[EXPOSURE DRAFT FOR DISCUSSION PURPOSES ONLY]

EXPOSURE DRAFT: FRAMEWORK FOR NON-PUBLIC ENTITIES

February 2009

This Framework for Non-Public Entities (hereafter referred to as 'the Framework' or 'this Framework'), is issued by the Working Group and released for public comment.

Comments received on the exposure draft will be considered in issuing a Framework for Non-Public Entities. Upon finalisation of the Framework, a model set of Financial Statements will be drafted and the Framework will be translated into Afrikaans. Appendix B to this Framework deals with Business Combinations, Consolidation and Equity Accounting, and will be completed once the Framework has been finalised.

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Your comments should be dispatched so as to be received no later than **30 April 2009**. All comment letters will be regarded as being on public record unless confidentiality is requested.

[EXPOSURE DRAFT FOR DISCUSSION PURPOSES ONLY]

INTRODUCTION TO THE FRAMEWORK

For some time now there has been debate around the level, complexity and cost implications of Financial Reporting Standards for organisations and legal entities with a limited audience. The Corporate Laws Amendment Act (2006) went some way towards differentiating between Financial Reporting Standards for 'Limited Interest' and 'Widely Held' companies. Against the backdrop of specific research commissioned by the South African Institute of Chartered Accountants (SAICA) and the continuing concern raised by members of various professional associations, practitioners and business owners and managers, a decision was taken to form a working group to evaluate the development of a separate set of Financial Reporting Standards for entities that do not require general purpose financial statements, including but not limited or restricted to owner managed entities.

Objective

There is sound justification for this initiative. Some of the proposed benefits include:

- instituting a cost-effective process to create reliable, meaningful financial reports for these businesses;
- assisting government in its objectives to facilitate employment creation and an entrepreneurial spirit, without overburdening new entrepreneurs;
- creating an appropriate standard for reporting with consistency in terms of accounting application and interpretation;
- supporting financial institutions and others in their process of assessing the risk profile of the reporting entity; and
- increasing the reliance that SARS can place on reported information.

Scope

The scope of the Working Group was to develop a high quality framework for entities that are not required by law to apply any other framework (such as IFRS, SA GAAP or Statement of GAAP for SMEs), or that are required by law to apply this Framework. The primary users of these financial statements were identified as the owners of the entities, financial institutions and SARS.

The Working Group agreed that the outcome would be measured against the following criteria:

- The costs of applying the Framework should not exceed the benefits to be derived.
- The Framework must enable the primary users (identified above) to evaluate the reporting entity's liquidity, solvency and profitability.
- It must be a stand-alone document which is succinct, easy to use and understand.
- It should address the majority of transactions and events that a reporting entity may encounter, and omit transactions that are either uncommon or relate to a few entities.
- It must ensure minimal deviation from management accounts, with as few adjustments as possible required, and must reflect the economic reality of the business activities by reflecting the intention of management.
- It must ensure that transactions are recognised with integrity to enable the primary users to place reliance thereon.

Composition

The Working Group was constituted of representatives from the following institutions and associations:

- SAICA (South African Institute of Chartered Accountants)
- SAIPA (South African Institute of Professional Accountants)
- ACCA (Association of Chartered Certified Accountants)
- University of Johannesburg
- IRBA (The Independent Regulatory Board for Auditors – South Africa)
- SARS (South African Revenue Service)
- Banking Industry representation from ABSA and Nedbank
- Members of business and audit practices engaged in preparing and auditing financial reports

Request for comment

An important part of developing the Framework is to solicit comment from preparers, auditors, users, government and other parties with an interest in a financial reporting Framework for Non-Public Entities. Accordingly the Framework is released for interested parties to submit comments. The Framework has a comment period of two months. Upon closure of the comment period, the Working Group will consider the submissions made, and modify, where appropriate, the Framework in the light of comments received, before proceeding to issue a finalised Framework.

Comment is invited on any aspects of the Framework by **30 April 2009**. Respondents are requested to express a clear overall opinion on whether the Framework in general is supported and that this opinion be supplemented by detailed comment, whether supportive or not, on the specific issues in the exposure draft. Comments must indicate the specific paragraph number or groups of paragraphs to which the comment relates. Comments should clearly explain the issue and propose suggested alternative wording with supporting reasoning.

