

IFRS News supplement

Summary of changes for existing preparers of IFRS financial statements

March 2005

This is the final in a series of IFRS News supplements assessing the impact of recent changes in IFRS that are relevant to existing preparers. This supplement looks at the impact of the changes on IAS 36, IAS 38 and IFRSs 2-5. It also lists the interpretations that have been incorporated into and superseded by some of the standards.

Standard	Scope and definitions	Measurement and recognition	Presentation and disclosure
IAS 36 Impairment of Assets	<ul style="list-style-type: none"> • New term 'fair value less costs to sell' introduced to replace 'net selling price' (IAS 36.6). • Assets held for sale and disposal groups are scoped out (IAS 36.2(i), 3). 	<ul style="list-style-type: none"> • Concept of indefinite lived intangible assets introduced from IAS 38 (IAS 38.88), (IAS 36.10). • Recoverable amount for indefinite lived intangibles, intangibles not yet available for use and goodwill to be measured annually (IAS 36.10). • Additional details of elements to be considered in determining value in use (IAS 36.30, 33). • New guidance for management when making assumptions of future cash flows from asset's use (IAS 36.34-38). • Clarification that cash inflows from future restructuring or enhancements are excluded from value in use (IAS 36.44). • Guidance provided on present value techniques (IAS 36.A1-A21). • Cash flows from internally consumed output of a cash-generating unit (CGU) determined using estimate of value in arms-length transaction (IAS 36.70). • Requirement to allocate goodwill to CGUs benefiting from synergies within 12 months of end of period (IAS 36.IN11). • Clarification that carrying value of allocated goodwill included in disposal of CGU. Partial disposal of CGU to require apportionment of goodwill on reasonable basis (IAS 36.86). • Clarification that changes in entity's reporting structure will require reallocation of goodwill for all CGUs affected (IAS 36.86). 	<ul style="list-style-type: none"> • Disclosure of reason for and amount of goodwill not allocated to CGUs (IAS 36.133). • Additional disclosures required of assumptions used in estimating recoverable amount for CGUs containing goodwill or indefinite lived intangibles (IAS 36.134-135). • Additional disclosures of amount of goodwill allocated to each CGU and, where appropriate, a declaration that no individual CGU holds a substantial portion (IAS 36.135).

Standard	Scope and definitions	Measurement and recognition	Presentation and disclosure
IAS 38 Intangible Assets	<ul style="list-style-type: none"> References to potential uses for intangibles removed from definition (IAS 38.7). Intangible that meets IFRS 5 criteria as held for sale scoped out (IAS 38.3(h)). Deferred acquisition costs and intangibles arising from insurer's contractual rights under an insurance contract within scope of IFRS 4 (IAS 38.3(g)). 	<ul style="list-style-type: none"> Specific criteria provided for use of prior-period recoverable amount in current year impairment test (IAS 36.99). Reversal of impairment losses on goodwill prohibited (IAS 36.124). Clarification that carrying amount of investment in associate (including goodwill on acquisition) is impaired when IAS 39 requirements indicate that asset may be impaired (IAS 28.33). Clarification of identifiability criterion and requirement for asset to be separable or arise from a contractual or legal right (IAS 38.12). Clarification that probability criterion always met when intangible acquired separately or in business combination (IAS 38.33). Introduction of rebuttable presumption that fair value of finite life intangible asset can be measured reliably if acquired in business combination (IAS 38.35-41). Subsequent expenditure on acquired in-process research and development expensed unless it meets capitalisation criteria (IAS 38.42-43). Potential renewals only considered in useful life assessment if renewal costs not significant (IAS 38.94). Introduction of indefinite lived intangible assets (IAS 38.88). Rebuttable presumption of useful life not exceeding 20 years removed. Indefinite life intangibles not amortised but tested for impairment annually or whenever there is indicator of impairment (IAS 38.107-108). Useful life of indefinite life intangible reassessed annually (IAS 38.109). Change from indefinite to finite life accounted for as change in accounting estimate under IAS 8 (IAS 38.104). A change from indefinite to finite life is indicator of impairment (IAS 38.110). 	<ul style="list-style-type: none"> Additional disclosures required for indefinite lived intangibles: <ul style="list-style-type: none"> (a) carrying amount of indefinite lived assets, and (b) reasons supporting assessment of indefinite useful life (IAS 38.122). Intangible asset that meets criteria as held for sale to be separately classified (IFRS 5.38).

