

Financial Reporting Bulletin

Improvements to IFRS 2008

Background

The International Accounting Standards Board (IASB) has issued a set of changes to existing standards following an Exposure Draft 'Improvements to International Financial Reporting Standards (IFRS)' issued in October 2007. This is the first in what is expected to be an annual process for dealing efficiently with a collection of miscellaneous but necessary minor amendments to standards.

Requirement

The most significant changes made to standards as a result of the improvements are:

- **IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'** – It has been clarified that all assets and liabilities of a subsidiary should be classified as held for sale if the disposal will result in a loss of control, whether or not the entity will retain a non-controlling interest (ie in the form of a joint venture, associate or simple investment) in the entity to be disposed of.
- **IAS 16 'Property, Plant and Equipment'** – Entities that routinely sell items of property, plant or equipment (ie assets within the scope is IAS 16, which would exclude certain assets such as investment properties) that were previously held for rental to others should be reclassified at their net book value to inventory when they cease to be rented and become held for sale. The subsequent sale of such assets would therefore give rise to revenue and cost of sales, and would not be reported as a net profit or loss on disposal.
- **IAS 7 'Cash Flow Statements'** – A consequence of the amendment to IAS 16 above is that the cash flows from acquiring or manufacturing such assets should be classified as operating rather than investing activities in the cash flow statement. Similarly, the proceeds on disposal of such assets would also fall to be classified as operating activities.
- **IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance'** – The recognition and measurement of loans given to entities by scope of IAS 39 'Financial Instruments: Recognition and Measurement'. The benefit of the below-market rate of interest is to be measured as the difference between the initial carrying amount of the loan and the proceeds received, with an interest charge arising over the period to repayment.



- **IAS 28 'Investments in Associates'** – It has been clarified that an impairment of an associate accounted for using the equity method can be reversed in subsequent periods. This contrasts with impairments of goodwill originally arising on business combinations, which cannot subsequently be reversed. The rationale for this is that an associate is treated as a single asset in the balance sheet, notwithstanding that its carrying amount may include a premium for goodwill over the underlying net assets of the associate. Consequently, any impairment recognised is not deemed to be allocated to any specific asset, including goodwill, that forms part of the carrying amount of the investment in the associate.
- **IAS 38 'Intangible Assets'** – It has been clarified that expenditure on advertising and promotional activities (including mail order catalogues) should be expensed when the entity has received the goods or services concerned, and not when the entity actually expects to benefit from the goods or services received. For example, a tour operator should expense the cost of travel brochures as soon as they have taken delivery of them. It should not defer the cost until the period the brochures are distributed to agents or the period which it expects to benefit from the brochures through holiday sales made. Where the brochures have been printed and are being held on the tour operator's behalf by the printer, the service is also deemed to have been received and therefore the costs written off.
- **IAS 40 'Investment Property'** – Property that is being constructed or developed for future use as investment property has been brought within the scope of IAS 40 and removed the scope of IAS 15 'Property, Plant and Equipment'. This could result in a significant change as most property investment companies have a policy of measuring investment property at fair value with changes in fair value recognised in the income statement, while properties in the course of development may have been accounted for at cost under IAS 16.

The above is not an exhaustive list of the amendments made, but cover those ones which are more likely to have a significant impact. Many of the other changes are minor and are less likely to have a significant effect on the accounting of have been made to make the language used across standards consistent.

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Effect The improvements are effective for periods beginning on or after 1 January 2009, except for those made to IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' which are only effective for periods beginning on or after 1 July 2009. The amendment to IFRS 5 can be adopted early if the revised IAS 27 'Consolidated and Separate Financial Statements' issued in January 2008 is also adopted early (see IFRB Issue 5 2008). For entities reporting in accordance with EU-endorsed IFRS, it is currently anticipated that endorsement of the Improvements to IFRS and the revised IAS 27 will be in the first quarter of 2009.

Action required Preparers of accounts should familiarise themselves with the changes made to standards as a result of the annual improvements project and amend their current accounting policies if these might conflict with the 'improved' standards.

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