Acknowledgements

Sections of the Malaysian Accounting Standards Board Exposure Draft 52 – *Private Entity Reporting Standards* have been included in the Framework. The Framework also incorporates certain parts of the International Financial Reporting Standards and IFRS (IFRS) for Private Entities as issued by the International Accounting Standards Board. In addition to the aforementioned, and taking cognisance of the research results that indicated a preference for using IFRS as the basis for development of another framework, this Framework commenced with a document prepared from IFRS and incorporating previous endeavours in developing a simplified reporting framework.

SPECIFIC MATTERS FOR COMMENT

The Working Group invites comments on any aspect of this Exposure Draft, particularly on the questions set out below.

Comments are most helpful if they:

a) comment on the questions as stated;

b) indicate the specific paragraph or group of paragraphs to which they relate;

c) contain a clear rationale; and

d) describe any alternative the Working Group should consider, if applicable.

Respondents need not comment on all of the questions and are encouraged to comment on any additional issues that, in their view, warrant consideration.

The Working Group will consider all comments that it receives in writing by **30 April 2009**. Comments must be sent to the following e-mail address: juanitas@saica.co.za or faxed to +27 (0)11-621 6819.

Question 1 – Name of the Framework

This Framework has been named a Framework for Non-Public Entities. Do you agree with this name? If not, please provide an alternative name and justification for this.

Question 2 – Purpose, objectives and scope

Question 2 (a)

Chapter 1 of this Framework provides the purpose, objectives and scope of this Framework. Do you agree with the current purposes, objectives and scope? If not, please provide details on how this Chapter may be improved.

Question 2 (b)

This Framework has opted for the alignment of the tax and accounting treatment, as a result of the scope as stated. This might result in the financial statements not achieving fair presentation. Do you believe that alternative treatments should be allowed whereby temporary differences can arise between book- and tax values? If so, which balance sheet items should an alternative be provided for.

Question 3 – Transitional provisions

Question 3 (a)

Chapter 2 provides the transitional provisions for an entity to comply with the transition to this Framework.

- Do you agree with the current provision to restate comparatives if the entity's previous accounting framework was not IFRS, SA GAAP or the Statement of GAAP for SMEs (such as most Close Corporations) [Chapter 2, paragraph .03]? If not:
  - Would you propose no restatement or only the restatement of the Balance Sheet and related notes? or
  - Should an option be given for restatement?

Question 3 (b)

Should an undue time, cost or effort exemption be included?

Question 4 – Principles, recognition and measurement

Question 4 (a)

Chapter 3 provides the principles, recognition and measurement criteria of this Framework. Do you agree with these? If not, please provide details on how this Chapter may be improved.

Question 4 (b)

Do you agree with the matching principle?

- Are there sections of this Framework that need to be re-assessed in light of your answer, for example dividends declared [Chapter 9, paragraphs .18 and .19]?

Question 5 – Accounting treatment not covered in the Framework

When developing an appropriate accounting policy for a transaction, event or balance not covered by this Framework, reference should be made to the recognition and measurement section, Chapter 3, [Chapter 4, paragraph .05]. Do you agree with the requirement where this Framework does not address a particular accounting recognition or measurement issue? If not, please provide details on how this Section may be improved.

Question 6 – Changes in accounting policies and corrections of prior period errors

This Framework proposes that any change in accounting policy or correction of a material prior period error shall be applied retrospectively with the resulting adjustment to be included in the opening balance of retained earnings for the period. Comparative information shall accordingly be presented as reported in the financial statements (AFS) of the prior period and is therefore not restated for the retrospective application [Chapter 4, paragraphs .08 and .12].

An entity is encouraged to present additional comparative information to show the profit or loss and the financial position of the current period and any prior periods presented as if the new accounting policy had always been applied [Chapter 4, paragraphs .09 and .13].

Do you agree with these proposals?

- If yes, do you agree that an entity shall be encouraged, rather than be mandated, to present the additional pro-forma comparative information?
- If not, would you propose no restatement or only the restatement of the Balance Sheet?

