in accounting policy, an entity shall apply the Standard to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after the effective date.**

**28. However, an entity may designate any date before the effective date and apply the Standard to borrowing costs relating to all qualifying assets for which the commencement date for capitalisation is on or after that date.**

### **Effective date**

**29. An entity shall apply the Standard for annual periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the**

**Standard from a date before 1 January 2009, it shall disclose that fact.**

[S 375/2007, wef 31/07/2007](#)

**Withdrawal of IAS 23 (revised 1993)**

30. This Standard supersedes FRS 23 Borrowing Costs revised in 2004.

[S 375/2007, wef 31/07/2007](#)

FRS 24  
Related Party Disclosures

IAS 24  
(revised 2003)  
Related Party Disclosures

(i) Delete the Appendix to IAS 24.

(ii) Delete paragraph 24 of IAS 24 and substitute the following paragraph:

**“Withdrawal of FRS 24 (issued in 2003)**

24. This Standard supersedes FRS 24 Related Party Disclosures (issued in 2003).”.

(There is no modification on IAS 26.)

FRS 26  
Accounting and Reporting by Retirement Benefit Plans

IAS 26 (1987)  
(reformatted 1994)  
Accounting and Reporting by Retirement Benefit Plans

FRS 27  
Consolidated and Separate Financial Statements

IAS 27  
(revised 2003)  
Consolidated and Separate Financial Statements

(i) Delete the following words in paragraphs 10 (d) and 41 of IAS 27:

[S 124/2005, wef 16/03/2005](#)

“that comply with International Financial Reporting Standards”.

[S 124/2005, wef 16/03/2005](#)

(ii) Delete the words “revised in 2000” in paragraph 44 of IAS 27 and substitute the

		words “issued in 2003”.
		(iii) Delete any reference to paragraph 35 of the Framework and substitute a reference to paragraph 31 of the FRS Framework.
		(iv) Delete the words “revised 1997” in paragraph A3 of the Appendix to IAS 27 and substitute the words “issued in 2003”.
		(v) Delete “2003” in paragraphs A2 and A3 of the Appendix to IAS 27 and substitute in each case “2004”.
FRS 28 Investments in Associates	IAS 28 (revised 2003) Investments in Associates	(i) Delete the following words in paragraph 13 (c) (iv) of IAS 28:  “that comply with International Financial Reporting Standards”.
		(ii) Delete the words “revised in 2000” in paragraph 42 of IAS 28 and substitute the words “issued in 2003”.
FRS 29 Financial Reporting in Hyperinflationary Economies	IAS 29 (1989) (reformatted 1994) Financial Reporting in Hyperinflationary Economies	Delete paragraph 41 of IAS 29 and substitute the following paragraph:  “41. FRS 29, Financial Reporting in Hyperinflationary Economies, is operative for financial statements covering periods beginning on or after <i>1st April 2001</i> .”.
FRS 31 Interests in Joint Ventures	IAS 31 (revised 2003) Interests in Joint Ventures	(i) Delete the following words in paragraph 2 (c) (iv) of IAS 31:  “that comply with International Financial Reporting Standards”.

FRS 32  
Financial Instruments:  
Disclosure and  
Presentation

IAS 32  
(March 2004)  
Financial Instruments:  
Disclosure and  
Presentation

(ii) Delete paragraph 59 of IAS 31 and substitute the following paragraph:

**“Withdrawal of FRS 31  
(issued in 2003)”**

59. This Standard supersedes FRS 31 Financial Reporting of Interests in Joint Ventures (issued in 2003).”.

(iii) Delete “2003” in paragraph A1 of the Appendix to IAS 31 and substitute “2004”.

(i) Delete paragraph 96 of IAS 32 and substitute the following paragraph:

“96. An entity shall apply this Standard for annual periods beginning on or after 1 January 2005. Earlier application is permitted. An entity shall not apply this Standard for annual periods before 1 January 2005 unless it also applies FRS 39 (issued in 2004), including the amendments issued in September 2004. If an entity applies this Standard for a period beginning before 1 January 2005, it shall disclose that fact.”.

(ii) Delete the words “revised in 2000” in paragraph 98 of IAS 32 and substitute the words “issued in 2003”.

(iii) Delete paragraph 100 of IAS 32.

(iv) Delete sub-paragraph (d) of paragraph 4 in IAS 32 and substitute the following sub-

[S 2/2006, wef 03/01/2006](#)

paragraph:

***(d) insurance contracts as defined in FRS 104 Insurance Contracts. However, this Standard applies to derivatives that are embedded in insurance contracts if FRS 39 requires the entity to account for them separately. Moreover, an issuer shall apply this Standard to financial guarantee contracts if the issuer applies FRS 39 in recognising and measuring the contracts, but shall apply FRS 104 if the issuer elects, in accordance with paragraph 4 (d) of FRS 104, to apply FRS 104 in recognising and measuring them.”.***

[S 2/2006, wef 03/01/2006](#)

(v) Insert, immediately after the words “financial asset or financial liability at fair value through profit or loss” in paragraph 12 of IAS 32, the following words:

“• financial guarantee contract”.

[S 2/2006, wef 03/01/2006](#)

[S 2/2006, wef 03/01/2006](#)

(vi) Delete sub-paragraphs (b) and (c) of paragraph 66 in IAS 32, and substitute the following sub-paragraphs:

[S 2/2006, wef 03/01/2006](#)

“(b) the basis of measurement applied to financial assets and financial liabilities on initial recognition and subsequently;

[S 2/2006, wef 03/01/2006](#)

(c) the basis on which income and expenses arising from financial assets and financial liabilities are recognised and measured; and

[S 2/2006, wef 03/01/2006](#)

(d) for financial assets or financial liabilities designated as at fair value through profit or loss:

[S 2/2006, wef 03/01/2006](#)

(i) the criteria for so designating such financial assets or financial liabilities on initial recognition.

[S 2/2006, wef 03/01/2006](#)

(ii) how the entity has satisfied the conditions in paragraph 9, 11A or 12 of FRS 39 for such designation. For instruments designated in accordance with paragraph 9 (b) (i) of FRS 39, that disclosure includes a narrative description of the circumstances underlying the measurement or recognition inconsistency that would otherwise arise. For instruments designated in accordance with paragraph 9 (b) (ii) of FRS 39, that disclosure includes a narrative description of how designation as at fair value through profit or loss is consistent with the entity's documented risk management or investment strategy.

[S 2/2006, wef 03/01/2006](#)

(iii) the nature of the financial assets or financial liabilities

the entity has designated as at fair value through profit or loss.”.

[S 2/2006, wef 03/01/2006](#)

(vii) Re-number sub-paragraphs ( g) to (j) of paragraph 94 in IAS 32 as sub-paragraphs (j) to (m), delete sub-paragraphs (e) and (f) of paragraph 94 in IAS 32 and substitute the following sub-paragraphs:

[S 2/2006, wef 03/01/2006](#)

**“(e) An entity shall disclose the carrying amounts of:**

[S 2/2006, wef 03/01/2006](#)

**(i) financial assets that are classified as held for trading;**

[S 2/2006, wef 03/01/2006](#)

**(ii) financial liabilities that are classified as held for trading;**

[S 2/2006, wef 03/01/2006](#)

**(iii) financial assets that, upon initial recognition, were designated by the entity as financial assets at fair value through profit or loss (i.e. those that are not financial assets classified as held for trading);**

[S 2/2006, wef 03/01/2006](#)

**(iv) financial liabilities that, upon initial recognition, were designated by the entity as financial liabilities at fair value through profit or loss (i.e. those that are not financial liabilities classified as held for trading).**

[S 2/2006, wef 03/01/2006](#)

**(f) An entity shall disclose**

*separately net gains or net losses on financial assets or financial liabilities designated by the entity as at fair value through profit or loss.*

[S 2/2006, wef 03/01/2006](#)

*(g) If the entity has designated a loan or receivable (or group of loans or receivables) as at fair value through profit or loss, it shall disclose:*

[S 2/2006, wef 03/01/2006](#)

*(i) the maximum exposure to credit risk (see paragraph 76 (a)) at the reporting date of the loan or receivable (or group of loans or receivables),*

[S 2/2006, wef 03/01/2006](#)

*(ii) the amount by which any related credit derivative or similar instrument mitigates that maximum exposure to credit risk,*

[S 2/2006, wef 03/01/2006](#)

*(iii) the amount of change during the period and cumulatively in the fair value of the loan or receivable (or group of loans or receivables) that is attributable to changes in credit risk determined either as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk; or using an alternative method that more faithfully represents the amount of change in its fair value that is attributable to changes in credit risk,*

[S 2/2006, wef 03/01/2006](#)

***(iv) the amount of the change in the fair value of any related credit derivative or similar instrument that has occurred during the period and cumulatively since the loan or receivable was designated.***

[S 2/2006, wef 03/01/2006](#)

***(h) If the entity has designated a financial liability as at fair value through profit or loss, it shall disclose:***

[S 2/2006, wef 03/01/2006](#)

***(i) the amount of change during the period and cumulatively in the fair value of the financial liability that is attributable to changes in credit risk determined either as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk (see paragraph AG40); or using an alternative method that more faithfully represents the amount of change in its fair value that is attributable to changes in credit risk.***

[S 2/2006, wef 03/01/2006](#)

***(ii) the difference between the carrying amount of the financial liability and the amount the entity would be contractually required to pay at maturity to the holder of the obligation.***

[S 2/2006, wef 03/01/2006](#)

***(i) The entity shall disclose:***

[S 2/2006, wef 03/01/2006](#)

***(i) the methods used to comply with the requirement in (g) (iii) and (h) (i).***

[S 2/2006, wef 03/01/2006](#)

***(ii) if the entity considers that the disclosure it has given to comply with the requirements in (g) (iii) or (h) (i) does not faithfully represent the change in the fair value of the financial asset or financial liability attributable to changes in credit risk, the reasons for reaching this conclusion and the factors the entity believes to be relevant.”.***

[S 2/2006, wef 03/01/2006](#)

(viii) Delete paragraph AG40 in IAS 32 and substitute the following paragraph:

[S 2/2006, wef 03/01/2006](#)

“AG40. If an entity designates a financial liability or a loan or receivable (or group of loans or receivables) as at fair value through profit or loss, it is required to disclose the amount of change in the fair value of the financial instrument that is attributable to changes in credit risk. Unless an alternative method more faithfully represents this amount, the entity is required to determine this amount as the amount of change in the fair value of the financial instrument that is not attributable to changes in market conditions that give rise to market risk. Changes in market conditions that give

rise to market risk include changes in a benchmark interest rate, commodity price, foreign exchange rate or index of prices or rates. For contracts that include a unit-linking feature, changes in market conditions include changes in the performance of an internal or external investment fund. If the only relevant changes in market conditions for a financial liability are changes in an observed (benchmark) interest rate, this amount can be estimated as follows:

[S 2/2006, wef 03/01/2006](#)

(a) First, the entity computes the liability's internal rate of return at the start of the period using the observed market price of the liability and the liability's contractual cash flows at the start of the period. It deducts from this rate of return the observed (benchmark) interest rate at the start of the period, to arrive at an instrument-specific component of the internal rate of return.

[S 2/2006, wef 03/01/2006](#)

(b) Next, the entity calculates the present value of the cash flows associated with the liability using the liability's contractual cash flows at the start of the period and a discount rate equal to the sum of the observed (benchmark) interest rate at the end of the period and the instrument-specific component of the internal rate of return at the

start of the period as determined in (a).

[S 2/2006, wef 03/01/2006](#)

(c) The amount determined in (b) is then adjusted for any cash paid or received on the liability during the period and increased to reflect the increase in fair value that arises because the contractual cash flows are one period closer to their due date.

[S 2/2006, wef 03/01/2006](#)

(d) The difference between the observed market price of the liability at the end of the period and the amount determined in (c) is the change in fair value that is not attributable to changes in the observed (benchmark) interest rate. This is the amount to be disclosed.

[S 2/2006, wef 03/01/2006](#)

“The above example assumes that changes in fair value that do not arise from changes in the instrument's credit risk or from changes in interest rates are not significant. If, in the above example, the instrument contained an embedded derivative, the change in fair value of the embedded derivative would be excluded in determining the amount in paragraph 94 (h) (i).”;

[S 2/2006, wef 03/01/2006](#)

FRS 33  
Earnings per Share

IAS 33  
(revised 2003)  
Earnings per Share

(i) Delete “2003” in paragraph 34 of IAS 33 and substitute “2004”.

(ii) Delete “1997” in paragraph 75 of IAS 33 and

FRS 34  
Interim Financial  
Reporting

IAS 34 (1998)  
Interim Financial  
Reporting

substitute “2003”.

Delete paragraph 46 of IAS 34 and substitute the following paragraph:

“46. FRS 34, Interim Financial Reporting, is operative for financial statements covering periods beginning on or after ***1st October 2001***.”

FRS 36  
Impairment of Assets

IAS 36  
(March 2004)  
Impairment of Assets

(i) Delete any reference to “31 March 2004” and substitute “1 July 2004”.

(ii) Delete paragraph 139 of IAS 36 and substitute the following paragraph:

“139. Otherwise, an entity shall apply this Standard to goodwill and intangible assets acquired in business combinations and to all other assets prospectively for annual periods beginning on or after 1 July 2004.”

(iii) Delete paragraph 141 of IAS 36 and substitute the following paragraph:

**“Withdrawal of FRS 36 (issued 2003)**

141. This Standard supersedes FRS 36 *Impairment of Assets* (issued in 2003).”

(iv) Delete the paragraph immediately after the heading **“Amendment to IAS 16”** in Appendix B to IAS 36 and substitute the following paragraph:

*“The amendment in this appendix shall be applied when an entity applies FRS 16*

*Property, Plant and Equipment (as revised in 2004). It is superseded when FRS 36 Impairment of Assets (as revised in 2004) becomes effective. This appendix replaces the consequential amendments made by FRS 16 (as revised in 2004) to FRS 36 Impairment of Assets (issued in 2003). FRS 36 (as revised in 2004) incorporates the requirements of the paragraphs in this appendix. Consequently, the amendments from FRS 16 (as revised in 2004) are not necessary once an entity is subject to FRS 36 (as revised in 2004). Accordingly, this appendix is applicable only to entities that elect to apply FRS 16 (as revised in 2004) before its effective date.”.*

(v) Delete reference to “1998” in paragraph B1 of Appendix B to IAS 36 and substitute “2003”.

(vi) Delete the following words in paragraph B1 of Appendix B to IAS 36:

“In the IASC Basis for Conclusions, in paragraph B14 (b) (ii) a footnote is inserted after “incurred” at the end of the penultimate sentence, as follows:

\*IAS 16 *Property, Plant and Equipment* as revised by the IASB in 2003 requires all subsequent costs to be covered by its general recognition principle and eliminated the requirement to reference the

FRS 37  
Provisions, Contingent  
Liabilities and Contingent  
Assets

IAS 37 (1998)  
Provisions, Contingent  
Liabilities and Contingent  
Assets

originally assessed standard of performance. IAS 36 was amended as a consequence of the change to IAS 16.”.

Delete paragraphs 95 and 96 of IAS 37 and substitute the following paragraph:

“95. FRS 37, Provisions, Contingent Liabilities and Contingent Assets, is operative for financial statements covering periods beginning on or after *1st October 2000*.”.

FRS 38  
Intangible Assets

IAS 38  
(March 2004)  
Intangible Assets

(i) Delete reference to “1998” in paragraph 128 of IAS 38 and substitute “2003”.

(ii) Delete any reference to “31 March 2004” and substitute “1 July 2004”.

(iii) Delete the words in paragraph 130 of IAS 38 and substitute the following:

“130. Otherwise, an entity shall apply this Standard to the accounting for intangible assets acquired in business combinations and to all other intangible assets prospectively for annual periods beginning on or after 1 July 2004. Thus, the entity shall not adjust the carrying amount of intangible assets recognised at that date.

However, the entity shall, at that date, apply this Standard to reassess the useful lives of such intangible assets. If, as a result of that reassessment, the entity changes its assessment of the useful life of an asset, that change shall be accounted

FRS 39  
Financial  
Instruments: Recognition  
and Measurement

IAS 39  
(2005)  
Financial Instruments:  
Recognition and  
Measurement

[S 124/2005, wef  
16/03/2005](#)  
[S 546/2005, wef  
01/09/2005](#)

for as a change in an  
accounting estimate in  
accordance with FRS 8.”.

(iv) Delete paragraph 133 of  
IAS 38 and substitute the  
following paragraph:

**“Withdrawal of FRS 38  
(issued 2003)**

133. This Standard supersedes  
FRS 38 *Intangible Assets*  
(issued in 2003).”.

(i) Delete paragraphs 103 to  
110 of IAS 39 and substitute  
the following paragraphs:

[S 124/2005, wef 16/03/2005](#)

103. An entity shall apply this  
Standard (including the  
amendments issued in  
September 2004) for annual  
periods beginning on or after 1  
January 2005. Earlier  
application is permitted. An  
entity shall not apply this  
Standard (including the  
amendments issued in March  
2005) for annual periods  
beginning before 1 January  
2005 unless it also applies  
FRS 32 (issued in 2004). If an  
entity applies this Standard for  
a period beginning before 1  
January 2005, it shall disclose  
that fact.

[S 124/2005, wef 16/03/2005](#)

Early Adoption

103A. An entity that has  
adopted FRS 39 (issued 2003)  
before its effective date of 1  
January 2005 shall apply the  
transitional provisions set out  
in paragraphs 104 to 108,  
except for paragraphs 106A  
and 106B.

[S 124/2005, wef 16/03/2005](#)

104. This Standard shall be applied retrospectively except as specified in paragraphs 105, 106, 107, 107A and 108 (excluding paragraphs 106A and 106B). The opening balance of retained earnings for the earliest prior period presented and all other comparative amounts shall be adjusted as if this Standard had always been in use unless restating the information would be impracticable. If restatement is impracticable, the entity shall disclose that fact and indicate the extent to which the information was restated.

[S 124/2005, wef 16/03/2005](#)

105. When this Standard is first applied, an entity is permitted to designate a previously recognised financial asset or financial liability as a financial asset or financial liability at fair value through profit or loss or available for sale despite the requirement in paragraph 9 to make such designation upon initial recognition. For any such financial asset designated as available for sale, the entity shall recognise all cumulative changes in fair value in a separate component of equity until subsequent derecognition or impairment, when the entity shall transfer that cumulative gain or loss to profit or loss. For any financial instrument designated as at fair value through profit or loss or available for sale, the entity shall:

[S 124/2005, wef 16/03/2005](#)

(a) restate the financial asset or financial liability using the new designation in the comparative financial statements; and

[S 124/2005, wef 16/03/2005](#)

(b) disclose the fair value of the financial assets or financial liabilities designated into each category and the classification and carrying amount in the previous financial statements.

[S 124/2005, wef 16/03/2005](#)

106. An entity shall not adjust the carrying amount of non-financial assets and non-financial liabilities to exclude gains and losses related to cash flow hedges that were included in the carrying amount before the beginning of the financial year in which this Standard is first applied. At the beginning of the financial period in which this Standard is first applied, any amount recognised directly in equity for a hedge of a firm commitment that under this Standard is accounted for as a fair value hedge shall be reclassified as an asset or liability, except for a hedge of foreign currency risk that continues to be treated as a cash flow hedge.

[S 124/2005, wef 16/03/2005](#)

*First-time Adoption*

106A. When this Standard is first applied, an entity shall apply the transitional provisions set out in paragraphs 106B to 108. Early adoption shall be restricted to

annual periods beginning on or after 1 January 2003.