Standard	Scope and definitions	Measurement and recognition	Presentation and disclosure
<p>IFRS 2 Share-based Payment</p>	<ul style="list-style-type: none"> Equity compensation benefits transferred from IAS 19 (IAS 19.IN2). Rights and obligations under share-based payment transactions scoped out of IAS 32 and IAS 39 (IAS 32.4(f)). <p>Note: contracts meeting descriptions in IAS 39.5-7 still within the scope of that standard (IAS 39.2(i)).</p>	<ul style="list-style-type: none"> Share-based payments can create deductible timing differences (IAS 12.68B). Excess of associated current or deferred tax where estimated tax deduction exceeds remuneration expense included in equity (IAS 12.68C, Appendix B (Example 5)). Amount of consideration recognised in accordance with IFRS 2 can be included in cost of asset under IAS 16 (IAS 16.6) and IAS 38 (IAS 38.8). Issue price and exercise price to include the fair value of goods and services to be supplied under share based-payment arrangement (IAS 33.47A). 	
<p>IFRS 3 Business Combinations</p>		<ul style="list-style-type: none"> Replaces IAS 22, Business Combinations. References to IAS 22 in other standards have been replaced with references to IFRS 3. IAS 12 references to negative goodwill removed. Subsequent reductions in deferred tax liability not recognised on initial recognition of goodwill are not recognised (IAS 12.21A). Deferred tax liabilities for taxable temporary differences relating to goodwill recognised to extent that they do not arise from initial recognition of goodwill (IAS 12.21B). Goodwill on business combination no longer adjusted for impairment of asset before end of first annual accounting period following the combination (IAS 16.64 – deleted). Clarification that accounting treatment for reverse acquisitions to follow substance of arrangement rather than legal form (IFRS 3.21, B8). Goodwill to be included in carrying value of investment in associate (IAS 28.23). Acquirer's contracts for contingent consideration excluded from IAS 32 (IAS 32.4(c)). Ordinary shares issued in business combination included in computing EPS from acquisition date (IAS 33.22). 	

Standard	Scope and definitions	Measurement and recognition	Presentation and disclosure
IFRS 4 Insurance Contracts	<ul style="list-style-type: none"> • Insurance contracts scoped out of IAS 32 and 39 (IAS 32.4(d)). Note: derivatives embedded in insurance contracts are still within scope of IAS 39. Some exceptions covered in IFRS 4. • Distinction between debt and equity for financial instruments with discretionary participation feature. All other aspects subject to IAS 32 requirements (IAS 32.4(e)). • Contractual obligations and rights under insurance contracts are scoped out of IAS 37 (IAS 37.5(e)). • Intangibles under IFRS 4 scoped out of IAS 38 (IAS 38.3(g)). 	<ul style="list-style-type: none"> • Clarification that situation outlined in Appendix C, Example 9 of IAS 37 meets definition of insurance contract (IAS 37 App C-Ex9). • Clarification that origination fees on the issuance of financial liabilities are measured at amortised cost (IAS 18.App14 (a)(iii)). • Fees for investment management recognised as revenue when service provided (IAS 18 App14 (b)(iii)). • Costs of securing investment-managed contract can be capitalised (IAS 18.App14 (b)(iii)). • Investment property meeting specific criteria measured at either cost or fair value irrespective of existing policy (IAS 40.32A-32C). 	<ul style="list-style-type: none"> • Disclosures required where IFRS 4 participatory features cannot be measured reliably (IAS 32.91A).