Question 7 – Presentation of financial statements

Question 7 (a)

Chapter 5 of this Framework does not require a Statement of Changes in Equity, but incorporates a Statement of Income and Retained Earnings. Disclosure of changes in equity, including reserves, is required on the face of the Balance Sheet or in the notes [Chapter 6, paragraphs .218, .219 and .222]. Do you agree with this proposal and the other requirements? If not, why and what alternative(s) would you propose?

Question 7 (b)

In your experience list the types of reserves that Non Governmental Organisations (NGOs) have and how would you suggest these be accounted for in the financial statements?

Question 8 – Balance Sheet (general)

Question 8 (a)

The general measurement basis for all assets and liabilities is cost less accumulated impairment and accumulated depreciation (amortisation) [Chapter 6, paragraphs .02 and .03]. An entity may elect to disclose an attributed value of any asset or liability [Chapter 6, paragraph .04]. Do you agree with these proposals? If not, why and what alternative would you propose?

Question 8 (b)

Do you agree with the term 'attributed value', or would you prefer any other terms, for example 'directors' valuation', 'market value', 'insured value', 'deemed value', 'replacement value', 'depreciated replacement value' or any other term [Chapter 6, paragraph .04]?

Question 9 – Real estate

This Framework requires that real estate is carried at cost less any accumulated impairment losses (if applicable) [Chapter 6, paragraphs .17 to .21] and no depreciation of real estate is required [Chapter 6, paragraph .22]. Subsequent expenditure on real estate shall also be accounted for in a manner consistent with its tax treatment [Chapter 6, paragraphs .25 and .26]. Land and buildings are not required to be separated, but they may be if an entity chooses to do so [Chapter 6, paragraph .35].

Do you agree with these proposals and the other requirements relating to real estate? If not, please provide details on how this Section may be improved.

Question 10 – Plant and equipment

This Framework requires that for tax-deductible assets the cost of an asset shall be allocated on a basis consistent with its tax treatment [Chapter 6, paragraph .45]. The cost of a tax-deductible asset shall be allocated on a straight-line basis over its useful life [Chapter 6, paragraph .46]. Subsequent expenditure on plant and equipment shall also be accounted for in a manner consistent with its tax treatment [Chapter 6, paragraphs .51 and .52].

Residual values for plant and equipment do not need to be estimated and all plant and equipment will be depreciated to zero. Furthermore, there is no option to depreciate tax-deductible plant and equipment over the estimated useful life, thereby differing from the tax treatment.

Do you agree with these proposals and the other requirements relating to plant and equipment? If not, do you believe there should be two allowed alternatives, one requiring the accounting treatment to be in line with the tax treatment, with a second option to allow for estimated useful lives and residual values (benchmark and alternative treatment)? If the latter is your preference, do you believe deferred tax should be a requirement in this Framework?

Question 11 – Intangible assets and goodwill

Question 11 (a)

This Framework proposes that all goodwill and internally generated intangible assets shall be expensed as incurred [Chapter 6, paragraph .62]. It also requires that tax-deductible intangible assets are accounted for in a manner consistent with their tax treatment [Chapter 6, paragraph 75]. Non-tax-deductible intangible assets are to be amortised over their useful lives on a straight-line basis, with a rebuttable presumption that the maximum useful life is 10 years [Chapter 6, paragraph 76].

Residual values for intangible assets and goodwill need not be estimated and all intangible assets and goodwill will be depreciated to zero over a period not exceeding 10 years. There is no option to depreciate tax-deductible intangible assets over the estimated useful life.

Do you agree with these proposals and the other requirements relating to intangible assets and goodwill? If not, do you believe there should be two allowed alternatives, one requiring the accounting treatment to be in line with the tax treatment, with a second option to allow for estimated useful lives and residual values (benchmark and alternative treatment)? If the latter is your preference, do you believe deferred tax should be required or not?

Question 11 (b)

The definition, recognition and measurement principles of goodwill are contained in this Section, and require the same subsequent measurement and disclosure requirements as other intangible assets [Chapter 6, paragraphs .86 and .87].

Do you agree with the initial measurement principles and definition of goodwill? If you disagree with the definition or measurement requirements, why and what alternative would you propose? Would you suggest different guidance for goodwill?