[S 124/2005, wef 16/03/2005](#)

106B. Retrospective application is not permitted (except as permitted by paragraph 108). The transition to this Standard is as follows:

[S 124/2005, wef 16/03/2005](#)

(a) recognition, derecognition, measurement and hedge accounting policies followed in financial statements for periods prior to the effective date of this Standard shall not be reversed and, therefore, those financial statements shall not be restated;

[S 124/2005, wef 16/03/2005](#)

(b) for those transactions entered into before the beginning of the financial year in which this Standard is initially applied that the entity did previously designate as hedges, the recognition, derecognition and measurement provisions of this Standard shall be applied prospectively. Therefore, if the previously designated hedge does not meet the conditions for an effective hedge set out in paragraph 88 and the hedging instrument is still held, hedge accounting shall no longer be appropriate starting with the beginning of the financial year in which this Standard is initially applied. Accounting in prior financial years shall not be retrospectively changed to conform to the requirements of this Standard. Paragraphs 91 and 101 explain how to

discontinue hedge accounting;

[S 124/2005, wef 16/03/2005](#)

(c) at the beginning of the financial year in which this Standard is initially applied, an entity shall recognise all derivatives in its balance sheet as either assets or liabilities and shall measure them at fair value (except for a derivative that is linked to and that must be settled by delivery of an unquoted equity instrument whose fair value cannot be measured reliably). Because all derivatives, other than those that are designated hedging instruments, are considered held for trading, the difference between previous carrying amount (which may have been zero) and fair value of derivatives shall be recognised as an adjustment of the balance of retained earnings at the beginning of the financial year in which this Standard is initially applied (other than for a derivative that is a designated hedging instrument);

[S 124/2005, wef 16/03/2005](#)

(d) at the beginning of the financial year in which this Standard is initially applied, an entity shall apply the criteria in paragraphs 43-54 to identify those financial assets and liabilities that shall be measured at fair value and those that shall be measured at amortised cost, and it shall remeasure those assets as appropriate. An entity is permitted to designate a

previously recognised financial asset or financial liability as a financial asset or financial liability at fair value through profit or loss or available for sale despite the requirement in paragraph 9 to make such designation upon initial recognition. For any such financial asset designated as available for sale, the entity shall recognise all cumulative changes in fair value in a separate component of equity until subsequent derecognition or impairment, when the entity shall transfer that cumulative gain or loss to profit or loss. Any adjustment of the previous carrying amount shall be recognised as an adjustment of the balance of retained earnings at the beginning of the financial year in which this Standard is initially applied;

[\*S 124/2005, wef 16/03/2005\*](#)

(e) at the beginning of the financial year in which this Standard is initially applied, any balance sheet positions in fair value hedges of existing assets and liabilities shall be accounted for by adjusting their carrying amounts to reflect the fair value of the hedging instrument;

[\*S 124/2005, wef 16/03/2005\*](#)

(f) if an entity's hedge accounting policies prior to initial application of this Standard had included deferral, as assets and liabilities, of gains or losses on cash flow hedges, at the beginning of the financial year

in which this Standard is initially applied, those deferred gains and losses shall be reclassified as a separate component of equity to the extent that the transactions meet the criteria in paragraph 88 and, thereafter, accounted for as set out in paragraphs 97-100; and

[S 124/2005, wef 16/03/2005](#)

(g) transactions entered into before the beginning of the financial year in which this Standard is initially applied shall not be retrospectively designated as hedges.

[S 124/2005, wef 16/03/2005](#)

Early Adoption and First-time Adoption

107. Except as permitted by paragraph 108, an entity shall apply the derecognition requirements in paragraphs 15-37 and Appendix A paragraphs AG36-AG52 prospectively. Accordingly, if an entity derecognised financial assets under FRS 39 (issued 2003) as a result of a transaction that occurred before 1 January 2004 and those assets would not have been derecognised under this Standard, it shall not recognise those assets.

[S 124/2005, wef 16/03/2005](#)

107A. Notwithstanding paragraph 104, an entity may apply the requirements in the last sentence of paragraph AG76, and paragraph AG76A, in either of the following ways:

[S 124/2005, wef 16/03/2005](#)

(a) prospectively to

transactions entered into after 25 October 2002; or

[\*S 124/2005, wef 16/03/2005\*](#)

(b) prospectively to transactions entered into after 1 January 2004.

[\*S 124/2005, wef 16/03/2005\*](#)

108. Notwithstanding paragraph 107, an entity may apply the derecognition requirements in paragraphs 15-37 and Appendix A paragraphs AG36-AG52 retrospectively from a date of the entity's choosing, provided that the information needed to apply FRS 39 to assets and liabilities derecognised as a result of past transactions was obtained at the time of initially accounting for those transactions.

[\*S 124/2005, wef 16/03/2005\*](#)

109. This Standard supersedes FRS 39 Financial Instruments: Recognition and Measurement issued in 2003.

[\*S 124/2005, wef 16/03/2005\*](#)

“(ii) Delete paragraph 80 of IAS 39 and substitute the following paragraph:

[\*S 546/2005, wef 01/09/2005\*](#)

“80. For hedge accounting purposes, only assets, liabilities, firm commitments or highly probable forecast transactions that involve a party external to the entity can be designated as hedged items. It follows that hedge accounting can be applied to transactions between entities or segments in the same group only in the individual or

separate financial statements of those entities or segments and not in the consolidated financial statements of the group. As an exception, the foreign currency risk of an intragroup monetary item (e.g. a payable/receivable between two subsidiaries) may qualify as a hedged item in the consolidated financial statements if it results in an exposure to foreign exchange rate gains or losses that are not fully eliminated on consolidation in accordance with FRS 21 *The Effects of Changes in Foreign Exchange Rates*. In accordance with FRS 21, foreign exchange rate gains and losses on intragroup monetary items are not fully eliminated on consolidation when the intragroup monetary item is transacted between two group entities that have different functional currencies. In addition, the foreign currency risk of a highly probable forecast intragroup transaction may qualify as a hedged item in consolidated financial statements provided that the transaction is

[S 546/2005, wef 01/09/2005](#)

AG76A. The subsequent measurement of the financial asset or financial liability and the subsequent recognition of gains and losses shall be consistent with the requirements of this Standard. The application of paragraph AG76 may result in no gain or loss being recognised on the initial recognition of a

financial asset or financial liability. In such a case, FRS 39 requires that a gain or loss shall be recognised after initial recognition only to the extent that it arises from a change in a factor (including time) that market participants would consider in setting a price.

[S 124/2005, wef 16/03/2005](#)

(iii) Delete “2004” in paragraph B1 of Appendix B to IAS 39 and substitute “2005”.

[S 124/2005, wef 16/03/2005](#)

(iv) Delete the heading “Basis for Conclusions” in paragraph B1 of Appendix B to IAS 39 and all paragraphs thereunder.

[S 124/2005, wef 16/03/2005](#)

(v) Delete paragraph B4 and the heading “Amendments to IAS 19” immediately before the paragraph in Appendix B to IAS 39.

[S 124/2005, wef 16/03/2005](#)

(vi) Delete the heading “Basis for Conclusions” in paragraph B6 of Appendix B to IAS 39 and all paragraphs thereunder.

[S 124/2005, wef 16/03/2005](#)

(vii) Delete the heading “Amendments to IAS 30” before paragraph B5 of Appendix B to IAS 39 and all paragraphs thereunder.

[S 124/2005, wef 16/03/2005](#)

“(viii) Insert, immediately after paragraph 108 of IAS 39, the following paragraphs:

**108A.** An entity shall apply the last sentence of paragraph 80, and paragraphs AG99A and AG99B, for annual

periods beginning on or after 1 January 2006. Earlier application is encouraged. If an entity has designated as the hedged item an external forecast transaction that (a) is denominated in the functional currency of the entity entering into the transaction, (b) gives rise to an exposure that will have an effect on consolidated profit or loss (i.e. is denominated in a currency other than the group's presentation currency), and (c) would have qualified for hedge accounting had it not been denominated in the functional currency of the entity entering into it, it may apply hedge accounting in the consolidated financial statements in the period(s) before the date of application of the last sentence of paragraph 80, and paragraphs AG99A and AG99B.

**108B.** An entity need not apply paragraph AG99B to comparative information relating to periods before the date of application of the last sentence of paragraph 80 and paragraph AG99A.”.

[S 546/2005, wef](#)  
[01/09/2005](#)

“(ix) Re-number paragraphs AG99A and AG99B in Appendix A of IAS 39 as paragraphs AG99C and AG99D, respectively.”

[S 546/2005, wef](#)  
[01/09/2005](#)

“(x) Insert, immediately after paragraph AG99 in Appendix

A of IAS 39, the following paragraphs:  
AG99A. Paragraph 80 states that in consolidated financial statements the foreign currency risk of a highly probable forecast intragroup transaction may qualify as a hedged item in a cash flow hedge, provided the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit or loss. For this purpose an entity can be a parent, subsidiary, associate, joint venture or branch. If the foreign currency risk of a forecast intragroup transaction does not affect consolidated profit or loss, the intragroup transaction cannot qualify as a hedged item. This is usually the case for royalty payments, interest payments or management charges between members of the same group unless there is a related external transaction. However, when the foreign currency risk of a forecast intragroup transaction will affect consolidated profit or loss, the intragroup transaction can qualify as a hedged item. An example is forecast sales or purchases of inventories between members of the same group if there is an onward sale of the inventory to a party external to the group.”.

“Similarly, a forecast intragroup sale of plant and equipment from the group entity that manufactured it to a group entity that will use the plant and equipment in its operations may affect consolidated profit or loss. This could occur, for example, because the plant and equipment will be depreciated by the purchasing entity and the amount initially recognised for the plant and equipment may change if the forecast intragroup transaction is denominated in a currency other than the functional currency of the purchasing entity.

AG99B. If a hedge of a forecast intragroup transaction qualifies for hedge accounting, any gain or loss that is recognised directly in equity in accordance with paragraph 95 (a) shall be reclassified into profit or loss in the same period or periods during which the foreign currency risk of the hedged transaction affects consolidated profit or loss.”.

[S 546/2005, wef](#)  
[01/09/2005](#)

“(xi) Insert, immediately after paragraph AG132 in Appendix A of IAS 39, the following paragraph:

**“Transition (paragraphs 103-108A)**

AG133. An entity may have designated a forecast intragroup transaction as a hedged item at the start of an

annual period beginning on or after 1 January 2005 (or, for the purpose of restating comparative information, the start of an earlier comparative period) in a hedge that would qualify for hedge accounting in accordance with this Standard (as amended by the last sentence of paragraph 80). Such an entity may use that designation to apply hedge accounting in consolidated financial statements from the start of the annual period beginning on or after 1 January 2005 (or the start of the earlier comparative period). Such an entity shall also apply paragraphs AG99A and AG99B from the start of the annual period beginning on or after 1 January 2005. However, in accordance with paragraph 108B, it need not apply paragraph AG99B to comparative information for earlier periods.“.”;

[S 546/2005, wef 01/09/2005](#)

(xii) Delete paragraph 3 of IAS 39.

[S 2/2006, wef 03/01/2006](#)

(xiii) Delete sub-paragraphs 2 (e) and 2 (h) of IAS 39 and substitute the following sub-paragraphs:

[S 2/2006, wef 03/01/2006](#)

**“(e)rights and obligations arising under (i) an insurance contract as defined in FRS 104Insurance Contracts, other than an issuer’s rights**

**and obligations arising under an insurance contract that meets the definition of a financial guarantee contract in paragraph 9, or (ii) a contract that is within the scope of FRS 104 because it contains a discretionary participation feature. However, this Standard applies to a derivative that is embedded in a contract within the scope of FRS 104 if the derivative is not itself a contract within the scope of FRS 104 (see paragraphs 10–13 and Appendix A paragraphs AG27-AG33). Moreover, if an issuer of financial guarantee contracts has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts, the issuer may elect to apply either this Standard or FRS 104 to such financial guarantee contracts (see paragraphs AG4 and AG4A). The issuer may make that election contract by contract, but the election for each contract is irrevocable.**

[S 2/2006, wef 03/01/2006](#)

**(h) loan commitments other than those loan commitments described in paragraph 4. An issuer of loan commitments shall apply FRS 37 to loan commitments that are not within the scope of this**

**Standard. However, all loan commitments are subject to the derecognition provisions of this Standard (see paragraphs 15-42 and Appendix A paragraphs AG36-AG63).”.**

[S 2/2006, wef 03/01/2006](#)

(xiv) Delete paragraph 4 of IAS 39 and substitute the following paragraph:

[S 2/2006, wef 03/01/2006](#)

**“4. The following loan commitments are within the scope of this Standard:**

[S 2/2006, wef 03/01/2006](#)

**(a) loan commitments that the entity designates as financial liabilities at fair value through profit or loss. An entity that has a past practice of selling the assets resulting from its loan commitments shortly after origination shall apply this Standard to all its loan commitments in the same class.**

[S 2/2006, wef 03/01/2006](#)

**(b) loan commitments that can be settled net in cash or by delivering or issuing another financial instrument. These loan commitments are derivatives. A loan commitment is not regarded as settled net merely because the loan is paid out in instalments (for example, a mortgage construction loan that is paid out in instalments in line with the progress of construction).**

[S 2/2006, wef 03/01/2006](#)

**(c) commitments to provide a loan at a below-market interest rate. Paragraph 47 (d) specifies the subsequent measurement of liabilities arising from these loan commitments.”.**

[S 2/2006, wef 03/01/2006](#)

(xv) Delete sub-paragraphs (a) (iii) and (b) of paragraph 9 in IAS 39 under the heading **‘Definitions of Four Categories of Financial Instruments’** and substitute the following sub-paragraphs:

[S 2/2006, wef 03/01/2006](#)

***“(iii) a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).***

[S 2/2006, wef 03/01/2006](#)

***(b) Upon initial recognition it is designated by the entity as at fair value through profit or loss. An entity may use this designation only when permitted by paragraph 11A, or when doing so results in more relevant information, because either:***

[S 2/2006, wef 03/01/2006](#)

***(i) it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as “an accounting mismatch”) that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different***

[S 2/2006, wef 03/01/2006](#)

bases; or

*(ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel (as defined in FRS 24 Related Party Disclosures (as revised in 2004)), for example the entity's board of directors and chief executive officer.*

[S 2/2006, wef 03/01/2006](#)

*In FRS 32, paragraphs 66, 94 and AG40 require the entity to provide disclosures about financial assets and financial liabilities it has designated as at fair value through profit or loss, including how it has satisfied these conditions. For instruments qualifying in accordance with (ii) above, that disclosure includes a narrative description of how designation as at fair value through profit or loss is consistent with the entity's documented risk management or investment strategy.*

[S 2/2006, wef 03/01/2006](#)

*Investments in equity instruments that do not have a quoted market price in an active market, and whose fair*

*value cannot be reliably measured (see paragraph 46 (c) and Appendix A paragraphs AG80 and AG81), shall not be designated as at fair value through profit or loss.*

[S 2/2006, wef 03/01/2006](#)

*It should be noted that paragraphs 48, 48A, 49 and Appendix A paragraphs AG69-AG82, which set out requirements for determining a reliable measure of the fair value of a financial asset or financial liability, apply equally to all items that are measured at fair value, whether by designation or otherwise, or whose fair value is disclosed.”.*

[S 2/2006, wef 03/01/2006](#)

(xvi) Insert the following heading and words in paragraph 9 of IAS 39, immediately before the heading ‘**Definitions Relating to Recognition and Measurement**’:

[S 2/2006, wef 03/01/2006](#)

**“Definition of a financial guarantee contract**

[S 2/2006, wef 03/01/2006](#)

**A *financial guarantee contract* is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.”.**

[S 2/2006, wef 03/01/2006](#)

(xvii) Delete paragraphs 12 and 13 in IAS 39 and insert, immediately after paragraph 11 of IAS 39, the following paragraphs:

[S 2/2006, wef 03/01/2006](#)

***“11A. Notwithstanding paragraph 11, if a contract contains one or more embedded derivatives, an entity may designate the entire hybrid (combined) contract as a financial asset or financial liability at fair value through profit or loss unless:***

[S 2/2006, wef 03/01/2006](#)

***(a) the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or***

[S 2/2006, wef 03/01/2006](#)

***(b) it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative(s) is prohibited, such as a prepayment option embedded in a loan that permits the holder to prepay the loan for approximately its amortised cost.***

[S 2/2006, wef 03/01/2006](#)

***12. If an entity is required by this Standard to separate an embedded derivative from its host contract, but is unable to measure the embedded derivative separately either at acquisition or at a subsequent***

*financial reporting date, it shall designate the entire hybrid (combined) contract as at fair value through profit or loss.*

[S 2/2006, wef 03/01/2006](#)

13. If an entity is unable to determine reliably the fair value of an embedded derivative on the basis of its terms and conditions (for example, because the embedded derivative is based on an unquoted equity instrument), the fair value of the embedded derivative is the difference between the fair value of the hybrid (combined) instrument and the fair value of the host contract, if those can be determined under this Standard. If the entity is unable to determine the fair value of the embedded derivative using this method, paragraph 12 applies and the hybrid (combined) instrument is designated as at fair value through profit or loss.”.

[S 2/2006, wef 03/01/2006](#)

(xviii) Delete paragraph 47 of IAS 39 and substitute the following paragraph:

[S 2/2006, wef 03/01/2006](#)

**“47. After initial recognition, an entity shall measure all financial liabilities at amortised cost using the effective interest method, except for:**

[S 2/2006, wef 03/01/2006](#)

**(a) financial liabilities at fair value through profit or loss. Such liabilities, including**

**derivatives that are liabilities, shall be measured at fair value except for a derivative liability that is linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured which shall be measured at cost.**

[S 2/2006, wef 03/01/2006](#)

**(b) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies. Paragraphs 29 and 31 apply to the measurement of such financial liabilities.**

[S 2/2006, wef 03/01/2006](#)

**(c) financial guarantee contracts as defined in paragraph 9. After initial recognition, an issuer of such a contract shall (unless paragraph 47 (a) or (b) applies) measure it at the higher of:**

[S 2/2006, wef 03/01/2006](#)

**(i) the amount determined in accordance with FRS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and**

[S 2/2006, wef 03/01/2006](#)

**(ii) the amount initially recognised (see paragraph 43) less, when appropriate, cumulative amortisation recognised in accordance with FRS 18 *Revenue*.**

[S 2/2006, wef 03/01/2006](#)

**(d) commitments to provide a loan at a below-market interest rate. After initial recognition, an issuer of such a commitment shall (unless paragraph 47 (a) applies) measure it at the higher of:**

[S 2/2006, wef 03/01/2006](#)

**(i) the amount determined in accordance with FRS 37; and**

[S 2/2006, wef 03/01/2006](#)

**(ii) the amount initially recognised (see paragraph 43) less, when appropriate, cumulative amortisation recognised in accordance with FRS 18.**

[S 2/2006, wef 03/01/2006](#)

**Financial liabilities that are designated as hedged items are subject to the hedge accounting requirements in paragraphs 89-102.”.**

[S 2/2006, wef 03/01/2006](#)

(xix) Insert, immediately after paragraph 48 of IAS 39, the following paragraph:

[S 2/2006, wef 03/01/2006](#)

“48A. The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, an entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal

business considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.”.