Standard	Scope and definitions	Measurement and recognition	Presentation and disclosure
IFRS 5 Non-Current Assets Held For Sale and Discontinued Operations	<ul style="list-style-type: none"> Subsidiaries, investments in associates and investments in jointly controlled assets where intention is to dispose within 12 months considered under IFRS 5. Clarification that an asset under a finance lease and classified as held for sale to be accounted for under IFRS 5 (IAS 17.41A). 	<ul style="list-style-type: none"> Replaces IAS 35, Discontinuing Operations. References to IAS 35 in other standards replaced with references to IFRS 5. Clarification that depreciation on PPE ceases at earlier of derecognition and classification as held for sale (IAS 16.55). Investments in associates no longer meeting held for sale criteria accounted for using equity method from date originally assessed as held for sale. Financial statements for prior periods to be amended for reclassification (IAS 28.15). Investments in jointly controlled entities no longer meeting held-for-sale criteria accounted for using equity method or proportionate consolidation from date originally assessed as held for sale. Financial statements for prior periods to be amended for reclassification (IAS 31.43). 	<ul style="list-style-type: none"> Profit or loss from discontinued operations disclosed as single line item in income statement (IFRS 5.33(a)). Assets held for sale and assets and liabilities included in disposal group are separately presented on balance sheet (IFRS 5.38). Segment results for individual reportable segments split between continuing and discontinuing operations (IAS 14.52). Prior-period segment result to reflect operations classified as discontinued at latest balance sheet date (IAS 14.52A). Assets and liabilities in disposal group cannot be shown net (IFRS 5.38). Non-current assets reclassified as current when held-for-sale criteria met (IFRS 5.IE2). Non-current asset that meets criteria as held for sale to be separately classified in financial statements (IFRS 5.38). PPE classified as held for sale to be included in reconciliation of carrying amount at beginning and end of period (IAS 16.73(e)(ii)). Announcement of plan to discontinue an operation and classification of assets as held for sale are non-adjusting events, which would generally result in disclosure (IAS 10.22(b-c)).

Interpretation	Incorporated into and superseded by
SIC-1 Consistency – Different Cost Formulas for Inventories	IAS 2 (IAS 2.IN1, 12)
SIC-2 Consistency – Capitalisation of Borrowing Costs	IAS 8 (IAS 8.IN1, 16)
SIC-3 Elimination of Unrealised Profits and Losses on Transactions with Associates	IAS 28 (IAS 28.IN1, 11)
SIC-5 Classification of Financial Instruments – Contingent Settlement Provisions	IAS 32 (IAS 32.IN1, 11)
SIC-6 Costs of Modifying Existing Software	IAS 16 (IAS 16.IN1, 14)
SIC-8 First-Time Application of IASs as the Primary Basis of Accounting	IFRS 1 (IFRS 1.IN1)
SIC-9 Business Combinations – Classification either as Acquisitions or Unitings of Interests	IFRS 3 (IFRS 3.IN1)
SIC-11 Foreign Exchange – Capitalisation of Losses Resulting from Severe Currency Devaluations	IAS 21 (IAS 21.IN1)
SIC-14 Property Plant and Equipment – Compensation for the Impairment or Loss of Items	IAS 16 (IAS 16.IN1, 14)
SIC-16 Share Capital – Reacquired Own Equity Instruments (Treasury Shares)	IAS 32 (IAS 32.IN1, 14)
SIC-17 Equity – Costs of an Equity Transaction	IAS 32 (IAS 32.IN1, 15)
SIC-18 Consistency – Alternative Methods	IAS 8 (IAS 8.IN16)
SIC-19 Reporting Currency – Measurement and Presentation of Financial Statements Under IAS 21 and IAS 29	IAS 21 (IAS 21.IN1)
SIC-20 Equity Accounting Method Recognition of Losses	IAS 28 (IAS 28.IN1, 14)
SIC-22 Business Combinations – Subsequent Adjustment of Fair Values and Goodwill Initially Reported	IFRS 3 (IFRS 3.IN1)
SIC-23 Property Plant and Equipment – Major Inspection or Overhaul Costs	IAS 16 (IAS 16.IN1, 14)
SIC-24 Earnings Per Share – Financial Instruments and Other Contracts that May Be Settled in Shares	IAS 33 (IAS 33.IN1)
SIC-28 Business Combinations – ‘Date of Exchange’ and Fair Value of Equity Instruments	IFRS 3 (IFRS 3.IN1)
SIC-30 Reporting Currency – Translation from Measurement Currency to Presentation Currency	IAS 21 (IAS 21.IN1)
SIC-33 Consolidation and Equity Method – Potential Voting Rights and Allocation of Ownership Interests	IAS 27 (IAS 27.IN1, 10) IAS 28 (IAS 28.IN1, 7)