Question 12 – Leases

This Framework proposes that all leases should be classified as operating leases [Chapter 6, paragraph .88]. It distinguishes between instalment sales and leases. Lease payments are to be recognised as income or expense by the lessor and lessee respectively, in a manner consistent with the tax treatment [Chapter 6, paragraphs .90 and .93].

Do you agree with the definitions, proposals and the other requirements in this Section? If not, why and what alternative would you propose? In particular, are there any additional disclosures you believe are required?

Question 13 – Instalment sales

This Framework requires that, for **instalment sales**, the purchaser shall recognise an asset an instalment sale payable (the seller recognises an instalment sale receivable) in its Balance Sheet at amounts equal to the cost of the asset to be purchased (sales price), excluding interest charges, i.e. principal debt plus any deposits paid [Chapter 6, paragraph .100 and .105]. The purchaser and seller will recognise interest expense and income in the same manner that interest is deductible or included for tax purposes, while the purchaser will recognise depreciation charges in the same manner that wear and tear is deductible for tax purposes [Chapter 6, paragraphs .102, .103 and .107].

Do you agree with the definitions, proposals and the other requirements in this Section? If not, why and what alternative would you propose? In particular, are there any additional disclosures you believe are required?

Question 14 – Inventories

Question 14 (a)

This Framework proposes that rebates and trade discounts indicated on the invoice be deducted in determining the cost of inventory [Chapter 6, paragraph .113]. This excludes early settlement discounts and other discounts and rebates received by the entity subsequent to the original invoice. Do you agree with this proposal? If not, why and what alternative(s) would you propose?

Question 14 (b)

This Framework proposes that the method to measure the cost of inventories shall be first-in, first-out (FIFO) or weighted average cost formula [Chapter 6, paragraph .115]. Owing to the nature of inventory, the value of inventory consumed may not always be easy to determine, e.g. scrap dealer, baker and butcher. Do you have any specific proposal(s) to provide more flexibility in quantifying the inventory values?

Question 15 – Impairment of assets

Question 15 (a)

This Framework requires that an entity tests goodwill and other assets for impairment only if there is an indication of impairment [Chapter 6, paragraph .120]. It also proposes that entities may decide not to impair assets, even if an indicator exists and the fair value less costs to sell is less than the carrying amount, in which case the entity should disclose the carrying amount of such assets and the reason for not impairing [Chapter 6, paragraphs .133 and .135]. Do you agree with these proposals? If not, why and what alternative would you propose?

Question 15 (b)

This Framework only allows the fair value less costs to sell as the basis for impairment, thereby disallowing the value-in-use basis [Chapter 6, paragraphs .126 to .129]. Do you agree with this proposal? If not, why and what alternative would you propose?

Question 15 (c)

This Framework does not allow impairment losses to be reversed [Chapter 6, paragraph .132]. Do you agree with this proposal? If not, why and what alternative would you propose?

Question 16 – Provisions, contingent liabilities and contingent assets

Question 16 (a)

Do you agree with the requirements of this Section [Chapter 6, paragraphs .136 to .159]? If not, why and what alternative(s) would you propose?

Question 16 (b)

Do you agree with the disclosure requirements for derivative instruments [Chapter 6, paragraph .159]? If not, why and what alternative(s) would you propose?

Question 17 – Deferred tax

In principle, do you believe that "Non-Public Entities" entities should provide for deferred tax?

i. If yes, which of the following methods would you prefer?

   - Timing differences – timing differences are differences between taxable profit or loss and accounting profit or loss that originate in one period and reverse in one or more subsequent periods. This method focuses on the Statement of Income and Retained Earnings of an entity.
   - Temporary differences – temporary differences are differences between the tax base of an asset or liability and its carrying amount in the Balance Sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. This method focuses on the Balance Sheet of an entity.

ii. Also, if yes, would you propose making the recognition of deferred tax compulsory or at the discretion of the entity?

Question 18 – Agriculture

This Framework requires that livestock and growing crops acquired be accounted for at cost [Chapter 6, paragraph .182]. It prohibits the capitalisation of costs related to biological transformation as well as the capitalisation of the costs of additional biological assets generated internally [Chapter 6, paragraphs .182 and .184]. Do you agree with these proposals and the other requirements relating to Agriculture?