[S 2/2006, wef 03/01/2006](#)

(xx) Insert, immediately after paragraph 103A of IAS 39, the following paragraph:

[S 2/2006, wef 03/01/2006](#)

**“103B. *Financial Guarantee Contracts (Amendments to FRS 39 and FRS 104)*, issued in January 2006, amended paragraphs 2 (e) and (h), 4, 47 and AG4, added paragraph AG4A, added a new definition of financial guarantee contracts in paragraph 9, and deleted paragraph 3. An entity shall apply those amendments for annual periods beginning on or after 1 January 2006. Earlier application is encouraged. If an entity applies these changes for an earlier period, it shall disclose that fact and apply the related amendments to FRS 32 and FRS 104 at the same time.”**

[S 2/2006, wef 03/01/2006](#)

(xxi) Delete paragraph 105 in IAS 39 and substitute the following paragraphs:

[S 2/2006, wef 03/01/2006](#)

***“105. When this Standard is first applied, an entity is permitted to designate a previously recognised financial asset as available for sale. For any such financial asset the entity shall recognise all cumulative changes in fair value in a separate component of equity until subsequent derecognition or impairment, when the entity shall transfer that cumulative gain or loss to profit or loss. The entity shall also:***

[S 2/2006, wef 03/01/2006](#)

**(a) restate the financial asset using the new designation in the comparative financial statements; and**

[S 2/2006, wef 03/01/2006](#)

**(b) disclose the fair value of the financial assets at the date of designation and their classification and carrying amount in the previous financial statements.**

[S 2/2006, wef 03/01/2006](#)

**105A. An entity shall apply paragraphs 11A, 48A, AG4B-AG4K, AG33A and AG33B and the January 2006 amendments in paragraphs 9, 12 and 13 for annual periods beginning on or after 1 January 2006. Earlier application is encouraged.**

[S 2/2006, wef 03/01/2006](#)

**105B. An entity that first applies paragraphs 11A, 48A, AG4B-AG4K, AG33A and AG33B and the January 2006 amendments in paragraphs 9, 12 and 13 in its annual period beginning before 1 January 2006:**

[S 2/2006, wef 03/01/2006](#)

**(a) is permitted, when those new and amended paragraphs are first applied, to designate as at fair value through profit or loss any previously recognised financial asset or financial liability that then qualifies for such designation. When the annual period begins before 1 September 2005, such**

*designations need not be completed until 1 September 2005 and may also include financial assets and financial liabilities recognised between the beginning of that annual period and 1 September 2005. Notwithstanding paragraph 91, any financial assets and financial liabilities designated as at fair value through profit or loss in accordance with this sub-paragraph that were previously designated as the hedged item in fair value hedge accounting relationships shall be de-designated from those relationships at the same time they are designated as at fair value through profit or loss.*

[S 2/2006, wef 03/01/2006](#)

*(b) shall disclose the fair value of any financial assets or financial liabilities designated in accordance with sub-paragraph (a) at the date of designation and their classification and carrying amount in the previous financial statements.*

[S 2/2006, wef 03/01/2006](#)

*(c) shall de-designate any financial asset or financial liability previously designated as at fair value through profit or loss if it does not qualify for such designation in accordance with those new and amended paragraphs. When a financial asset or financial liability will be measured at amortised cost after de-designation, the date*

*of de-designation is deemed to be its date of initial recognition.*

[S 2/2006, wef 03/01/2006](#)

*(d) shall disclose the fair value of any financial assets or financial liabilities de-designated in accordance with sub-paragraph (c) at the date of de-designation and their new classifications.*

[S 2/2006, wef 03/01/2006](#)

*105C. An entity that first applies paragraphs 11A, 48A, AG4B-AG4K, AG33A and AG33B and the January 2006 amendments in paragraphs 9, 12 and 13 in its annual period beginning on or after 1 January 2006*

[S 2/2006, wef 03/01/2006](#)

*(a) shall de-designate any financial asset or financial liability previously designated as at fair value through profit or loss only if it does not qualify for such designation in accordance with those new and amended paragraphs. When a financial asset or financial liability will be measured at amortised cost after de-designation, the date of de-designation is deemed to be its date of initial recognition.*

[S 2/2006, wef 03/01/2006](#)

*(b) shall not designate as at fair value through profit or loss any previously recognised financial assets or financial liabilities.*

[S 2/2006, wef 03/01/2006](#)

***(c) shall disclose the fair value of any financial assets or financial liabilities de-designated in accordance with sub-paragraph (a) at the date of de-designation and their new classifications.***

[S 2/2006, wef 03/01/2006](#)

***105D. An entity shall restate its comparative financial statements using the new designations in paragraph 105B or 105C provided that, in the case of a financial asset, financial liability, or group of financial assets, financial liabilities or both, designated as at fair value through profit or loss, those items or groups would have met the criteria in paragraph 9 (b) (i), 9 (b) (ii) or 11A at the beginning of the comparative period or, if acquired after the beginning of the comparative period, would have met the criteria in paragraph 9 (b) (i), 9 (b) (ii) or 11A at the date of initial recognition.”.***

[S 2/2006, wef 03/01/2006](#)

(xxii) Insert, immediately after paragraph AG3 of IAS 39, the following paragraph:

[S 2/2006, wef 03/01/2006](#)

“AG3A. This Standard applies to the financial assets and financial liabilities of insurers, other than rights and obligations that paragraph 2 (e) excludes because they arise under contracts within the scope of FRS 104.”.

[S 2/2006, wef 03/01/2006](#)

(xxiii) Delete paragraphs AG4 and AG4A of IAS 39 and substitute the following paragraphs:

[S 2/2006, wef 03/01/2006](#)

“AG4. Financial guarantee contracts may have various legal forms, such as a guarantee, some types of letter of credit, a credit default contract or an insurance contract. Their accounting treatment does not depend on their legal form. The following are examples of the appropriate treatment (see paragraph 2 (e)):

[S 2/2006, wef 03/01/2006](#)

(a) Although a financial guarantee contract meets the definition of an insurance contract in FRS 104 if the risk transferred is significant, the issuer applies this Standard. Nevertheless, if the issuer has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts, the issuer may elect to apply either this Standard or FRS 104 to such financial guarantee contracts. If this Standard applies, paragraph 43 requires the issuer to recognise a financial guarantee contract initially at fair value. If the financial guarantee contract was issued to an unrelated party in a stand-alone arm's length transaction, its fair value at inception is likely to equal the premium received, unless there is evidence to the

contrary. Subsequently, unless the financial guarantee contract was designated at inception as at fair value through profit or loss or unless paragraphs 29-37 and AG47-AG52 apply (when a transfer of a financial asset does not qualify for derecognition or the continuing involvement approach applies), the issuer measures it at the higher of:

[S 2/2006, wef 03/01/2006](#)

(i) the amount determined in accordance with FRS 37; and

[S 2/2006, wef 03/01/2006](#)

(ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with FRS 18 (see paragraph 47 (c)).

[S 2/2006, wef 03/01/2006](#)

(b) Some credit-related guarantees do not, as a precondition for payment, require that the holder is exposed to, and has incurred a loss on, the failure of the debtor to make payments on the guaranteed asset when due. An example of such a guarantee is one that requires payments in response to changes in a specified credit rating or credit index. Such guarantees are not financial guarantee contracts, as defined in this Standard, and are not insurance contracts, as defined in FRS 104. Such guarantees are derivatives and the issuer applies this Standard to them.

[S 2/2006, wef 03/01/2006](#)

(c) If a financial guarantee contract was issued in connection with the sale of goods, the issuer applies FRS 18 in determining when it recognises the revenue from the guarantee and from the sale of goods.

[S 2/2006, wef 03/01/2006](#)

AG4A. Assertions that an issuer regards contracts as insurance contracts are typically found throughout the issuer's communications with customers and regulators, contracts, business documentation and financial statements. Furthermore, insurance contracts are often subject to accounting requirements that are distinct from the requirements for other types of transaction, such as contracts issued by banks or commercial companies. In such cases, an issuer's financial statements typically include a statement that the issuer has used those accounting requirements.”.

[S 2/2006, wef 03/01/2006](#)

(xxiv) Insert, immediately after the heading **‘Definitions (paragraphs 8 and 9)’** after paragraph AG4A of IAS 39, the following heading and paragraphs:

[S 2/2006, wef 03/01/2006](#)

**“Designation as at Fair Value through Profit or Loss**

[S 2/2006, wef 03/01/2006](#)

AG4B. Paragraph 9 of this Standard allows an entity to designate a financial asset, a

financial liability, or a group of financial instruments (financial assets, financial liabilities or both) as at fair value through profit or loss provided that doing so results in more relevant information.

[S 2/2006, wef 03/01/2006](#)

AG4C. The decision of an entity to designate a financial asset or financial liability as at fair value through profit or loss is similar to an accounting policy choice (although, unlike an accounting policy choice, it is not required to be applied consistently to all similar transactions). When an entity has such a choice, paragraph 14 (b) of FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires the chosen policy to result in the financial statements providing reliable and more relevant information about the effects of transactions, other events and conditions on the entity's financial position, financial performance or cash flows. In the case of designation as at fair value through profit or loss, paragraph 9 sets out the two circumstances when the requirement for more relevant information will be met. Accordingly, to choose such designation in accordance with paragraph 9, the entity needs to demonstrate that it falls within one (or both) of these two circumstances.

[S 2/2006, wef 03/01/2006](#)

*Paragraph 9 (b) (i):  
Designation eliminates or  
significantly reduces a  
measurement or recognition  
inconsistency that would  
otherwise arise*

[S 2/2006, wef 03/01/2006](#)

AG4D. Under FRS 39, measurement of a financial asset or financial liability and classification of recognised changes in its value are determined by the item's classification and whether the item is part of a designated hedging relationship. Those requirements can create a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') when, for example, in the absence of designation as at fair value through profit or loss, a financial asset would be classified as available for sale (with most changes in fair value recognised directly in equity) and a liability the entity considers related would be measured at amortised cost (with changes in fair value not recognised). In such circumstances, an entity may conclude that its financial statements would provide more relevant information if both the asset and the liability were classified as at fair value through profit or loss.

[S 2/2006, wef 03/01/2006](#)

AG4E. The following examples show when this condition could be met. In all cases, an entity may use this

condition to designate financial assets or financial liabilities as at fair value through profit or loss only if it meets the principle in paragraph 9 (b) (i).

[S 2/2006, wef 03/01/2006](#)

(a) An entity has liabilities whose cash flows are contractually based on the performance of assets that would otherwise be classified as available for sale. For example, an insurer may have liabilities containing a discretionary participation feature that pay benefits based on realised and/or unrealised investment returns of a specified pool of the insurer's assets. If the measurement of those liabilities reflects current market prices, classifying the assets as at fair value through profit or loss means that changes in the fair value of the financial assets are recognised in profit or loss in the same period as related changes in the value of the liabilities.

[S 2/2006, wef 03/01/2006](#)

(b) An entity has liabilities under insurance contracts whose measurement incorporates current information (as permitted by FRS 104 *Insurance Contracts*, paragraph 24), and financial assets it considers related that would otherwise be classified as available for sale or measured at amortised cost.

[S 2/2006, wef 03/01/2006](#)

(c) An entity has financial

assets, financial liabilities or both that share a risk, such as interest rate risk, that gives rise to opposite changes in fair value that tend to offset each other. However, only some of the instruments would be measured at fair value through profit or loss (i.e. are derivatives, or are classified as held for trading). It may also be the case that the requirements for hedge accounting are not met, for example because the requirements for effectiveness in paragraph 88 are not met.

[S 2/2006, wef 03/01/2006](#)

(d) An entity has financial assets, financial liabilities or both that share a risk, such as interest rate risk, that gives rise to opposite changes in fair value that tend to offset each other and the entity does not qualify for hedge accounting because none of the instruments is a derivative. Furthermore, in the absence of hedge accounting there is a significant inconsistency in the recognition of gains and losses. For example:

[S 2/2006, wef 03/01/2006](#)

(i) the entity has financed a portfolio of fixed rate assets that would otherwise be classified as available for sale with fixed rate debentures whose changes in fair value tend to offset each other. Reporting both the assets and the debentures at fair value through profit or loss corrects the inconsistency that would

otherwise arise from measuring the assets at fair value with changes reported in equity and the debentures at amortised cost.

[S 2/2006, wef 03/01/2006](#)

(ii) the entity has financed a specified group of loans by issuing traded bonds whose changes in fair value tend to offset each other. If, in addition, the entity regularly buys and sells the bonds but rarely, if ever, buys and sells the loans, reporting both the loans and the bonds at fair value through profit or loss eliminates the inconsistency in the timing of recognition of gains and losses that would otherwise result from measuring them both at amortised cost and recognising a gain or loss each time a bond is repurchased.

[S 2/2006, wef 03/01/2006](#)

AG4F. In cases such as those described in the preceding paragraph, to designate, at initial recognition, the financial assets and financial liabilities not otherwise so measured as at fair value through profit or loss may eliminate or significantly reduce the measurement or recognition inconsistency and produce more relevant information. For practical purposes, the entity need not enter into all of the assets and liabilities giving rise to the measurement or recognition inconsistency at exactly the same time. A reasonable delay

is permitted provided that each transaction is designated as at fair value through profit or loss at its initial recognition and, at that time, any remaining transactions are expected to occur.

[S 2/2006, wef 03/01/2006](#)

AG4G. It would not be acceptable to designate only some of the financial assets and financial liabilities giving rise to the inconsistency as at fair value through profit or loss if to do so would not eliminate or significantly reduce the inconsistency and would therefore not result in more relevant information. However, it would be acceptable to designate only some of a number of similar financial assets or similar financial liabilities if doing so achieves a significant reduction (and possibly a greater reduction than other allowable designations) in the inconsistency. For example, assume an entity has a number of similar financial liabilities that sum to CU100\* and a number of similar financial assets that sum to CU50 but are measured on a different basis. The entity may significantly reduce the measurement inconsistency by designating at initial recognition all of the assets but only some of the liabilities (for example, individual liabilities with a combined total of CU45) as at fair value through profit or loss.

However, because designation as at fair value through profit or loss can be applied only to the whole of a financial instrument, the entity in this example must designate one or more liabilities in their entirety. It could not designate either a component of a liability (e.g. changes in value attributable to only one risk, such as changes in a benchmark interest rate) or a proportion (i.e. percentage) of a liability.

[S 2/2006, wef 03/01/2006](#)

\*In this Standard, monetary amounts are denominated in 'currency units' (CU).

[S 2/2006, wef 03/01/2006](#)

*Paragraph 9 (b) (ii): A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy*

[S 2/2006, wef 03/01/2006](#)

AG4H. An entity may manage and evaluate the performance of a group of financial assets, financial liabilities or both in such a way that measuring that group at fair value through profit or loss results in more relevant information. The focus in this instance is on the way the entity manages and evaluates performance, rather than on the nature of its financial instruments.

[S 2/2006, wef 03/01/2006](#)

AG4I. The following

examples show when this condition could be met. In all cases, an entity may use this condition to designate financial assets or financial liabilities as at fair value through profit or loss only if it meets the principle in paragraph 9 (b) (ii).

[S 2/2006, wef 03/01/2006](#)

(a) The entity is a venture capital organisation, mutual fund, unit trust or similar entity whose business is investing in financial assets with a view to profiting from their total return in the form of interest or dividends and changes in fair value. FRS 28 Investments in Associates and FRS 31 Interests in Joint Ventures allow such investments to be excluded from their scope provided they are measured at fair value through profit or loss. An entity may apply the same accounting policy to other investments managed on a total return basis but over which its influence is insufficient for them to be within the scope of FRS 28 or FRS 31.

[S 2/2006, wef 03/01/2006](#)

(b) The entity has financial assets and financial liabilities that share one or more risks and those risks are managed and evaluated on a fair value basis in accordance with a documented policy of asset and liability management. An example could be an entity that has issued 'structured

products' containing multiple embedded derivatives and manages the resulting risks on a fair value basis using a mix of derivative and non-derivative financial instruments. A similar example could be an entity that originates fixed interest rate loans and manages the resulting benchmark interest rate risk using a mix of derivative and non-derivative financial instruments.

[S 2/2006, wef 03/01/2006](#)

(c) The entity is an insurer that holds a portfolio of financial assets, manages that portfolio so as to maximise its total return (i.e. interest or dividends and changes in fair value), and evaluates its performance on that basis. The portfolio may be held to back specific liabilities, equity or both. If the portfolio is held to back specific liabilities, the condition in paragraph 9 (b) (ii) may be met for the assets regardless of whether the insurer also manages and evaluates the liabilities on a fair value basis. The condition in paragraph 9 (b) (ii) may be met when the insurer's objective is to maximise total return on the assets over the longer term even if amounts paid to holders of participating contracts depend on other factors such as the amount of gains realised in a shorter period (e.g. a year) or are subject to the insurer's discretion.

[S 2/2006, wef 03/01/2006](#)

AG4J. As noted above, this condition relies on the way the entity manages and evaluates performance of the group of financial instruments under consideration. Accordingly, (subject to the requirement of designation at initial recognition) an entity that designates financial instruments as at fair value through profit or loss on the basis of this condition shall so designate all eligible financial instruments that are managed and evaluated together.

[S 2/2006, wef 03/01/2006](#)

AG4K. Documentation of the entity's strategy need not be extensive but should be sufficient to demonstrate compliance with paragraph 9 (b) (ii). Such documentation is not required for each individual item, but may be on a portfolio basis. For example, if the performance management system for a department — as approved by the entity's key management personnel — clearly demonstrates that its performance is evaluated on a total return basis, no further documentation is required to demonstrate compliance with paragraph 9 (b) (ii).”.

[S 2/2006, wef 03/01/2006](#)

(xxv) Insert, immediately after paragraph AG33 of IAS 39, the following heading and paragraphs:

[S 2/2006, wef 03/01/2006](#)

## **“Instruments containing Embedded Derivatives**

[S 2/2006, wef 03/01/2006](#)

AG33A. When an entity becomes a party to a hybrid (combined) instrument that contains one or more embedded derivatives, paragraph 11 requires the entity to identify any such embedded derivative, assess whether it is required to be separated from the host contract and, for those that are required to be separated, measure the derivatives at fair value at initial recognition and subsequently. These requirements can be more complex, or result in less reliable measures, than measuring the entire instrument at fair value through profit or loss. For that reason this Standard permits the entire instrument to be designated as at fair value through profit or loss.

[S 2/2006, wef 03/01/2006](#)

AG33B. Such designation may be used whether paragraph 11 requires the embedded derivatives to be separated from the host contract or prohibits such separation. However, paragraph 11A would not justify designating the hybrid (combined) instrument as at fair value through profit or loss in the cases set out in paragraph 11A (a) and (b) because doing so would not reduce complexity or increase reliability.”

[S 2/2006, wef 03/01/2006](#)

FRS 40  
Investment Property

IAS 40  
(March 2004)  
Investment Property

“(i) Delete the following words in paragraph 80 of IAS 40:

An entity that has previously applied IAS 40 (2000) and elects for the first time to classify and account for some or all eligible property interests held under operating leases as investment property shall recognise the effect of that election as an adjustment to the opening balance of retained earnings for the period in which the election is first made.

and substitute the following words:

Under the fair value model, an entity should report the effect of adopting this Standard on its effective date (or earlier) as an adjustment to the opening balance of retained earnings for the period in which the Standard is first adopted.”,

[S 124/2005, wef  
16/03/2005](#)

”(ii) Delete “2005” in paragraph 85 of IAS 40 and substitute “2007”.

[S 124/2005, wef  
16/03/2005](#)

(iii) Delete the following words in paragraph 86 of IAS 40:

**““Withdrawal of IAS 40 (2000)**

**86.** This Standard supersedes IAS 40 Investment Property (issued in 2000).”

[S 124/2005, wef  
16/03/2005](#)

FRS 41  
Agriculture

IAS 41 (2001)  
Agriculture

Delete paragraph 58 of IAS 41 and substitute the following paragraph:

“58. FRS 41, Agriculture, is operative for financial statements covering periods beginning on or after 1st October 2001.”.

FRS 101  
First-time Adoption of  
Financial Reporting  
Standards

IFRS 1  
First-time Adoption of  
International Financial  
Reporting Standards  
(2005)

(i) Deleted by S 546/2005, wef 01/09/2005.

[S 546/2005, wef  
01/09/2005](#)

“In other words, if a first-time adopter derecognised financial assets or financial liabilities under its previous GAAP in a financial year beginning before 1 January 2001, it shall not recognise those assets and liabilities under IFRSs (unless they qualify for recognition as a result of a later transaction or event).”.

and substitute the following words:

“In other words, if a first-time adopter derecognised financial assets or financial liabilities under its previous GAAP in a financial year beginning before 1 January 2005, it shall not recognise those assets and liabilities under FRSs (unless they qualify for recognition as a result of a later transaction or event).”.

(ii) Delete “2003” in paragraphs 30 and B1A of IFRS 1 and substitute in each case “2004”.

[S 2/2006, wef 03/01/2006](#)

(iii) Delete paragraph 25A of IFRS 1 and substitute the following paragraph:

[S 2/2006, wef 03/01/2006](#)

“25A. FRS 39 *Financial Instruments: Recognition and Measurement* permits a financial asset to be designated on initial recognition as available for sale or a financial instrument (provided it meets certain criteria) to be designated as a financial asset or financial liability at fair value through profit or loss. Despite this requirement exceptions apply in the following circumstances:

[S 2/2006, wef 03/01/2006](#)

(a) any entity is permitted to make an available-for-sale designation at the date of transition to FRSs.

[S 2/2006, wef 03/01/2006](#)

(b) *an entity that presents its first FRS financial statements for an annual period beginning on or after 1 September 2006* — such an entity is permitted to designate, at the date of transition to FRSs, any financial asset or financial liability as at fair value through profit or loss provided the asset or liability meets the criteria in paragraph 9 (b) (i), 9 (b) (ii) or 11A of FRS 39 at that date.

[S 2/2006, wef 03/01/2006](#)

(c) *an entity that presents its*

*first FRS financial statements for an annual period beginning on or after 1 January 2006 and before 1 September 2006* — such an entity is permitted to designate, at the date of transition to FRSs, any financial asset or financial liability as at fair value through profit or loss provided the asset or liability meets the criteria in paragraph 9 (b) (i), 9 (b) (ii) or 11A of FRS 39 at that date. When the date of transition to FRSs is before 1 September 2005, such designations need not be completed until 1 September 2005 and may also include financial assets and financial liabilities recognised between the date of transition to FRSs and 1 September 2005.

[S 2/2006, wef 03/01/2006](#)

*(d) an entity that presents its first FRS financial statements for an annual period beginning before 1 January 2006 and applies paragraphs 11A, 48A, AG4B-AG4K, AG33A and AG33B and the 2005 amendments in paragraphs 9, 12 and 13 of FRS 39* — such an entity is permitted at the start of its first FRS reporting period to designate as at fair value through profit or loss any financial asset or financial liability that qualifies for such designation in accordance with these new and amended paragraphs at that date. When the entity's first FRS reporting

period begins before 1 September 2005, such designations need not be completed until 1 September 2005 and may also include financial assets and financial liabilities recognised between the beginning of that period and 1 September 2005. If the entity restates comparative information for FRS 39 it shall restate that information for the financial assets, financial liabilities, or group of financial assets, financial liabilities or both, designated at the start of its first FRS reporting period. Such restatement of comparative information shall be made only if the designated items or groups would have met the criteria for such designation in paragraph 9 (b) (i), 9 (b) (ii) or 11A of FRS 39 at the date of transition to FRSs or, if acquired after the date of transition to FRSs, would have met the criteria in paragraph 9 (b) (i), 9 (b) (ii) or 11A at the date of initial recognition.

[S 2/2006, wef 03/01/2006](#)

*(e) for an entity that presents its first FRS financial statements for an annual period beginning before 1 September 2006 — notwithstanding paragraph 91 of FRS 39, any financial assets and financial liabilities such an entity designated as at fair value through profit or loss in accordance with subparagraph (c) or (d) above that*

were previously designated as the hedged item in fair value hedge accounting relationships shall be de-designated from those relationships at the same time they are designated as at fair value through profit or loss.”.

[S 2/2006, wef 03/01/2006](#)

(iv) Delete the heading and words in paragraph 36B of IFRS 1 and substitute the following heading and words:

[S 2/2006, wef 03/01/2006](#)

**“Exemption from the requirement to present comparative information for FRS 106**

[S 2/2006, wef 03/01/2006](#)

36B. An entity that adopts FRSs before 1 January 2006 and chooses to adopt FRS 106 *Exploration for and Evaluation of Mineral Resources* before 1 January 2006 need not apply the requirements of FRS 106 to comparative information presented in its first FRS financial statements.”.

[S 2/2006, wef 03/01/2006](#)

(v) Delete paragraph 43A of IFRS 1 and substitute the following paragraph:

[S 2/2006, wef 03/01/2006](#)

“43A. An entity is permitted to designate a previously recognised financial asset or financial liability as a financial asset or financial liability at fair value through profit or loss or a financial asset as available for sale in

accordance with paragraph 25A. The entity shall disclose the fair value of financial assets or financial liabilities designated into each category at the date of designation and their classification and carrying amount in the previous financial statements.”.”;

[S 2/2006, wef 03/01/2006](#)

FRS 102  
Share-based Payment

IFRS 2  
Share-based Payment

(iv) Deleted by S 546/2005, wef 01/09/2005.

(i) Delete references to “2003” in paragraph 6 of IFRS 2 and substitute “2004”.

(ii) Delete references to “7 November 2002” in paragraphs 53, 56 and 58 of IFRS 2 and substitute in each case “22 November 2002”.

(iii) Delete paragraph 60 of IFRS 2 and substitute the following paragraph:

“60. Companies incorporated or foreign companies registered under the Companies Act, that have been admitted to the official list of a securities exchange in Singapore and have not been removed from that official list shall apply this FRS for annual periods beginning on or after 1 January 2005. All other entities incorporated or registered in Singapore shall apply this FRS for annual periods beginning on or after 1 January 2006. Early application is encouraged. If an entity applies the FRS before its effective date, it shall disclose that fact.”.

(iv) Delete the following words in paragraph C2 of Appendix C to IFRS 2:

“In paragraph 6 of IAS 16 Property, Plant and Equipment, paragraph 7 of IAS 38 Intangible Assets, and paragraph 5 of IAS 40 Investment Property, as revised in 2003, the definition of cost is amended to read as follows:”

and substitute the following words:

“In paragraph 6 of FRS 16 Property, Plant and Equipment and paragraph 7 of FRS 38 Intangible Assets, as revised in 2004, the definition of cost is amended to read as follows:”

(v) Delete the headings “Introduction”, and “Basis for Conclusions” in paragraph C3 of Appendix C to IFRS 2 and all paragraphs thereunder.

(vi) Delete references to “7 November 2002” in paragraph C8 of Appendix C to IFRS 2 and substitute “22 November 2002”.

(vii) Delete all paragraphs after sub-paragraph IG65 in paragraph C8 of Appendix C to IFRS 2.

FRS 103  
Business Combinations

IFRS 3  
(March 2004)  
Business Combinations

(i) Delete any reference to “31 March 2004” and substitute “1 July 2004”.

(ii) Delete paragraph 78 of IFRS 3 and substitute the following paragraph:

“78. Except as provided in

paragraph 85, this FRS shall apply to the accounting for business combinations for annual periods beginning on or after 1 July 2004. This FRS shall also apply to the accounting for:

(a) goodwill arising from a business combination for annual periods beginning on or after 1 July 2004; or

(b) any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination for annual periods beginning on or after 1 July 2004.”.

(iii) Delete “1998” in paragraph 86 of IFRS 3 and paragraph C18 of Appendix C to IFRS 3 and substitute in each case “2003”.

(iv) Delete the first sentence immediately under the heading “**Amendments to other IFRSs**” in Appendix C of IFRS 3 and substitute the following sentence:

*“The amendments in this appendix shall be applied to the accounting for business combinations for annual periods beginning on or after 1 July 2004, and to the accounting for any goodwill and intangible assets acquired in those business combinations.”.*

(v) Delete the heading “Introduction” in paragraph

C4 of Appendix C to IFRS 3 and all paragraphs thereunder.

(vi) Delete the following words in paragraph C5 of Appendix C to IFRS 3:

“On the title page, the second paragraph after the title of IAS 14 is amended to read as follows:

Paragraphs 129 and 130 of IAS 36 Impairment of Assets set out in disclosure requirements for reporting impairment losses by segment.”.

(vii) Delete “2003” in paragraphs C6, C11 and C15 of Appendix C to IFRS 3 and substitute in each case “2004”.

(viii) Delete the heading “Basis for Conclusions” in paragraph C7 of Appendix C to IFRS 3 and all paragraphs thereunder.

(ix) Delete reference to “25 March 2002” in paragraph C18 of Appendix C to IFRS 3 and substitute “1 February 2003”.

FRS 104  
Insurance Contracts

IFRS 4  
Insurance Contracts

(i) Delete the first sentence in paragraph 1 of IFRS 4 and substitute the following sentence:

“The objective of this FRS is to specify the financial reporting for insurance contracts by any entity that issues such contracts (described in this FRS as an insurer) until the second phase of the project is completed.”.

(ii) Delete “2003” in paragraphs C1, C2 and C11 of

Appendix C to IFRS 4 and substitute in each case “2004”.

(iii) Delete the last sentence of sub-paragraph IN5 of paragraph C5 of Appendix C to IFRS 4 and substitute the following sentence:

“An Exposure Draft proposing amendments to the treatment of financial guarantees within the scope of FRS 104 is expected to be issued in the near future.”.

(iv) Delete the sentence in paragraph C5 of Appendix C to IFRS 4 which reads:

“In paragraph BC20 of the Basis for Conclusions, the phrase ‘in the same way as financial guarantees (see paragraph BC23)’ is replaced by the phrase inserted in paragraph IN6.”,

and all paragraphs thereunder.

(v) Delete the sentence in paragraph C7 of Appendix C to IFRS 4 which reads:

“In the first line of paragraph BC7 of the Basis for Conclusions, ‘an instrument’ is replaced by ‘a financial instrument’.”.

(vi) Delete paragraph C12 of Appendix C to IFRS 4.

(vii) Delete sub-paragraph (d) of paragraph 4 in IFRS 4 and substitute the following sub-paragraph:

“(d) financial guarantee contracts unless the issuer has previously asserted explicitly that it regards such contracts

as insurance contracts and has used accounting applicable to insurance contracts, in which case the issuer may elect to apply either FRS 39 and FRS 32 or this Standard to such financial guarantee contracts. The issuer may make that election contract by contract, but the election for each contract is irrevocable.”.

[S 2/2006, wef 03/01/2006](#)

(viii) Insert, immediately after paragraph 41 of IFRS 4, the following paragraph:

[S 2/2006, wef 03/01/2006](#)

**“41A. *Financial Guarantee Contracts (Amendments to FRS 39 and FRS 104)*, issued in January 2006, amended paragraph 4 (d), B18 (g) and B (19f). An entity shall apply those amendments for annual periods beginning on or after 1 January 2006. Earlier application is encouraged. If an entity applies those amendments for an earlier period, it shall disclose that fact and apply the related amendments to FRS 39 and FRS 32 at the same time.”.**

[S 2/2006, wef 03/01/2006](#)

(ix) Insert, immediately after the definition of “**fair value**” in Appendix A of IFRS 4, the following definition:

[S 2/2006, wef 03/01/2006](#)

**Financial  
guarantee  
contract**

A contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor

fails to make payment when due in accordance with the original or modified terms of a debt instrument.

[S 2/2006, wef 03/01/2006](#)

(x) Delete sub-paragraph (g) of paragraph B18 in Appendix B of IFRS 4 and substitute the following sub-paragraph:

[S 2/2006, wef 03/01/2006](#)

“(g) credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. These contracts could have various legal forms, such as that of a guarantee, some types of letter of credit, a credit derivative default contract or an insurance contract. However, although these contracts meet the definition of an insurance contract, they also meet the definition of a financial guarantee contract in FRS 39 and are within the scope of FRS 32 and FRS 39, not this FRS (see paragraph 4 (d)). Nevertheless, if an issuer of financial guarantee contracts has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts, the issuer may elect to apply either FRS 39 and FRS 32 or this Standard to such financial guarantee contracts.”.

[S 2/2006, wef 03/01/2006](#)

[S 2/2006, wef 03/01/2006](#)

[S 2/2006, wef 03/01/2006](#)

FRS 105  
Non-current Assets Held  
for Sale and Discontinued  
Operations

IFRS 5  
Non-current Assets Held  
for Sale and Discontinued  
Operations

(xi) Delete sub-paragraph (f) of paragraph B19 in Appendix B of IFRS 4 and substitute the following sub-paragraph:

“(f) a credit-related guarantee (or letter of credit, credit derivative default contract or credit insurance contract) that requires payments even if the holder has not incurred a loss on the failure of the debtor to make payments when due (see FRS 39).”

(i) Delete “2003” in paragraphs 3 and 24 (a) of IFRS 5 and substitute in each case “2004”.

(ii) Delete “2003” in paragraphs C1, C4 and C5 of Appendix C to IFRS 5 and substitute in each case “2004”.

(iii) Delete the sentence in paragraph C6 of Appendix C to IFRS 5 which reads:

“In the Basis for Conclusions, at the end of paragraph BC14 a footnote is added, as follows:”

and all paragraphs thereunder.

(iv) Delete the sentence in paragraph C7 of Appendix C to IFRS 5 which reads:

“In the Basis for Conclusions, at the end of paragraph BC14 a footnote is added, as follows:”

and all paragraphs thereunder

(v) Delete the sentence in

FRS 106 Exploration for  
and Evaluation of Mineral  
Resources

[S 546/2005, wef  
01/09/2005](#)

FRS 107  
Financial  
Instruments:  
Disclosures

[S 2/2006, wef 03/01/2006](#)

[S 2/2006, wef 03/01/2006](#)

IFRS 6 Exploration for  
and Evaluation of Mineral  
Resources

IFRS 7  
Financial  
Instruments:  
Disclosures

paragraph C8 of Appendix C  
to IFRS 5 which reads:

“In the Basis for Conclusions,  
at the end of paragraph BC13  
a footnote is added, as  
follows:”

and all paragraphs thereunder.

(vi) Delete “1998” in  
paragraphs C9 and C12 of  
Appendix C to IFRS 5 and  
substitute in each case “2003”.

(vii) Delete the accompanying  
footnote in paragraph C12 of  
Appendix C to IFRS 5.

(viii) Delete paragraph C14 of  
Appendix C to IFRS 5.

Delete reference to “2003” in  
paragraph B2 of Appendix B  
to IFRS 6 and substitute  
“2004”.

(i) Delete sub-paragraph (d) of  
paragraph 3 in IFRS 7 and  
substitute the following sub-  
paragraph:

“(d) insurance contracts as  
defined in FRS 104 *Insurance  
Contracts*. However, this FRS  
applies to derivatives that are  
embedded in insurance  
contracts if FRS 39 requires  
the entity to account for them  
separately.

Moreover, an issuer shall  
apply this FRS to *financial  
guarantee contracts* if the  
issuer applies FRS 39 in  
recognising and measuring the  
contracts, but shall apply FRS

104 if the issuer elects, in accordance with paragraph 4 (d) of FRS 104, to apply FRS 104 in recognising and measuring them.”.

[S 2/2006, wef 03/01/2006](#)

(ii) Delete paragraph 43 of IFRS 7 and substitute the following paragraph:

[S 2/2006, wef 03/01/2006](#)

“43. Companies incorporated or foreign companies registered under the Companies Act, that have been admitted to the official list of a securities exchange in Singapore and have not been removed from that official list, shall apply this FRS for annual periods beginning on or after 1 January 2007. All other entities incorporated or registered in Singapore shall apply this FRS for annual periods beginning on or after 1 January 2008. Earlier application is encouraged. If an entity applies this FRS for an earlier period, it shall disclose that fact.”

[S 2/2006, wef 03/01/2006](#)

(iii) Delete paragraph 45 of IFRS 7 and the accompanying heading.

[S 2/2006, wef 03/01/2006](#)

(iv) Insert, immediately after the words ‘financial asset or financial liability at fair value through profit or loss’ in Appendix A to IFRS 7, the following words:

[S 2/2006, wef 03/01/2006](#)

“• financial guarantee

[S 2/2006, wef 03/01/2006](#)

[S 2/2006, wef 03/01/2006](#)

[S 2/2006, wef 03/01/2006](#)

[S 2/2006, wef 03/01/2006](#)

[S 2/2006, wef 03/01/2006](#)

[S 2/2006, wef 03/01/2006](#)

contract”.

(v) Delete paragraph C1 of Appendix C to IFRS 7 and substitute the following paragraph:

“In Financial Reporting Standards, including Interpretations, references to FRS 32 *Financial Instruments: Disclosure and Presentation* are replaced by references to FRS 32 *Financial Instruments: Presentation*, unless otherwise stated below.”

(vi) Delete the following words in paragraph C2 of Appendix C to IFRS 7:

“IAS 32 *Financial Instruments: Disclosure and Presentation* (as revised in 2003) is amended as described below.”;

“This Introduction refers to IAS 32 as revised in 2003. In August 2005 IASB amended IAS 32 by relocating all disclosures relating to financial instruments to IFRS 7 *Financial Instruments: Disclosures*.”;

“In August 2005 the IASB relocated all disclosures relating to financial instruments to IFRS 7 *Financial Instruments:*

[S 2/2006, wef 03/01/2006](#)

*Disclosures.*”;

“In August 2005 the Board revised disclosures about financial instruments and relocated them to IFRS 7 *Financial Instruments: Disclosures.*”, and

[S 2/2006, wef 03/01/2006](#)

“In August 2005 the IASB relocated all disclosures relating to financial instruments to IFRS 7 *Financial Instruments: Disclosures.*”,

[S 2/2006, wef 03/01/2006](#)

and substitute the following words respectively:

[S 2/2006, wef 03/01/2006](#)

“FRS 32 *Financial Instruments: Disclosure and Presentation* (as revised in 2004) is amended as described below.”;

[S 2/2006, wef 03/01/2006](#)

“This Introduction refers to FRS 32 as revised in 2004. In January 2006 FRS 32 was amended by relocating all disclosures relating to financial instruments to FRS 107 *Financial Instruments: Disclosures.*”;

[S 2/2006, wef 03/01/2006](#)

“In January 2006, all disclosures relating to financial instruments were relocated to FRS 107 *Financial Instruments: Disclosures.*”;

[S 2/2006, wef 03/01/2006](#)

“In January 2006, disclosures

[S 2/2006, wef 03/01/2006](#)

about financial instruments were revised and relocated to FRS 107 *Financial Instruments: Disclosures.*”; and

[S 2/2006, wef 03/01/2006](#)

”In January 2006, all disclosures relating to financial instruments were relocated to FRS 107 *Financial Instruments: Disclosures.*”.

[S 2/2006, wef 03/01/2006](#)

(vii) Delete the following words in paragraph C7 of Appendix C to IFRS 7:

[S 2/2006, wef 03/01/2006](#)

“IAS 39 *Financial Instruments: Recognition and Measurement* (as amended in April 2005) is amended as described below.”; and

[S 2/2006, wef 03/01/2006](#)

“In August 2005 the IASB relocated all disclosures relating to financial instruments were relocated to IFRS 7 *Financial Instruments: Disclosures.*”,

[S 2/2006, wef 03/01/2006](#)

and substitute the following words respectively:

[S 2/2006, wef 03/01/2006](#)

“FRS 39 *Financial Instruments: Recognition and Measurement* (as amended in 2005) is amended as described below.”; and

“In January 2006, all disclosures relating to financial instruments were

relocated to FRS 107  
*Financial Instruments:  
Disclosures.*”.

[S 2/2006, wef 03/01/2006](#)

(viii) Delete the word “June”  
in paragraph C8 of Appendix  
C to IFRS 7.”.

[S 2/2006, wef 03/01/2006](#)

FRS 108  
Operating Segments

IFRS 8  
Operating Segments

(There is no modification on  
IFRS 8).

[S 74/2007, wef 01/03/2007](#)

Show Versions

[S 561/2004, wef 01/01/2005](#)

## FOURTH SCHEDULE

Regulation 2 (a)

### FINANCIAL REPORTING STANDARD FRS 25 ACCOUNTING FOR INVESTMENTS

<i>Contents</i>	<i>Paragraphs</i>
FOREWORD	
SCOPE	1 – 3
DEFINITIONS	4
FORMS OF INVESTMENTS	5 – 7
CLASSIFICATION OF INVESTMENTS	8 – 14
COST OF INVESTMENTS	15 – 18
CARRYING AMOUNTS OF INVESTMENTS	19 – 30

Current Investments	19 – 22
Long-term Investments	23 – 26
Revaluations	27
Investment Properties	28 – 30
CHANGES IN CARRYING AMOUNT OF INVESTMENTS	31 – 32
DISPOSALS OF INVESTMENTS	33 – 35
TRANSFERS OF INVESTMENTS	36 – 37
SWITCHES OF INVESTMENTS IN A PORTFOLIO	38 – 40
INCOME STATEMENT	41 – 44
SPECIALISED INVESTMENT ENTERPRISES	45 – 47
TAXES	48
DISCLOSURE	49 – 50
EFFECTIVE DATE	51

## **Accounting for Investments**

Financial Reporting Standard 25 Accounting for Investments (FRS 25) is set out in paragraphs 1 to 51. All the paragraphs have equal authority. FRS 25 should be read in the context of the Preface to Financial Reporting Standards and the Framework for the Preparation and Presentation of Financial Statements. FRS 8 Accounting Policies, Changes in Accounting Estimates and Errors provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

[\*S 561/2004, wef 01/01/2005\*](#)

### **Foreword**

This Financial Reporting Standard should be read in the context of this Foreword:

### **Investment Properties**

#### **paragraph 4**

i. For the purpose of this Standard, but subject to the exceptions in paragraph ii, an investment property is an interest in land and/or buildings:

(a) in respect of which construction work and development have been completed; and

(b) which is held for its investment potential, any rental income being negotiated at arm's length.

ii. The following are exceptions from the definition:

(a) a property which is owned and used by an entity for its own purposes is not an investment property, for example, a hotel or a warehouse;

(b) a property let to, and occupied by, another group company is not an investment property for the purposes of its own financial statements or the group financial statements.

iii. Investment properties may be held by an entity which holds investments as part of its business such as an investment trust or a property investment company. Investment properties may also be held by an entity whose main business is not the holding of investments.

### **Changes in Carrying Amount of Investments**

#### **paragraph 32**

iv. For the purpose of this Standard, the term "same investment" should be interpreted as "same class of investments". "Same class of investments" means a category of investments which have a similar nature or function in the operations of the reporting enterprise.

v. Paragraph iv does not apply to the long-term business of insurance companies where changes in value are dealt with in the relevant fund account.

### **Scope**

**1. *This Standard should be applied in the accounting for and disclosure of investments.***

**2. *Enterprises should account for investments in accordance with paragraphs 8 to 44 of this Standard, unless they are specialised investment enterprises in which case they may account for investments in accordance with paragraph 45 of this Standard.***

**3. This Standard does not deal with —**

(a) the bases for recognition of interest, royalties, dividends and rentals earned on investments (see FRS 17 Leases and FRS 18 Revenue);

(b) investments in subsidiaries (see FRS 27 Consolidated and Separate Financial Statements);

(c) investments in associates (see FRS 28 Investments in Associates);

(d) investments in joint ventures (see FRS 31 Interests in Joint Ventures);

(e) goodwill, patents, trademarks and similar assets;

(f) finance leases as defined in FRS 17;

[S 124/2005, wef 16/03/2005](#)

(g) investments of retirement benefit plans and life insurance enterprises; and

[S 124/2005, wef 16/03/2005](#)

(h) investments in financial assets to which FRS 39 Financial Instruments: Recognition and Measurement applies.

[S 124/2005, wef 16/03/2005](#)

[S 561/2004, wef 01/01/2005](#)

## **Definitions**

**4. The following terms are used in this Standard with the meanings specified:**

***A current investment is an investment that is by its nature readily realisable and is intended to be held for not more than one year.***

***Fair value is the amount for which an asset could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction.***

***An investment is an asset held by an enterprise for the accretion of wealth through distribution (such as interest, royalties, dividends and rentals), for capital appreciation or for other benefits to the investing enterprise such as those obtained through trading relationships. Inventories as defined in FRS 2, Inventories, are not investments. Property, plant and equipment as defined in FRS 16, Property, Plant and Equipment, (other than investment properties) are not investments.***

***An investment property is an investment in land or buildings that are not occupied substantially for use by, or in the operations of, the investing enterprise or another enterprise in the same group as the investing enterprise.***

***A long-term investment is an investment other than a current investment.***

***Market value is the amount obtainable from the sale of an investment in an active market.***

***Marketable means that there is an active market from which a market value (or some indicator that enables a market value to be calculated) is available.***

### **Forms of Investments**

5. Enterprises hold investments for diverse reasons. For some enterprises, investment activity is a significant element of operations<sup>(1)</sup>, and assessment of the performance of the enterprise may largely, or solely, depend on the reported results of this activity. Some hold investments as a store of surplus funds and some hold trade investments in order to cement a trading relationship or establish a trading advantage.

<sup>(1)</sup> Enterprises for which investment activity is a significant element of operations, such as insurance companies and some banks, are often subject to regulatory control. The Preface to Financial Reporting Standards provides that Financial Reporting Standards do not override local regulations governing the issue of financial statements.

[S 561/2004, wef 01/01/2005](#)

6. Some investments are represented by certificates or similar documents; others are not. The nature of an investment may be that of a debt, other than a short or long-term trade debt, representing a monetary amount owing to the holder and usually bearing interest; alternatively it may be a stake in an enterprise's results, such as an equity share. Most investments represent financial rights, but some are tangible — such as certain investments in land or buildings and direct investments in gold, diamonds or other marketable commodities.

7. For some investments, an active market exists from which a market value can be established. For such investments, market value is an indicator of fair value. For other investments, an active market does not exist and other means are used to determine fair value.

### **Classification of Investments**

8. ***An enterprise that distinguishes between current and long-term assets in its financial statements should present current investments as current assets and long-term investments as long-term assets.***

9. ***Enterprises that do not distinguish between current and long-term investments in their balance sheets should nevertheless make a distinction for measurement purposes and determine the carrying amount for investments in accordance with paragraphs 19 and 23 of this Standard.***

10. Most enterprises present balance sheets that distinguish current assets from long-term assets in accordance with FRS 1, Presentation of Financial Statements. Current investments are included in current assets. The fact that a marketable investment has been

retained for a considerable period does not necessarily preclude its classification as current.

**11.** Investments held primarily to protect, facilitate or further existing business or trading relations, often called trade investments, are not made with the intention that they will be available as additional cash resources and are thus classified as long-term. Other investments, such as investment properties, are intended to be held for a number of years to generate income and capital gain. They are therefore classified as long-term assets even though they may be marketable.

**12.** Some enterprises choose not to distinguish between current and long-term assets, and others may be required by regulations to adopt a balance sheet format that makes no distinction. Many such enterprises operate in the financial field, such as banks and insurance companies. Although such enterprises do not intend to realise their assets in current operations, they usually regard many of their investments as being available for the purposes of their current operations if required.

**13.** However, such enterprises may have investments properly regarded as long-term assets, for example, a bank may hold shares in a leasing company.

**14.** Many such enterprises therefore analyse their investments and attribute carrying amounts to them according to whether their characteristics are those of current investments or long-term investments.

### **Cost of Investments**

**15.** The cost of an investment includes acquisition charges, such as brokerages, fees, duties and bank fees.

**16.** If an investment is acquired, or partly acquired, by the issue of shares or other securities, the acquisition cost is the fair value of the securities issued and not their nominal or par value. If an investment is acquired in exchange, or part exchange, for another asset, the acquisition cost of the investment is determined by reference to the fair value of the asset given up. It may be appropriate to consider the fair value of the investment acquired if it is more clearly evident.

**17.** Interest, royalties, dividends and rentals receivable in connection with an investment are generally regarded as income, being the return on the investment. However, in some circumstances, such inflows represent a recovery of cost and do not form part of income. For example, when unpaid interest has accrued before the acquisition of an interest-bearing investment and is therefore included in the price paid for the investment, the subsequent receipt of interest is allocated between pre-acquisition and post-acquisition periods; the pre-acquisition portion is deducted from cost. When dividends on equity securities are declared from pre-acquisition profits, a similar treatment applies. If it is difficult to make such an allocation except on an arbitrary basis, the cost of an investment is normally reduced by dividends receivable only if they clearly represent a recovery of part of cost.

**18.** The difference between the acquisition cost and redemption value of an investment in debt securities (the discount or premium on acquisition) is usually amortised by the investor over the period from acquisition to its maturity, so that a constant yield is earned on the investment. The amortised discount or premium is credited or charged to income as though it were interest and added to or subtracted from the carrying amount of the security. The resulting carrying amount is then regarded as cost.

## **Carrying Amounts of Investments**

### **Current Investments**

**19.** *Investments classified as current assets should be carried in the balance sheet at either —*

*(a) market value; or*

*(b) the lower of cost and market value.*

*If current investments are carried at the lower of cost and market value, the carrying amount should be determined either on an aggregate portfolio basis, in total or by category of investment, or on an individual investment basis.*

**20.** Opinions differ on the appropriate carrying amount for current investments. Some maintain that, for financial statements prepared under the historical cost convention, the general rule of the lower of cost and net realisable value is applicable to investments; and since most current investments are marketable, the carrying amount is the lower of cost and market value. Supporters of this method of determining carrying amount claim that it provides a prudent balance sheet amount and does not result in recognising unrealised gains in income. They also claim that fortuitous swings in stock market prices, which may reverse, are not brought to account merely as the result of the choice of a particular balance sheet date.

**21.** Others argue that, since current investments are a readily realisable store of wealth, or a cash substitute, it is appropriate to value them at fair value, usually market value. The enterprise is not concerned with the cost of such items but with the cash it could raise by disposing of them. Investments are distinguished from inventories because they can generally be sold without effort, whereas it would normally be inappropriate to recognise profit on sale of inventories before the sale was assured. Each investment is dispensable by the business, for example, an equity investment could be sold and the proceeds re-invested in a bank deposit account without detriment to the business - and therefore it is appropriate to report it at market value. Supporters of market value also argue that reporting investments at historical cost allows management to recognise income at its discretion, since selected investments can be sold and immediately repurchased and the resulting profit reported in income, although such transactions have not changed the enterprise's economic position.

**22.** In general, the concern of an enterprise is with the overall value of its current investment portfolios, and not with each individual investment, since the investments are held collectively as a store of wealth. Consistent with this view, investments carried at the lower of cost and market value are valued on an aggregate portfolio basis, in total or by category of investment, and not on an individual investment basis. However, some argue that the use of the portfolio basis results in losses being offset against unrealised gains.

### **Long-term Investments**

**23.** *Investments classified as long-term assets should be carried in the balance sheet at either —*

(a) *cost;*

(b) *revalued amounts; or*

(c) *in the case of marketable equity securities, the lower of cost and market value determined on a portfolio basis.*

*If revalued amounts are used, a policy for the frequency of revaluations should be adopted and an entire category of long-term investments should be revalued at the same time.*

*The carrying amount of all long-term investments should be reduced to recognise a decline other than temporary in the value of the investments, such reduction being determined and made for each investment individually.*

**24.** Long-term investments are usually carried at cost. However, when there is a decline, other than temporary, in the value of a long-term investment, the carrying amount is reduced to recognise the decline. Indicators of the value of an investment may be obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment. Risk and the type and extent of the investor's stake in the investee are also taken into account. Restrictions on distributions by the investee or on disposal by the investor may affect the value attributed to the investment.

**25.** Many long-term investments are of individual importance to the investing enterprise. The carrying amount of long-term investments is therefore normally determined on an item-by-item basis. However, in some countries, marketable equity securities classified as long-term investments may be carried at the lower of cost and market value determined on a portfolio basis. In these cases, temporary reductions and reversals of such reductions are included in equity.

**26.** Reductions for other than a temporary decline in the carrying amounts of long-term investments are charged in the income statement unless they offset a previous revaluation (see paragraph 32 of this Standard). Reductions in carrying amount may be reversed when there is a rise in the value of the investment, or if the reasons for the reduction no

longer exist. However, in some countries reductions in the carrying amount are not reversed.

### **Revaluations**

**27.** Sometimes, long-term investments are revalued to fair value. In the interests of consistency, a policy for the frequency of revaluation is adopted and all long-term investments are revalued at the same time or, at the minimum, an entire category is revalued.

### **Investment Properties**

**28.** *An enterprise holding investment properties should either —*

*(a) treat them as property in accordance with FRS 16, Property, Plant and Equipment; or*

*(b) account for them as long-term investments.*

**29.** Some enterprises elect to account for investment properties as long-term investments. Other enterprises prefer to account for and charge depreciation on investment properties under their accounting policy for property, plant and equipment, in accordance with FRS 16.

**30.** Enterprises that account for investment properties as long-term investments consider that changes in their fair value, usually market value, are more significant than their depreciation. The properties are therefore revalued periodically on a systematic basis. Where fair values are recognised in the carrying amount, any changes in carrying amount are accounted for in accordance with paragraph 32 of this Standard. Where such fair values are not recognised in the carrying amount, they are disclosed.

### **Changes in Carrying Amount of Investments**

**31.** *An enterprise that carries current investments at market value should adopt, and consistently apply, a policy for accounting for increases or decreases in carrying amount which should either —*

*(a) be recognised as income or expense; or*

*(b) be accounted for in accordance with paragraph 32 of this Standard.*

**32.** *An increase in carrying amount arising from the revaluation of long-term investments should be credited to owners' equity as a revaluation surplus. To the extent that a decrease in carrying amount offsets a previous increase, for the same investment, that has been credited to revaluation surplus and not subsequently reversed or utilised, it should be charged against that revaluation surplus. In all other cases, a decrease in carrying amount should be recognised as an expense. An increase on revaluation directly related to previous decrease in carrying amount for the same*

*investment that was recognised as an expense, should be credited to income to the extent that it offsets the previously recorded decrease.*

### **Disposals of Investments**

**33.** *On disposal of an investment, the difference between net disposal proceeds and the carrying amount should be recognised as income or expense. If the investment was a current asset carried on a portfolio basis at the lower of cost and market value, the profit or loss on sale should be based on cost. If the investment was previously revalued, or was carried at market value and an increase in carrying amount transferred to revaluation surplus, the enterprise should adopt a policy either of crediting the amount of any remaining related revaluation surplus to income or of transferring it to retained earnings. This policy should be applied consistently in accordance with Financial Reporting Standard FRS 8 Accounting Policies, Changes in Accounting Estimates and Errors.*

[S 412/2004, wef 01/01/2005](#)

[S 561/2004, wef 01/01/2005](#)

**34.** Any reduction to market value of current investments carried at the lower of cost and market value on a portfolio basis is made against the cost of the portfolio in aggregate; individual investments continue to be recorded at cost. Accordingly, the profit or loss on sale of an individual investment is based on cost; however, the aggregate reduction to market value of the portfolio needs to be assessed.

**35.** When disposing of part of an enterprise's holding of a particular investment, a carrying amount must be allocated to the part sold. This carrying amount is usually determined from the average carrying amount of the total holding of the investment.

### **Transfers of Investments**

**36.** *For long-term investments re-classified as current investments, transfers should be made at —*

*(a) the lower of cost and carrying amount, if current investments are carried at the lower of cost and market value; if the investment was previously revalued, any remaining related revaluation surplus should be reversed on the transfer; and*

*(b) carrying amount if current investments are carried at market value; if changes in market value of current investments are included in income, any remaining related revaluation surplus should be transferred to income.*

**37.** *Investments re-classified from current to long-term should each be transferred at the lower of cost and market value, or at market value if they were previously stated at that value.*

### **Switches of Investments in a Portfolio**

**38.** An enterprise with significant investment activity typically maintains a portfolio of investments in which it trades constantly. In doing so, the enterprise seeks to improve the

quality and yields of its portfolio of investments. On disposal of a particular investment, funds released are available for reinvestment or may remain as the cash element of the investment portfolio.

**39.** In view of the constant changes in investments in such a portfolio, different opinions are held as to the appropriate accounting treatment on disposal of a particular investment:

(a) some maintain that an excess or deficiency of net sale proceeds over carrying amount represents a realised profit or loss, which should be recognised in income immediately;

(b) others argue that the disposal merely reflects an adjustment of the constituents of the portfolio, representing no value increase or decrease since it is only a substitution of one investment for another, and that therefore no profit or loss should be reflected in income; and

(c) a few advocate a middle course, whereby the difference between net sale proceeds and cost is amortised to income over a given period.

**40.** Alternative (a) is the preferred method. Alternative (b) is appropriate only when the market value basis is used and changes in market value are included in income, since the adjustments to market value will already have been accounted for. Alternative (c) is inappropriate because it fails to recognise the whole of the profit or loss in the period in which it arises.

#### **Income Statement**

**41.** *The following should be included in income:*

(a) *investment income arising from —*

(i) *interest, royalties, dividends and rentals on long-term and current investments;*

(ii) *profits and losses on disposal of current investments;*

(iii) *unrealised gains and losses on current investments carried at market value, where that policy is adopted under paragraph 31 of this Standard; and*

(iv) *reductions to market value and reversals of such reductions required to state current investments at the lower of cost and market value;*

(b) *reductions of the carrying amount for other than a temporary decline in value of long-term investments, and reversals of such reductions; and*

(c) *profits and losses on disposal of long-term investments, calculated in accordance with paragraph 33 of this Standard.*

42. Some enterprises that carry current investments at market value on the grounds that they are a store of freely disposable wealth recognise any gains or losses in market value as an element of income to be accounted for in the income statement along with profits and losses on disposals. However, in some countries such gains are not permitted to be included in income and are credited direct to owners' equity and accounted for in the same way as revaluation surplus on long-term investments.

43. If current investments are carried at the lower of cost and market value, any reductions to market value and any reversals of such reductions are included in the income statement along with profits and losses on disposals.

44. Any reductions in carrying amount for other than a temporary decline in value of long-term investments, and reversals of such reductions, and profits and losses on disposal of long-term investments, are included in income and presented in accordance with FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

[S 561/2004, wef 01/01/2005](#)

### **Specialised Investment Enterprises**

45. *Specialised investment enterprises which are prohibited from distributing profits on the disposal of investments may exclude from income changes in value of investments, whether realised or not, provided they carry their investments at fair value. Such enterprises should include in the financial statements a summary of all the movements in value of their investments for the period.*

46. In certain countries, there are specialised investment enterprises whose main business is the holding of a portfolio of marketable securities as an investment vehicle for their individual shareholders. These enterprises carry their investments at fair value, usually market value, because this is the most appropriate basis in the circumstances. They regard realised profits and losses on their investments as being the same in substance as unrealised gains and losses and therefore account for them in the same way. They disclose a summary of all the movements in the value of their investments for the period.

47. The constitutions of these enterprises prohibit the distribution as dividends of profits on disposal of investments and require a distinction to be drawn between income arising from interest and dividends and the gains or losses arising on the disposal of the investments. Hence, these enterprises exclude from income all changes in value of investments whether or not they are realised.

### **Taxes**

48. Accounting for tax consequences resulting from the application of this Standard is dealt with in accordance with FRS 12, *Income Taxes*.

### **Disclosure**

49. *The following should be disclosed:*

(a) *the accounting policies for —*

- (i) the determination of carrying amount of investments;*
- (ii) the treatment of changes in market value of current investments carried at market value; and*
- (iii) the treatment of a revaluation surplus on the sale of a revalued investment;*
- (b) the significant amounts included in income for —*
  - (i) interest, royalties, dividends and rentals on long-term and current investments;*
  - (ii) profits and losses on disposal of current investments; and*
  - (iii) changes in value of such investments;*
- (c) the market value of marketable investments if they are not carried at market value;*
- (d) the fair value of investment properties if they are accounted for as long-term investments and not carried at fair value;*
- (e) significant restrictions on the realisability of investments or the remittance of income and proceeds of disposal;*
- (f) for long-term investments stated at revalued amounts —*
  - (i) the policy for the frequency of revaluations;*
  - (ii) the date of the latest revaluation; and*
  - (iii) the basis of revaluation and whether an external valuer was involved;*
- (g) the movements for the period in revaluation surplus and the nature of such movements; and*
- (h) for enterprises whose main business is the holding of investments, an analysis of the portfolio of investments.*

**50.** The following disclosures may be provided to assist a reader's understanding of the financial statements:

- (a) an analysis of long-term investments by category;
- (b) the directors' assessment of the fair value of investments that are not marketable;

- (c) where investments are not marketable, the method of assessing value used for comparison with cost, where applicable;
- (d) the amount of any previous revaluation surplus which related to the investments disposed of during the year and which has been previously distributed or converted into share capital; and
- (e) details of any single investment which represents a significant proportion of the reporting enterprise's assets.

**Effective Date**

***51. This Financial Reporting Standard becomes operative for financial statements covering periods beginning on or after 1st January 1988.***

**FIFTH SCHEDULE**

Regulation 2 (a)

**FRAMEWORK FOR THE PREPARATION AND PRESENTATION OF  
FINANCIAL STATEMENTS**

<i>Contents</i>	<i>Paragraphs</i>
<b>INTRODUCTION</b>	1 – 7
<b>Purpose and Status</b>	1
<b>Scope</b>	2 – 4
<b>Users and Their Information Needs</b>	5 – 7
<b>THE OBJECTIVE OF FINANCIAL STATEMENTS</b>	8 - 17
<b>Financial Position, Performance and Changes in Financial Position</b>	11-16
<b>Notes and Supplementary Schedules</b>	17
<b>UNDERLYING ASSUMPTIONS</b>	18-19
<b>Accrual Basis</b>	18
<b>Going Concern</b>	19
<b>QUALITATIVE CHARACTERISTICS OF FINANCIAL STATEMENTS</b>	20-26

<b>Understandability</b>	21
<b>Relevance</b>	22-24
<b>Materiality</b>	25-26
<b>Reliability</b>	27-34
Faithful Representation	29-30
Substance Over Form	31
Neutrality	32
Prudence	33
Completeness	34
<b>Comparability</b>	35-38
<b>Constraints on Relevant and Reliable Information</b>	39-42
Timeliness	39
Balance between Benefit and Cost	40
Balance between Qualitative Characteristics	41
<b>True and Fair View/Fair Presentation</b>	42
<b>THE ELEMENTS OF FINANCIAL STATEMENTS</b>	43-77
<b>Financial Position</b>	45-48
<b>Assets</b>	49-55
<b>Liabilities</b>	56-60
<b>Equity</b>	61-64
<b>Performance</b>	65-69
<b>Income</b>	70-73
<b>Expenses</b>	74-76
<b>Capital Maintenance Adjustments</b>	77
<b>RECOGNITION OF THE ELEMENTS OF FINANCIAL STATEMENTS</b>	78-94
<b>The Probability of Future Economic Benefit</b>	81
<b>Reliability of Measurement</b>	82-84
<b>Recognition of Assets</b>	85-86
<b>Recognition of Liabilities</b>	87
<b>Recognition of Income</b>	88-89
<b>Recognition of Expenses</b>	90-94

<b>MEASUREMENT OF THE ELEMENTS OF FINANCIAL STATEMENTS</b>	95-97
<b>CONCEPTS OF CAPITAL AND CAPITAL MAINTENANCE</b>	98-106
<b>Concepts of Capital</b>	98-99
<b>Concepts of Capital Maintenance and the Determination of Profit</b>	100-106

## **INTRODUCTION**

### **Purpose and Status**

This framework sets out the concepts that underlie the preparation and presentation of financial statements by Singapore-incorporated companies. The purpose of the framework is to —

- (a) assist preparers of financial statements in applying Financial Reporting Standards and in dealing with topics that have yet to form the subject of a Financial Reporting Standard;
- (b) assist auditors in forming an opinion as to whether financial statements conform with Financial Reporting Standards; and
- (c) assist users of financial statements in interpreting the information contained in financial statements prepared in conformity with Financial Reporting Standards.

### **Scope**

**2.** This framework deals with —

- (a) the objective of financial statements;
- (b) the qualitative characteristics that determine the usefulness of information in financial statements;
- (c) the definition, recognition and measurement of the elements from which financial statements are constructed; and
- (d) concepts of capital and capital maintenance.

**3.** This framework is concerned with general purpose financial statements (hereafter referred to as “financial statements”) including consolidated financial statements. Such financial statements are prepared and presented at least annually and are directed toward the common information needs of a wide range of users. Some of these users may require, and have the power to obtain, information in addition to that contained in the financial statements. Many users, however, have to rely on the financial statements as their major source of financial information and such financial statements should, therefore, be prepared and presented with their needs in view. Special purpose financial reports, for example, prospectuses and computations prepared for taxation purposes, are

outside the scope of this framework. Nevertheless, this framework may be applied in the preparation of such special purpose reports where their requirements permit.

4. Financial statements form part of the process of financial reporting. A complete set of financial statements normally includes a balance sheet, an income statement, a cash flow statement, and those notes and other statements and explanatory material that are an integral part of the financial statements. They may also include supplementary schedules and information based on or derived from, and expected to be read with, such statements. Such schedules and supplementary information may deal, for example, with financial information about industrial and geographical segments and disclosures about the effects of changing prices. Financial statements do not, however, include such items as reports by directors, statements by the chairman, discussion and analysis by management and similar items that may be included in a financial or annual report.

#### **Users and Their Information Needs**

5. The users of financial statements include present and potential investors, employees, lenders, suppliers and other trade creditors, customers, governments and their agencies and the public. They use financial statements in order to satisfy some of their different needs for information. These needs include the following:

(a) *Investors*. The providers of risk capital and their advisers are concerned with the risk inherent in, and return provided by, their investments. They need information to help them determine whether they should buy, hold or sell. Shareholders are also interested in information which enables them to assess the ability of the enterprise to pay dividends.

(b) *Employees*. Employees and their representative groups are interested in information about the stability and profitability of their employers. They are also interested in information which enables them to assess the ability of the enterprise to provide remuneration, retirement benefits and employment opportunities.

(c) *Lenders*. Lenders are interested in information that enables them to determine whether their loans, and the interest attaching to them, will be paid when due.

(d) *Suppliers and other trade creditors*. Suppliers and other creditors are interested in information that enables them to determine whether amounts owing to them will be paid when due. Trade creditors are likely to be interested in an enterprise over a shorter period than lenders unless they are dependent upon the continuation of the enterprise as a major customer.

(e) *Customers*. Customers have an interest in information about the continuance of an enterprise, especially when they have a long-term involvement with, or are dependent on, the enterprise.

(f) *Governments and their agencies*. Governments and their agencies are interested in the allocation of resources and, therefore, the activities of enterprises. They also require

information in order to regulate the activities of enterprises, determine taxation policies and as the basis for national income and similar statistics.

(g) *Public*. Enterprises affect members of the public in a variety of ways. For example, enterprises may make a substantial contribution to the local economy in many ways including the number of people they employ and their patronage of local suppliers. Financial statements may assist the public by providing information about the trends and recent developments in the prosperity of the enterprise and the range of its activities.

6. While all of the information needs of these users cannot be met by financial statements, there are needs which are common to all users. As investors are providers of risk capital to the enterprise, the provision of financial statements that meet their needs will also meet most of the needs of other users.

7. The management of an enterprise has the primary responsibility for the preparation and presentation of the financial statements of the enterprise. Management is also interested in the information contained in the financial statements even though it has access to additional management and financial information that helps it carry out its planning, decision-making and control responsibilities. Management has the ability to determine the form and content of such additional information in order to meet its own needs. The reporting of such information, however, is beyond the scope of this framework. Nevertheless, published financial statements are based on the information used by management about the financial position, performance and changes in financial position of the enterprise.

### **THE OBJECTIVE OF FINANCIAL STATEMENTS**

8. The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions.

9. Financial statements prepared for this purpose meet the common needs of most users. However, financial statements do not provide all the information that users may need to make economic decisions, since they largely portray the financial effects of past events and do not necessarily provide non-financial information.

10. Financial statements also show the results of the stewardship of management, or the accountability of management for the resources entrusted to it. Those users who wish to assess the stewardship or accountability of management do so in order that they may make economic decisions; these decisions may include, for example, whether to hold or sell their investment in the enterprise or whether to reappoint or replace the management.

### **Financial Position, Performance and Changes in Financial Position**

11. The economic decisions that are taken by users of financial statements require an evaluation of the ability of an enterprise to generate cash and cash equivalents and of the timing and certainty of their generation. This ability ultimately determines, for example, the capacity of an enterprise to pay its employees and suppliers, meet interest payments,

repay loans and make distributions to its owners. Users are better able to evaluate this ability to generate cash and cash equivalents if they are provided with information that focuses on the financial position, performance and changes in financial position of an enterprise.

**12.** The financial position of an enterprise is affected by the economic resources it controls, its financial structure, its liquidity and solvency, and its capacity to adapt to changes in the environment in which it operates. Information about the economic resources controlled by the enterprise and its capacity in the past to modify these resources is useful in predicting the ability of the enterprise to generate cash and cash equivalents in the future. Information about financial structure is useful in predicting future borrowing needs and how future profits and cash flows will be distributed among those with an interest in the enterprise; it is also useful in predicting how successful the enterprise is likely to be in raising further finance. Information about liquidity and solvency is useful in predicting the ability of the enterprise to meet its financial commitments as they fall due. “Liquidity” refers to the availability of cash in the near future after taking account of financial commitments over this period. “Solvency” refers to the availability of cash over the longer term to meet financial commitments as they fall due.

**13.** Information about the performance of an enterprise, in particular its profitability, is required in order to assess potential changes in the economic resources that it is likely to control in the future. Information about variability of performance is important in this respect. Information about performance is useful in predicting the capacity of the enterprise to generate cash flows from its existing resource base. It is also useful in forming judgements about the effectiveness with which the enterprise might employ additional resources.

**14.** Information concerning changes in the financial position of an enterprise is useful in order to assess its investing, financing and operating activities during the reporting period. This information is useful in providing the user with a basis to assess the ability of the enterprise to generate cash and cash equivalents and the needs of the enterprise to utilise those cash flows.

**15.** Information about financial position is primarily provided in a balance sheet. Information about performance is primarily provided in an income statement. Information about changes in financial position is provided in the financial statements by means of a separate statement.

**16.** The component parts of the financial statements interrelate because they reflect different aspects of the same transactions or other events. Although each statement provides information that is different from the others, none is likely to serve only a single purpose or provide all the information necessary for particular needs of users. For example, an income statement provides an incomplete picture of performance unless it is used in conjunction with the balance sheet and the cash flow statement.

## **Notes and Supplementary Schedules**

**17.** The financial statements also contain notes and supplementary schedules and other information. For example, they may contain additional information that is relevant to the needs of users about the items in the balance sheet and income statement. They may include disclosures about the risks and uncertainties affecting the enterprise and any resources and obligations not recognised in the balance sheet (such as mineral reserves). Information about geographical and industry segments and the effect on the enterprise of changing prices may also be provided in the form of supplementary information.

## **UNDERLYING ASSUMPTIONS**

### **Accrual Basis**

**18.** In order to meet their objectives, financial statements are prepared on the accrual basis of accounting. Under this basis, the effects of transactions and other events are recognised when they occur (and not as cash or its equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate. Financial statements prepared on the accrual basis inform users not only of past transactions involving the payment and receipt of cash but also of obligations to pay cash in the future and of resources that represent cash to be received in the future. Hence, they provide the type of information about past transactions and other events that is most useful to users in making economic decisions.

### **Going Concern**

**19.** The financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the enterprise has neither the intention nor the need to liquidate or curtail materially the scale of its operations; if such an intention or need exists, the financial statements may have to be prepared on a different basis and, if so, the basis used is disclosed.

## **QUALITATIVE CHARACTERISTICS OF FINANCIAL STATEMENTS**

**20.** Qualitative characteristics are the attributes that make the information provided in financial statements useful to users. The four principal qualitative characteristics are understandability, relevance, reliability and comparability.

### **Understandability**

**21.** An essential quality of the information provided in financial statements is that it is readily understandable by users. For this purpose, users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence. However, information about complex matters that should be included in the financial statements because of its relevance to the economic decision-making needs of users should not be excluded merely on the grounds that it may be too difficult for certain users to understand.

### **Relevance**

**22.** To be useful, information must be relevant to the decision-making needs of users.

Information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events, or confirming or correcting their past evaluations.

**23.** The predictive and confirmatory roles of information are interrelated. For example, information about the current level and structure of asset holdings has value to users when they endeavour to predict the ability of the enterprise to take advantage of opportunities and its ability to react to adverse situations. The same information plays a confirmatory role in respect of past predictions about, for example, the way in which the enterprise would be structured or the outcome of planned operations.

**24.** Information about financial position and past performance is frequently used as the basis for predicting future financial position and performance and other matters in which users are directly interested, such as dividend and wage payments, security price movements and the ability of the enterprise to meet its commitments as they fall due. To have predictive value, information need not be in the form of an explicit forecast. The ability to make predictions from financial statements is enhanced, however, by the manner in which information on past transactions and events is displayed. For example, the predictive value of the income statement is enhanced if unusual, abnormal and infrequent items of income or expense are separately disclosed.

### **Materiality**

**25.** The relevance of information is affected by its nature and materiality. In some cases, the nature of information alone is sufficient to determine its relevance. For example, the reporting of a new segment may affect the assessment of the risks and opportunities facing the enterprise irrespective of the materiality of the results achieved by the new segment in the reporting period. In other cases, both the nature and materiality are important, for example, the amounts of inventories held in each of the main categories that are appropriate to the business.

**26.** Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.

### **Reliability**

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

**28.** Information may be relevant but so unreliable in nature or representation that its recognition may be potentially misleading. For example, if the validity and amount of a claim for damages under a legal action are disputed, it may be inappropriate for the

enterprise to recognise the full amount of the claim in the balance sheet, although it may be appropriate to disclose the amount and circumstances of the claim.

### **Faithful Representation**

**29.** To be reliable, information must represent faithfully the transactions and other events it either purports to represent or could reasonably be expected to represent. Thus, for example, a balance sheet should represent faithfully the transactions and other events that result in assets, liabilities and equity of the enterprise at the reporting date which meet the recognition criteria.

**30.** Most financial information is subject to some risk of being less than a faithful representation of that which it purports to portray. This is not due to bias, but rather to inherent difficulties either in identifying the transactions and other events to be measured or in devising and applying measurement and presentation techniques that can convey messages that correspond to those transactions and events. In certain cases, the measurement of the financial effects of items could be so uncertain that enterprises generally would not recognise them in the financial statements; for example, although most enterprises generate goodwill internally over time, it is usually difficult to identify or measure that goodwill reliably. In other cases, however, it may be relevant to recognise items and to disclose the risk of error surrounding their recognition and measurement.

### **Substance Over Form**

**31.** If information is to represent faithfully the transactions and other events that it purports to represent, it is necessary that they are accounted for and presented in accordance with their substance and economic reality and not merely their legal form. The substance of transactions or other events is not always consistent with that which is apparent from their legal or contrived form. For example, an enterprise may dispose of an asset to another party in such a way that the documentation purports to pass legal ownership to that party; nevertheless, agreements may exist that ensure that the enterprise continues to enjoy the future economic benefits embodied in the asset. In such circumstances, the reporting of a sale would not represent faithfully the transaction entered into (if indeed there was a transaction).

### **Neutrality**

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

### **Prudence**

**33.** The preparers of financial statements do, however, have to contend with the uncertainties that inevitably surround many events and circumstances, such as the collectability of doubtful receivables, the probable useful life of plant and equipment and the number of warranty claims that may occur. Such uncertainties are recognised by the disclosure of their nature and extent and by exercise of prudence in the preparation of the

financial statements. Prudence is the inclusion of a degree of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated. However, the exercise of prudence does not allow, for example, the creation of hidden reserves or excessive provisions, the deliberate understatement of assets or income, or the deliberate overstatement of liabilities or expenses, because the financial statements would not be neutral and, therefore, not have the quality of reliability.

### **Completeness**

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

### **Comparability**

**35.** Users must be able to compare the financial statements of an enterprise through time in order to identify trends in its financial position and performance. Users must also be able to compare the financial statements of different enterprises in order to evaluate their relative financial position, performance and changes in financial position. Hence, the measurement and display of the financial effect of like transactions and other events must be carried out in a consistent way throughout an enterprise and over time for that enterprise and in a consistent way for different enterprises.

**36.** An important implication of the qualitative characteristic of comparability is that users be informed of the accounting policies employed in the preparation of the financial statements, any changes in those policies and the effects of such changes. Users need to be able to identify differences between the accounting policies for like transactions and other events used by the same enterprise from period to period and by different enterprises. Compliance with Financial Reporting Standards, including the disclosure of the accounting policies used by the enterprise, helps to achieve comparability.

**37.** The need for comparability should not be confused with mere uniformity and should not be allowed to become an impediment to the introduction of improved accounting standards. It is not appropriate for an enterprise to continue accounting in the same manner for a transaction or other event if the policy adopted is not in keeping with the qualitative characteristics of relevance and reliability. It is also inappropriate for an enterprise to leave its accounting policies unchanged when more relevant and reliable alternatives exist.

**38.** Because users wish to compare the financial position, performance and changes in financial position of an enterprise over time, it is important that the financial statements show corresponding information for the preceding periods.

### **Constraints on Relevant and Reliable Information**

#### **Timeliness**

**39.** If there is undue delay in the reporting of information, it may lose its relevance.

Management may need to balance the relative merits of timely reporting and the provision of reliable information. To provide information on a timely basis, it may often be necessary to report before all aspects of a transaction or other event are known, thus impairing reliability. Conversely, if reporting is delayed until all aspects are known, the information may be highly reliable but of little use to users who have had to make decisions in the interim. In achieving a balance between relevance and reliability, the overriding consideration is how best to satisfy the economic decision-making needs of users.

#### **Balance Between Benefit and Cost**

**40.** 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. Furthermore, the costs do not necessarily fall on those users who enjoy the benefits. Benefits may also be enjoyed by users other than those for whom the information is prepared; for example, the provision of further information to lenders may reduce the borrowing costs of an enterprise. For these reasons, it is difficult to apply a cost-benefit test in any particular case. Nevertheless, standard-setters in particular, as well as the preparers and users of financial statements, should be aware of this constraint.

#### **Balance Between Qualitative Characteristics**

**41.** In practice a balancing, or trade-off, between qualitative characteristics is often necessary. Generally, the aim is to achieve an appropriate balance among the characteristics in order to meet the objective of financial statements. The relative importance of the characteristics in different cases is a matter of professional judgement.

#### **True and Fair View/Fair Presentation**

**42.** Financial statements are frequently described as showing a true and fair view of, or as presenting fairly, the financial position, performance and changes in financial position of an enterprise. Although this framework does not deal directly with such concepts, the application of the principal qualitative characteristics and of appropriate accounting standards normally results in financial statements that convey what is generally understood as a true and fair view of, or as presenting fairly, such information.

#### **THE ELEMENTS OF FINANCIAL STATEMENTS**

**43.** Financial statements portray the financial effects of transactions and other events by grouping them into broad classes according to their economic characteristics. These broad classes are termed the elements of financial statements. The elements directly related to the measurement of financial position in the balance sheet are assets, liabilities and equity. The elements directly related to the measurement of performance in the income statement are income and expenses. The cash flow statement usually reflects income statement elements and changes in balance sheet elements; accordingly, this framework identifies no elements that are unique to this statement.

**44.** The presentation of these elements in the balance sheet and the income statement involves a process of sub-classification. For example, assets and liabilities may be

classified by their nature or function in the business of the enterprise in order to display information in the manner most useful to users for purposes of making economic decisions.

### **Financial Position**

**45.** The elements directly related to the measurement of financial position are assets, liabilities and equity. These are defined as follows:

(a) an *asset* is a resource controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise;

(b) a *liability* is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits;

(c) *equity* is the residual interest in the assets of the enterprise after deducting all its liabilities.

**46.** The definitions of an asset and a liability identify their essential features but do not attempt to specify the criteria that need to be met before they are recognised in the balance sheet. Thus, the definitions embrace items that are not recognised as assets or liabilities in the balance sheet because they do not satisfy the criteria for recognition discussed in paragraphs 78 to 94 of this framework. In particular, the expectation that future economic benefits will flow to or from an enterprise must be sufficiently certain to meet the probability criterion in paragraph 79 of this framework before an asset or liability is recognised.

**47.** In assessing whether an item meets the definition of an asset, liability or equity, attention needs to be given to its underlying substance and economic reality and not merely its legal form. Thus, for example, in the case of finance leases, the substance and economic reality are that the lessee acquires the economic benefits of the use of the leased asset for the major part of its useful life in return for entering into an obligation to pay for that right an amount approximating to the fair value of the asset and the related finance charge. Hence, the finance lease gives rise to items that satisfy the definitions of an asset and a liability and are recognised as such in the lessee's balance sheet.

**48.** Balance sheets drawn up in accordance with current Financial Reporting Standards may include items that do not satisfy the definition of an asset or liability and are not shown as part of equity. The definitions set out in paragraph 45 of this framework will, however, underlie future reviews of existing Financial Reporting Standards and the formulation of further Standards.

### **Assets**

**49.** The future economic benefit embodied in an asset is the potential to contribute, directly or indirectly, to the flow of cash and cash equivalents to the enterprise. The potential may be a productive one that is part of the operating activities of the enterprise.

It may also take the form of convertibility into cash or cash equivalents or a capability to reduce cash outflows, such as when an alternative manufacturing process lowers the costs of production.

**50.** An enterprise usually employs its assets to produce goods or services capable of satisfying the wants or needs of customers; because these goods or services can satisfy these wants or needs, customers are prepared to pay for them and, hence, contribute to the cash flow of the enterprise. Cash itself renders a service to the enterprise because of its command over other resources.

**51.** The future economic benefits embodied in an asset may flow to the enterprise in a number of ways. For example, an asset may be —

(a) used singly or in combination with other assets in the production of goods or services to be sold by the enterprise;

(b) exchanged for other assets;

(c) used to settle a liability; or

(d) distributed to the owners of the enterprise.

**52.** Many assets, for example, property, plant and equipment, have a physical form. However, physical form is not essential to the existence of an asset; hence, patents and copyrights, for example, are assets if future economic benefits are expected to flow from them to the enterprise and if they are controlled by the enterprise.

**53.** Many assets, for example, receivables and property, are associated with legal rights, including the right of ownership. In determining the existence of an asset, the right of ownership is not essential; thus, for example, property held on a lease is an asset if the enterprise controls the benefits which are expected to flow from the property. Although the capacity of an enterprise to control benefits is usually the result of legal rights, an item may nonetheless satisfy the definition of an asset even when there is no legal control. For example, know-how obtained from a development activity may meet the definition of an asset when, by keeping that know-how secret, an enterprise controls the benefits that are expected to flow from it.

**54.** The assets of an enterprise result from past transactions or other past events. Enterprises normally obtain assets by purchasing or producing them, but other transactions or events may generate assets; examples include property received by an enterprise from government as part of a program to encourage economic growth in an area and the discovery of mineral deposits. Transactions or events expected to occur in the future do not in themselves give rise to assets; hence, for example, an intention to purchase inventory does not, of itself, meet the definition of an asset.

**55.** There is a close association between incurring expenditure and generating assets but the two do not necessarily coincide. Hence, when an enterprise incurs expenditure, this may provide evidence that future economic benefits were sought but is not conclusive proof that an item satisfying the definition of an asset has been obtained. Similarly, the absence of a related expenditure does not preclude an item from satisfying the definition of an asset and thus becoming a candidate for recognition in the balance sheet; for example, items that have been donated to the enterprise may satisfy the definition of an asset.

### **Liabilities**

**56.** An essential characteristic of a liability is that the enterprise has a present obligation. An obligation is a duty or responsibility to act or perform in a certain way. Obligations may be legally enforceable as a consequence of a binding contract or statutory requirement. This is normally the case, for example, with amounts payable for goods and services received. Obligations also arise, however, from normal business practice, custom and a desire to maintain good business relations or act in an equitable manner. If, for example, an enterprise decides as a matter of policy to rectify faults in its products even when these become apparent after the warranty period has expired, the amounts that are expected to be expended in respect of goods already sold are liabilities.

**57.** A distinction needs to be drawn between a present obligation and a future commitment. A decision by the management of an enterprise to acquire assets in the future does not, of itself, give rise to a present obligation. An obligation normally arises only when the asset is delivered or the enterprise enters into an irrevocable agreement to acquire the asset. In the latter case, the irrevocable nature of the agreement means that the economic consequences of failing to honour the obligation, for example, because of the existence of a substantial penalty, leaves the enterprise with little, if any, discretion to avoid the outflow of resources to another party.

**58.** The settlement of a present obligation usually involves the enterprise giving up resources embodying economic benefits in order to satisfy the claim of the other party. Settlement of a present obligation may occur in a number of ways, for example, by —

- (a) payment of cash;
- (b) transfer of other assets;
- (c) provision of services;
- (d) replacement of that obligation with another obligation; or
- (e) conversion of the obligation to equity.

An obligation may also be extinguished by other means, such as a creditor waiving or forfeiting its rights.

**59.** Liabilities result from past transactions or other past events. Thus, for example, the acquisition of goods and the use of services give rise to trade payables (unless paid for in advance or on delivery) and the receipt of a bank loan results in an obligation to repay the loan. An enterprise may also recognise future rebates based on annual purchases by customers as liabilities; in this case, the sale of the goods in the past is the transaction that gives rise to the liability.

**60.** Some liabilities can be measured only by using a substantial degree of estimation. Some enterprises describe these liabilities as provisions. In some countries, such provisions are not regarded as liabilities because the concept of a liability is defined narrowly so as to include only amounts that can be established without the need to make estimates. The definition of a liability in paragraph 45 of this framework follows a broader approach. Thus, when a provision involves a present obligation and satisfies the rest of the definition, it is a liability even if the amount has to be estimated. Examples include provisions for payments to be made under existing warranties and provisions to cover pension obligations.

### **Equity**

**61.** Although equity is defined in paragraph 45 of this framework as a residual, it may be sub-classified in the balance sheet. For example, in a corporate enterprise, funds contributed by shareholders, retained earnings, reserves representing appropriations of retained earnings and reserves representing capital maintenance adjustments may be shown separately. Such classifications can be relevant to the decision-making needs of the users of financial statements when they indicate legal or other restrictions on the ability of the enterprise to distribute or otherwise apply its equity. They may also reflect the fact that parties with ownership interests in an enterprise have differing rights in relation to the receipt of dividends or the repayment of capital.

**62.** The creation of reserves is sometimes required by statute or other law in order to give the enterprise and its creditors an added measure of protection from the effects of losses. Other reserves may be established if national tax law grants exemptions from, or reductions in, taxation liabilities when transfers to such reserves are made. The existence and size of these legal, statutory and tax reserves is information that can be relevant to the decision-making needs of users. Transfers to such reserves are appropriations of retained earnings rather than expenses.

**63.** The amount at which equity is shown in the balance sheet is dependent on the measurement of assets and liabilities. Normally, the aggregate amount of equity only by coincidence corresponds with the aggregate market value of the shares of the enterprise or the sum that could be raised by disposing of either the net assets on a piecemeal basis or the enterprise as a whole on a going concern basis.

**64.** Commercial, industrial and business activities are often undertaken by means of enterprises such as sole proprietorships, partnerships and trusts and various types of government business undertakings. The legal and regulatory framework for such enterprises is often different from that applying to corporate enterprises. For example,

there may be few, if any, restrictions on the distribution to owners or other beneficiaries of amounts included in equity. Nevertheless, the definition of equity and the other aspects of this framework that deal with equity are appropriate for such enterprises.

### **Performance**

**65.** Profit is frequently used as a measure of performance or as the basis for other measures, such as return on investment or earnings per share. The elements directly related to the measurement of profit are income and expenses. The recognition and measurement of income and expenses, and hence profit, depend in part on the concepts of capital and capital maintenance used by the enterprise in preparing its financial statements. These concepts are discussed in paragraphs 98 to 106 of this framework.

**66.** The elements of income and expenses are defined as follows:

(a) *income* is increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants;

(b) *expenses* are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

**67.** The definitions of income and expenses identify their essential features but do not attempt to specify the criteria that would need to be met before they are recognised in the income statement. Criteria for the recognition of income and expenses are discussed in paragraphs 79 to 94 of this framework.

**68.** Income and expenses may be presented in the income statement in different ways so as to provide information that is relevant for economic decision-making. For example, it is common practice to distinguish between those items of income and expenses that arise in the course of the ordinary activities of the enterprise and those that do not. This distinction is made on the basis that the source of an item is relevant in evaluating the ability of the enterprise to generate cash and cash equivalents in the future; for example, incidental activities, such as the disposal of a long-term investment, are unlikely to recur on a regular basis. When distinguishing between items in this way, consideration needs to be given to the nature of the enterprise and its operations. Items that arise from the ordinary activities of one enterprise may be unusual in respect of another.

**69.** Distinguishing between items of income and expense, and combining them in different ways also permit several measures of enterprise performance to be displayed. These have differing degrees of inclusiveness. For example, the income statement could display gross margin, profit from ordinary activities before taxation, profit from ordinary activities after taxation, and net profit.

### **Income**

**70.** The definition of income encompasses both revenue and gains. Revenue arises in the

course of the ordinary activities of an enterprise and is referred to by a variety of different names including sales, fees, interest, dividends, royalties and rent.

**71.** Gains represent other items that meet the definition of income and may, or may not, arise in the course of the ordinary activities of an enterprise. Gains represent increases in economic benefits and as such are no different in nature from revenue. Hence, they are not regarded as constituting a separate element in this framework.

**72.** Gains include, for example, those arising on the disposal of non-current assets. The definition of income also includes unrealised gains; for example, those arising on the revaluation of marketable securities and those resulting from increases in the carrying amount of long-term assets. When gains are recognised in the income statements, they are usually displayed separately because knowledge of them is useful for the purpose of making economic decisions. Gains are often reported net of related expenses.

**73.** Various kinds of assets may be received or enhanced by income; examples include cash, receivables and goods and services received in exchange for goods and services supplied. Income may also result from the settlement of liabilities. For example, an enterprise may provide goods and services to a lender in settlement of an obligation to repay an outstanding loan.

### **Expenses**

**74.** The definition of expenses encompasses losses as well as those expenses that arise in the course of the ordinary activities of the enterprise. Expenses that arise in the course of the ordinary activities of the enterprise include, for example, cost of sales, wages and depreciation. They usually take the form of an outflow or depletion of assets such as cash and cash equivalents, inventory, property, plant and equipment.

**75.** Losses represent other items that meet the definition of expenses and may, or may not, arise in the course of the ordinary activities of the enterprise. Losses represent decreases in economic benefits and as such they are no different in nature from other expenses. Hence, they are not regarded as a separate element in this framework.

**76.** Losses include, for example, those resulting from disasters such as fire and flood, as well as those arising on the disposal of non-current assets. The definition of expenses also includes unrealised losses, for example, those arising from the effects of increases in the rate of exchange for a foreign currency in respect of the borrowings of an enterprise in that currency. When losses are recognised in the income statement, they are usually displayed separately because knowledge of them is useful for the purpose of making economic decisions. Losses are often reported net of related income.

### **Capital Maintenance Adjustments**

**77.** The revaluation or restatement of assets and liabilities gives rise to increases or decreases in equity. While these increases or decreases meet the definitions of income and expenses, they are not included in the income statement under certain concepts of capital maintenance. Instead, these items are included in equity as capital maintenance

adjustments or revaluation reserves. These concepts of capital maintenance are discussed in paragraphs 98 to 106 of this framework.

## **RECOGNITION OF THE ELEMENTS OF FINANCIAL STATEMENTS**

**78.** Recognition is the process of incorporating in the balance sheet or income statement an item that meets the definition of an element and satisfies the criteria for recognition set out in paragraph 79 of this framework. It involves the depiction of the item in words and by a monetary amount and the inclusion of that amount in the balance sheet or income statement totals. Items that satisfy the recognition criteria should be recognised in the balance sheet or income statement. The failure to recognise such items is not rectified by disclosure of the accounting policies used nor by notes or explanatory material.

**79.** An item that meets the definition of an element should be recognised if —

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

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

**80.** In assessing whether an item meets these criteria and therefore qualifies for recognition in the financial statements, regard needs to be given to the materiality considerations discussed in paragraphs 25 and 26 of this framework. The inter-relationship between the elements means that an item that meets the definition and recognition criteria for a particular element, for example, an asset, automatically requires the recognition of another element, for example, income or a liability.

### **The Probability of Future Economic Benefit**

**81.** The concept of probability is used in the recognition criteria to refer to the degree of uncertainty that the future economic benefits associated with the item will flow to or from the enterprise. The concept is in keeping with the uncertainty that characterises the environment in which an enterprise operates. Assessments of the degree of uncertainty attaching to the flow of future economic benefits are made on the basis of the evidence available when the financial statements are prepared. For example, when it is probable that a receivable owed by an enterprise will be paid, it is then justifiable, in the absence of any evidence to the contrary, to recognise the receivable as an asset. For a large population of receivables, however, some degree of non-payment is normally considered probable; hence, an expense representing the expected reduction in economic benefits is recognised.

### **Reliability of Measurement**

**82.** The second criterion for the recognition of an item is that it possesses a cost or value that can be measured with reliability as discussed in paragraphs 27 to 34 of this framework. In many cases, cost or value must be estimated; the use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability. When, however, a reasonable estimate cannot be made, the item is not recognised in the balance sheet or income statement. For example, the

expected proceeds from a lawsuit may meet the definitions of both an asset and income as well as the probability criterion for recognition; however, if it is not possible for the claim to be measured reliably, it should not be recognised as an asset or as income; the existence of the claim, however, would be disclosed in the notes, explanatory material or supplementary schedules.

**83.** An item that, at a particular point in time, fails to meet the recognition criteria in paragraph 79 of this framework may qualify for recognition at a later date as a result of subsequent circumstances or events.

**84.** An item that possesses the essential characteristics of an element but fails to meet the criteria for recognition may nonetheless warrant disclosure in the notes, explanatory material or supplementary schedules. This is appropriate when knowledge of the item is considered to be relevant to the evaluation of the financial position, performance and changes in financial position of an enterprise by the users of financial statements.

### **Recognition of Assets**

**85.** An asset is recognised in the balance sheet when it is probable that the future economic benefits will flow to the enterprise and the asset has a cost or value that can be measured reliably.

**86.** An asset is not recognised in the balance sheet when expenditure has been incurred for which it is considered improbable that economic benefits will flow to the enterprise beyond the current accounting period. Instead, such a transaction results in the recognition of an expense in the income statement. This treatment does not imply either that the intention of management in incurring expenditure was other than to generate future economic benefits for the enterprise or that management was misguided. The only implication is that the degree of certainty that economic benefits will flow to the enterprise beyond the current accounting period is insufficient to warrant the recognition of an asset.

### **Recognition of Liabilities**

**87.** A liability is recognised in the balance sheet when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably. In practice, obligations under contracts that are equally proportionately unperformed (for example, liabilities for inventory ordered but not yet received) are generally not recognised as liabilities in the financial statements. However, such obligations may meet the definition of liabilities and, provided the recognition criteria are met in the particular circumstances, may qualify for recognition. In such circumstances, recognition of liabilities entails recognition of related assets or expenses.

### **Recognition of Income**

**88.** Income is recognised in the income statement when an increase in future economic benefits related to an increase in an asset or a decrease of a liability has arisen that can be measured reliably. This means, in effect, that recognition of income occurs

simultaneously with the recognition of increases in assets or decreases in liabilities (for example, the net increase in assets arising on a sale of goods or services or the decrease in liabilities arising from the waiver of a debt payable).

**89.** The procedures normally adopted in practice for recognising income, for example, the requirement that revenue should be earned, are applications of the recognition criteria in this framework. Such procedures are generally directed at restricting the recognition as income to those items that can be measured reliably and have a sufficient degree of certainty.

### **Recognition of Expenses**

**90.** Expenses are recognised in the income statement when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. This means, in effect, that recognition of expenses occurs simultaneously with the recognition of an increase in liabilities or a decrease in assets (for example, the accrual of employee entitlements or the depreciation of equipment).

**91.** Expenses are recognised in the income statement on the basis of a direct association between the costs incurred and the earning of specific items of income. This process, commonly referred to as the matching of costs with revenues, involves the simultaneous or combined recognition of revenues and expenses that result directly and jointly from the same transactions or other events; for example, the various components of expense making up the cost of goods sold are recognised at the same time as the income derived from the sale of the goods. However, the application of the matching concept under this framework does not allow the recognition of items in the balance sheet which do not meet the definition of assets or liabilities.

**92.** When economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined, expenses are recognised in the income statement on the basis of systematic and rational allocation procedures. This is often necessary in recognising the expenses associated with the using up of assets such as property, plant, equipment, goodwill, patents and trademarks; in such cases, the expense is referred to as depreciation or amortisation. These allocation procedures are intended to recognise expenses in the accounting periods in which the economic benefits associated with these items are consumed or expire.

**93.** An expense is recognised immediately in the income statement when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the balance sheet as an asset.

**94.** An expense is also recognised in the income statement in those cases when a liability is incurred without the recognition of an asset, as when a liability under a product warranty arises.

## **MEASUREMENT OF THE ELEMENTS OF FINANCIAL STATEMENTS**

**95.** Measurement is the process of determining the monetary amounts at which the elements of the financial statements are to be recognised and carried in the balance sheet and income statement. This involves the selection of the particular basis of measurement.

**96.** A number of different measurement bases are employed to different degrees and in varying combinations in financial statements. They include the following:

(a) *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.

(b) *Current cost.* Assets are carried at the amount of cash or cash equivalents that would have to be paid if the same or an equivalent asset was acquired currently. Liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently.

(c) *Realisable (settlement) value.* Assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the asset in an orderly disposal. Liabilities are carried at their settlement values; that is, the undiscounted amounts of cash or cash equivalents expected to be paid to satisfy the liabilities in the normal course of business.

(d) *Present value.* Assets are carried at the present discounted value of the future net cash inflows that the item is expected to generate in the normal course of business. Liabilities are carried at the present discounted value of the future net cash outflows that are expected to be required to settle the liabilities in the normal course of business.

**97.** The measurement basis most commonly adopted by enterprises in preparing their financial statements is historical cost. This is usually combined with other measurement bases. For example, inventories are usually carried at the lower of cost and net realisable value, marketable securities may be carried at market value and pension liabilities are carried at their present value. Furthermore, some enterprises use the current cost basis as a response to the inability of the historical cost accounting model to deal with the effects of changing prices of non-monetary assets.

## **CONCEPTS OF CAPITAL AND CAPITAL MAINTENANCE**

### **Concepts of Capital**

**98.** A financial concept of capital is adopted by most enterprises in preparing their financial statements. Under a financial concept of capital, such as invested money or invested purchasing power, capital is synonymous with the net assets or equity of the enterprise. Under a physical concept of capital, such as operating capability, capital is

regarded as the productive capacity of the enterprise based on, for example, units of output per day.

**99.** The selection of the appropriate concept of capital by an enterprise should be based on the needs of the users of its financial statements. Thus, a financial concept of capital should be adopted if the users of financial statements are primarily concerned with the maintenance of nominal invested capital or the purchasing power of invested capital. If, however, the main concern of users is with the operating capability of the enterprise, a physical concept of capital should be used. The concept chosen indicates the goal to be attained in determining profit, even though there may be some measurement difficulties in making the concept operational.

### **Concepts of Capital Maintenance and the Determination of Profit**

**100.** The concepts of capital in paragraph 98 of this framework give rise to the following concepts of capital maintenance:

(a) *Financial capital maintenance.* Under this concept, a profit is earned only if the financial (or money) amount of the net assets at the end of the period exceeds the financial (or money) amount of net assets at the beginning of the period, after excluding any distributions to, and contributions from, owners during the period. Financial capital maintenance can be measured in either nominal monetary units or units of constant purchasing power.

(b) *Physical capital maintenance.* Under this concept, a profit is earned only if the physical productive capacity (or operating capability) of the enterprise (or the resources or funds needed to achieve that capacity) at the end of the period exceeds the physical productive capacity at the beginning of the period, after excluding any distributions to, and contributions from, owners during the period.

**101.** The concept of capital maintenance is concerned with how an enterprise defines the capital that it seeks to maintain. It provides the linkage between the concepts of capital and the concepts of profit because it provides the point of reference by which profit is measured; it is a prerequisite for distinguishing between an enterprise's return on capital and its return of capital; only inflows of assets in excess of amounts needed to maintain capital may be regarded as profit and therefore as a return on capital. Hence, profit is the residual amount that remains after expenses (including capital maintenance adjustments, where appropriate) have been deducted from income. If expenses exceed income, the residual amount is a net loss.

**102.** The physical capital maintenance concept requires the adoption of the current cost basis of measurement. The financial capital maintenance concept, however, does not require the use of a particular basis of measurement. Selection of the basis under this concept is dependent on the type of financial capital that the enterprise is seeking to maintain.

**103.** The principal difference between the two concepts of capital maintenance is the treatment of the effects of changes in the prices of assets and liabilities of the enterprise. In general terms, an enterprise has maintained its capital if it has as much capital at the end of the period as it had at the beginning of the period. Any amount over and above that required to maintain the capital at the beginning of the period is profit.

**104.** Under the concept of financial capital maintenance where capital is defined in terms of nominal monetary units, profit represents the increase in nominal money capital over the period. Thus, increases in the prices of assets held over the period, conventionally referred to as holding gains, are, conceptually, profits. They may not be recognised as such, however, until the assets are disposed of in an exchange transaction. When the concept of financial capital maintenance is defined in terms of constant purchasing power units, profit represents the increase in invested purchasing power over the period. Thus, only that part of the increase in the prices of assets that exceeds the increase in the general level of prices is regarded as profit. The rest of the increase is treated as a capital maintenance adjustment and, hence, as part of equity.

**105.** Under the concept of physical capital maintenance when capital is defined in terms of the physical productive capacity, profit represents the increase in that capital over the period. All price changes affecting the assets and liabilities of the enterprise are viewed as changes in the measurement of the physical productive capacity of the enterprise; hence, they are treated as capital maintenance adjustments that are part of equity and not as profit.

**106.** The selection of the measurement bases and concept of capital maintenance will determine the accounting model used in the preparation of the financial statements. Different accounting models exhibit different degrees of relevance and reliability and, as in other areas, management must seek a balance between relevance and reliability. This framework is applicable to a range of accounting models and provides guidance on preparing and presenting the financial statements constructed under the chosen model. At the present time, it is not the intention of the Council on Corporate Disclosure and Governance to prescribe a particular model other than in exceptional circumstances, such as for those enterprises reporting in the currency of a hyperinflationary economy. This intention will, however, be reviewed in the light of world developments.

## **SIXTH SCHEDULE**

Regulation 2 (a)

### **PREFACE TO THE INTERPRETATIONS OF FINANCIAL REPORTING STANDARDS**

*This Preface to the Interpretations of Financial Reporting Standards (“INT FRSs”) was approved by the Council on Corporate Disclosure and Governance (“CCDG”) on 14th January 2003.*

1. The objective of the INT FRSs is to enhance the rigorous application of the Financial Reporting Standards (“FRSs”) and to improve comparability of financial statements that are prepared using the FRSs by interpreting potentially contentious accounting issues.
2. Interpretations issued by the CCDG are part of the CCDG’s authoritative literature (see FRS 1, Presentation of Financial Statements). Therefore, financial statements should not be described as complying with the Financial Reporting Standards unless they comply with all the requirements of each applicable FRS and each applicable INT FRS issued by the CCDG. When a company has not adopted an INT FRS which has been published by the CCDG but which has not yet become mandatory, the company is encouraged to disclose the nature of the future change in accounting policy and an estimate of the effect on its net profit or loss and financial position, or a statement that such an estimate has not been made.
3. Like the FRSs, the INT FRSs are intended to be as concise as the nature of a particular topic allows rather than detail rules dealing with every conceivable circumstance. The CCDG concentrates on essentials and it endeavours not to make accounting requirements so complex that they cannot be applied effectively. Above all, the application of the INT FRSs should be guided by the spirit and rationale behind the FRS Framework, the FRSs and the INT FRSs.
4. The CCDG welcomes the submission of interpretative issues from all interested parties. The CCDG considers the following criteria in taking issues on its agenda:
  - (a) the issue should involve the interpretation of an existing FRS within the context of the FRS Framework;
  - (b) the issue should have practical and widespread relevance;
  - (c) the issue should relate to a specific fact pattern; and
  - (d) significantly divergent interpretations must either be emerging or already exist in practice.
5. Contentious cases brought to the CCDG can lead to the issuance of an INT FRS, which is applicable on a general basis. Information on the latest INT FRS developments is available on the Internet: <http://www.ccdg.gov.sg>.

## **SEVENTH SCHEDULE**

Regulation 2 (c)

### **ADOPTION AND MODIFICATION OF INTERPRETATIONS OF THE STANDING INTERPRETATIONS COMMITTEE OR INTERPRETATIONS OF THE INTERNATIONAL FINANCIAL REPORTING INTERPRETATIONS COMMITTEE**

<i>First column</i> <i>Interpretation of Financial Reporting Standard (“INT FRS”)</i>	<i>Second column</i> <i>Interpretation of the Standing Interpretations Committee/ Interpretation of the International Financial Reporting Interpretations Committee</i>	<i>Third column</i> <i>Modification of Interpretations of the Standing Interpretations Committee/ Interpretations of the International Financial 45Reporting Interpretations Committee for the purposes of INT FRS</i>
INT FRS 7 Introduction of the Euro	SIC – 7 Introduction of the Euro	(i) Delete the heading “Date of Consensus” and the date following thereafter.  (ii) Delete the paragraph under the heading “Effective Date” and substitute the following paragraph: “INT FRS 7 comes into effect on <b><i>1st February 2003</i></b> . Changes in accounting policies should be accounted for according to the transitional requirements in FRS 8.40.”.
INT FRS 10 Government Assistance – No Specific Relation to Operating Activities	SIC – 10 Government Assistance – No Specific Relation to Operating Activities	(i) Delete the heading “Date of Consensus” and the date following thereafter.  (ii) Delete the paragraph under the heading “Effective Date” and substitute the following paragraph: “INT FRS 10 comes into effect on <b><i>1st February 2003</i></b> . Changes in accounting policies should be accounted for according to the transitional requirements in FRS 8.40.”.
INT FRS 12 Consolidation – Special Purpose Entities	SIC – 12 (Amendment November 2004) Consolidation – Special Purpose Entities <a href="#">S 124/2005, wef 16/03/2005</a>	(i) Delete the words “Paragraph 35 of the Framework” and substitute the words “Paragraph 31 of the FRS Framework”.

(ii) Delete the heading “Date of Consensus” and the date following thereafter.

(iii) Delete the paragraph under the heading “Effective Date” and substitute the following paragraph:

*S 124/2005, wef*  
*16/03/2005*

“INT FRS 12 comes into effect on ***1st February 2003***. Changes in accounting policies should be accounted for in accordance FRS 8. An entity shall apply the amendments for annual periods beginning on or after 1 January 2005. If an entity applies FRS 102 for an earlier period, the amendment shall be applied for that earlier period.”.

*S 124/2005, wef*  
*16/03/2005*

(iv) Delete the words in paragraph 6 of SIC-12 and substitute the following words:

*S 124/2005, wef*  
*16/03/2005*

“This Interpretation does not apply to post-employment benefit plans or other long-term employee benefit plans to which FRS 19 applies.”.

*S 124/2005, wef*  
*16/03/2005*

(v) Insert, immediately after paragraph 14 of SIC-12, the following paragraphs:

15A. In 2005, the scope of INT FRS 12 was amended.

That Amendment is effective for annual periods beginning on or after 1 January 2005, unless an entity applied FRS 102 for an earlier period, in which case the Amendment is effective for that earlier period. Before that Amendment, INT FRS 12 excluded from its scope equity compensation plans and post-employment benefit plans. Paragraphs 15B-15E summarise the considerations in reaching its consensus to amend the scope of INT FRS 12.

15B. The issue on whether the scope exclusion in INT FRS 12 for equity compensation plans should be removed when FRS 102 becomes effective was considered. Equity compensation plans were excluded from the scope of INT FRS 12 because they were within the scope of FRS 19 and that Standard did not specify recognition and measurement requirements for equity compensation benefits. However, once FRS 102 became effective, FRS 19 would no longer apply to equity compensation plans. FRS 102 specifies recognition and measurement requirements for equity compensation benefits.

15C. Also, FRS 102

amended FRS 32, to state that paragraphs 33 and 34, which relate to the treatment of treasury shares, should be applied to treasury shares purchased, sold, issued or cancelled in connection with employee share option plans, employee share purchase plans, and all other share-based payment arrangements. However, in some cases, those shares might be held by an employee benefit trust (or similar entity) set up by the entity for the purposes of its share-based payment arrangements. Removing the scope exclusion in INT FRS 12 would require an entity that controls such a trust to consolidate the trust and, in so doing, to apply the requirements of FRS 32 to treasury shares held by the trust.

[S 124/2005, wef](#)  
[16/03/2005](#)

15D. It was therefore concluded that, to ensure consistency with FRS 102 and FRS 32, the scope of INT FRS 12 should be amended by removing the exclusion of equity compensation plans.

15E. At the same time, the scope exclusion in INT FRS 12 for post-employment benefit plans was discussed. It was noted that, although INT FRS 12 did not exclude other long-term employee

benefit plans from its scope, FRS 19 nevertheless requires those plans to be accounted for in a manner similar to the accounting for post-employment benefit plans. It was therefore concluded that, to ensure consistency with FRS 19, the scope exclusion in INT FRS 12 should also apply to other long-term employee benefit plans.

*S 124/2005, wef*  
*16/03/2005*

INT FRS 13  
Jointly Controlled  
Entities – Non-Monetary  
Contributions by  
Venturers

SIC – 13  
Jointly Controlled Entities –  
Non-Monetary  
Contributions by Venturers

(i) Delete the words  
“Paragraph 92 of the  
Framework” and substitute  
the words “Paragraph 88 of  
the FRS Framework”.

(ii) Delete the words  
“Framework (paragraphs 53  
to 64 and paragraphs 89 to  
91)” and substitute the  
words “FRS Framework  
(paragraphs 49 to 60 and  
paragraphs 85 to 87)”.

(iii) Delete the heading  
“Date of Consensus” and the  
date following thereafter.

(iv) Delete the paragraph  
under the heading “Effective  
Date” and substitute the  
following paragraph:

“INT FRS 13 comes into  
effect on 1st February 2003.  
Changes in accounting  
policies should be accounted  
for according to the  
transitional requirements in  
FRS 8.40.”.

INT FRS 15  
Operating Leases -  
Incentives

SIC – 15  
Operating Leases -  
Incentives

(i) Delete the words  
“Paragraph 35 of the  
Framework” and substitute

INT FRS 21  
Income Taxes – Recovery  
of Revalued Non-  
Depreciable Assets

SIC – 21  
Income Taxes – Recovery of  
Revalued Non-Depreciable  
Assets

the words “Paragraph 31 of the FRS Framework”.

(ii) Delete the words “Paragraph 22 of the Framework” and substitute the words “Paragraph 18 of the FRS Framework”.

(iii) Delete the heading “Date of Consensus” and the date following thereafter.

(iv) Delete the paragraph under the heading “Effective Date” and substitute the following paragraph:

INT FRS 15 comes into effect on *1st February 2003*.

(i) Delete the following paragraph:

“Draft Interpretation SIC-D21, Income Taxes — Omnibus was issued for comment in September 1999. The Draft Interpretation included both the issue addressed in this Interpretation and the issue included in Interpretation SIC-25, Income Taxes — Changes in the Tax Status of an Enterprise or its Shareholders.”.

(ii) Delete the heading “Date of Consensus” and the date following thereafter.

(iii) Delete the paragraph under the heading “Effective Date” and substitute the following paragraph:

“INT FRS 21 comes into effect on *1st February 2003*. Changes in accounting

INT FRS 25  
Income Taxes – Changes  
in the Tax Status of an  
Enterprise or its  
Shareholders

SIC – 25  
Income Taxes – Changes in  
the Tax Status of an  
Enterprise or its  
Shareholders

policies should be accounted  
for according to the  
transitional requirements in  
FRS 8.40.”.

(i) Delete the following  
paragraph:

*“Draft Interpretation SIC-  
D21, Income Taxes —  
Omnibus was issued for  
comment in September 1999.  
The Draft Interpretation  
included both the issue  
addressed in this  
Interpretation and the issue  
included in Interpretation  
SIC-21, Income Taxes —  
Recovery of Revalued Non-  
Depreciable Assets.”.*

(ii) Delete the heading “Date  
of Consensus” and the date  
following thereafter.

(iii) Delete the paragraph  
under the heading “Effective  
Date” and substitute the  
following paragraph:

“INT FRS 25 comes into  
effect on **1st February 2003**.  
Changes in accounting  
policies should be accounted  
for according to the  
transitional requirements in  
FRS 8.40.”.

INT FRS 27  
Evaluating the Substance  
of Transactions Involving  
the Legal Form of a Lease

SIC – 27  
Evaluating the Substance of  
Transactions Involving the  
Legal Form of a Lease

(i) Delete the words  
“paragraph 35 of the  
Framework” wherever they  
appear and substitute in each  
case the words “paragraph  
31 of the FRS Framework”.

(ii) Delete the words  
“paragraphs 49 – 64 of the  
Framework” wherever they

INT FRS 29  
Disclosure – Service  
Concession Arrangements

SIC – 29  
Disclosure – Service  
Concession Arrangements

appear and substitute in each case the words “paragraphs 45 – 60 of the FRS Framework”.

(iii) Delete the words “Paragraph 75 of the Framework” and substitute the words “Paragraph 71 of the FRS Framework”.

(iv) Delete the heading “Date of Consensus” and the date following thereafter.

(v) Delete the paragraph under the heading “Effective Date” and substitute the following paragraph:

“INT FRS 27 comes into effect on *1st February 2003*. Changes in accounting policies should be accounted for according to the transitional requirements in FRS 8.40.”.

(i) Delete the words “Paragraph 15 of the Framework” and substitute the words “Paragraph 11 of the FRS Framework”.

(ii) Delete the words “Paragraph 21 of the Framework” and substitute the words “Paragraph 17 of the FRS Framework”.

(iii) Delete the heading “Date of Consensus” and the date following thereafter.

(iv) Delete the paragraph under the heading “Effective Date” and substitute the following paragraph:

“INT FRS 29 comes into effect on *1st February 2003*.”.

INT FRS 31  
Revenue – Barter  
Transactions Involving  
Advertising Services

SIC – 31  
Revenue – Barter  
Transactions Involving  
Advertising Services

(i) Delete the words  
“Paragraph 31 of the  
Framework” and substitute  
the words “Paragraph 27 of  
the FRS Framework”.

(ii) Delete the heading “Date  
of Consensus” and the date  
following thereafter.

(iii) Delete the paragraph  
under the heading “Effective  
Date” and substitute the  
following paragraph:

“INT FRS 31 comes into  
effect on *1st February 2003*.  
Changes in accounting  
policies should be accounted  
for according to the  
transitional requirements in  
FRS 8.40.”.

INT FRS 32  
Intangible Assets – Web  
Site Costs

SIC – 32  
Intangible Assets – Web Site  
Costs

(i) Delete the heading “Date  
of Consensus” and the date  
following thereafter.

(ii) Delete the paragraph  
under the heading “Effective  
Date” and substitute the  
following paragraph:

“INT FRS 32 comes into  
effect on *1st February 2003*.  
The effects of adopting this  
INT FRS should be  
accounted for using the  
transitional requirements in  
FRS 38.118 — 38.121.

Therefore, when a web site  
does not meet the criteria for  
recognition as an intangible  
asset, but was previously  
recognised as an asset, the  
item should be derecognised  
at the date when this INT  
FRS becomes effective.  
When a web site exists and  
the expenditure to develop it  
meets the criteria for

recognition as an intangible asset, but such expenditure was not previously recognised as an asset, the intangible asset should not be recognised at the date when this INT FRS becomes effective. When a web site exists and the expenditure to develop it meets the criteria for recognition as an intangible asset, and where such expenditure was previously recognised as an asset and initially measured at cost, the amount of expenditure initially recognised is deemed to have been properly determined according to this INT FRS.”.

INT FRS 101  
Changes in Existing  
Decommissioning,  
Restoration and Similar  
Liabilities

IFRIC  
Interpretation 1  
Changes in Existing  
Decommissioning,  
Restoration and Similar  
Liabilities

Delete the following words in paragraph A1 of the Appendix to IFRIC Interpretation 1:

“In the Basis for Conclusions, a new heading and paragraph BC63C are inserted, as follows:”,

and the paragraphs thereunder.

Delete the following words in paragraph A1 of the Appendix to IFRIC Interpretation 4:

“In the Basis for Conclusions, after paragraph BC63C a new heading and paragraph BC63D are inserted, as follows:

**INT FRS 104**  
Determining whether an  
Arrangement contains a  
Lease

**IFRIC**  
**Interpretation 4**  
Determining whether an  
Arrangement contains a  
Lease

**Leases**

BC63D IFRIC 4

*Determining whether an Arrangement contains a Lease* contains transitional provisions because the IFRIC acknowledged the practical difficulties raised by full retrospective application of the Interpretation, in particular the difficulty of going back potentially many years and making a meaningful assessment of whether the arrangement satisfied the criteria at that time. The Board decided to treat first-time adopters in the same way as entities that already apply IFRSs.”.

[S 326/2005, wef 01/06/2005](#)

**INT FRS 105**

Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

**IFRIC**

**Interpretation 5**

Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

(There is no modification on IFRIC Interpretation 5).

[S 326/2005, wef 01/06/2005](#)

**INT FRS 106**

Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment

**IFRIC Interpretation 6**

Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment

Delete the following words in paragraph 8 of IFRIC Interpretation 6:

[S 2/2006, wef 03/01/2006](#)

“The IFRIC was asked to determine”, and substitute the following words:

[S 2/2006, wef 03/01/2006](#)

“This Interpretation

		determines”.
<a href="#"><u>S 2/2006, wef 03/01/2006</u></a>		
<b>INT FRS 107</b>	<b>IFRIC Interpretation 7</b>	(There is no modification on IFRIC Interpretation 7).
Applying the Restatement Approach under FRS 29 Financial Reporting in Hyperinflationary Economies	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies	
<a href="#"><u>S 45/2006, wef 01/02/2006</u></a>		
<b>INT FRS 108</b>	<b>IFRIC Interpretation 8</b>	(There is no modification on IFRIC Interpretation 8).
<a href="#"><u>S 250/2006, wef 10/05/2006</u></a>		
Scope of FRS 102	Scope of IFRS 2	
<a href="#"><u>S 250/2006, wef 10/05/2006</u></a>		
<b>INT FRS 109</b>	<b>IFRIC Interpretation 9</b>	(There is no modification on IFRIC Interpretation 9).
Reassessment of Embedded Derivatives	Reassessment of Embedded Derivatives	
<a href="#"><u>S 297/2006, wef 15/06/2006</u></a>		
<b>INT FRS 110</b>	<b>IFRIC Interpretation 10</b>	(There is no modification on IFRIC Interpretation 10).
Interim Financial Reporting and Impairment	Interim Financial Reporting and Impairment	
<a href="#"><u>S 603/2006, wef 01/11/2006</u></a>		
<b>INT FRS 111</b>	<b>IFRIC Interpretation 11</b>	(There is no modification on IFRIC Interpretation 11).
FRS 102 — Group and Treasury Share Transactions	IFRS 2 — Group and Treasury Share Transactions	
<a href="#"><u>S 74/2007, wef 01/03/2007</u></a>		
<b>INT FRS 112</b>	<b>IFRIC Interpretation 12</b>	(There is no modification on IFRIC Interpretation 12).
Service Concession Arrangements	Service Concession Arrangements	
<a href="#"><u>S 74/2007, wef 01/03/2007</u></a>		

[S 561/2004, wef 01/01/2005](#)  
*[G.N. No.S644/2002;S 43/2003;S255/2003;S549/2003]*