If not, would you prefer to measure livestock and growing crops at their tax values?

i. If you prefer tax values, how would you suggest adjustments should be accounted for?

ii. Would you propose making the use of tax values compulsory or at the discretion of the entity?

Question 19 – Investments

Question 19 (a)

This Framework does not include a separate chapter on financial instruments. The chapter has been replaced with a section on investments [Chapter 6, paragraphs .195 to .208], equity [Chapter 6, paragraphs .216 to .219], loans payable [Chapter 6, paragraphs .224 to .233], cash and cash equivalents [Chapter 6, paragraphs .234 to .238], amounts receivable [Chapter 6, paragraphs .239 to .248] and amounts payable [Chapter 6, paragraphs .249 to .258].

The initial measurement basis for **all** investments is at cost [Chapter 6, paragraph .197] and subsequent measurement also at cost (loans at amortised cost) [Chapter 6, paragraphs .198 and .199]. For investments with control, joint control or significant influence, the alternative allowed method is to prepare consolidated financial statements [Chapter 6, paragraph .207]. This election for an alternative treatment may be undertaking on an investment-by-investment basis.

The Framework does not allow for any investments to be carried at fair value. The attributed value may, however, be disclosed [Chapter 6, paragraphs .206 and .208].

Do you agree with these proposals and the other requirements relating to investments? If not, why and what alternative would you propose?

Question 19 (b)

The Framework requires additional disclosures in respect of controlled entities and entities with significant influence (e.g. subsidiaries, special purpose entities, associates and jointly controlled entities), where the reporting entity does not prepare consolidated financial statements or does not apply the equity method of accounting [Chapter 6, paragraphs .209 to .212]. Do you agree with these proposals and disclosures? If not, why and what alternative would you propose?

Question 19 (c)

Derivative instruments held for speculative purposes are included in the scope of the investment section and accounted for accordingly [Chapter 6, paragraph .195]. Do you agree with this proposal, accounting treatment and resultant disclosures? If not, why and what alternative would you propose?

Question 20 – Equity, reserves and loans payable

Do you agree with the requirements of these Sections [Chapter 6, paragraphs .216 to .233]? If not, why and what alternative(s) would you propose?

Question 21 – Cash and cash equivalents, amounts receivable and amounts payable

Do you agree with the requirements of these Sections [Chapter 6, paragraphs .234 to .257]? If not, why and what alternative(s) would you propose?

Question 22 – Abnormal items

This Framework incorporates the concept of abnormal items. These items shall be presented / disclosed separately [Chapter 7, paragraph .04]. Do you agree with this proposal and the other requirements relating to the Statement of Income and Retained Earnings? If not, why and what alternative would you propose?

Question 23 – Construction contracts

This Framework deals with -construction contracts [Chapter 7, paragraph .07]. Do you agree with this proposal? If not, why and what alternative would you propose?

Question 24 – Revenue

Question 24 (a)

This Framework requires revenue to be measured at the net invoiced value. Only rebates and discounts included on the invoice will be taken into account [Chapter 7, paragraph .11]. Pre-invoiced amounts are specifically not allowed to be recognised as revenue [Chapter 7, paragraph .12]. Do you agree with these proposals? If not, why and what alternative(s) would you propose?

Question 24 (b)

Are there any additional revenue transactions which require specific guidance? If so, please provide details on how this Section may be improved.

Question 25 – Government grants

This Framework requires government grants to be recognised as revenue when received or receivable.

The amounts are not required to be spread over the period during which the entity is required to comply with certain conditions [Chapter 7, paragraphs .17 and .18]. Do you agree with the requirements of this Section? If not, why and what alternative(s) would you propose?

Question 26 – Discounts

An entity shall disclose discounts allowed and received, which are not indicated on sales' invoices issued and invoices for goods and services received, respectively, separately on the face of the Statement of Income and Retained Earnings [Chapter 7, paragraphs .20 and .21]. Do you agree with these proposals? If not, why and what alternatives would you propose?

Question 27 – Effects of changes in foreign exchange rates

This Framework requires transactions denominated in a foreign currency to be recorded at spot rate on the date of the transaction, or the cover rate, if applicable [Chapter 7, paragraph .27]. Do you agree with this proposal and the other requirements relating to the Effects of Changes in Foreign Exchange Rates? If not, why and what alternative would you propose?

Question 28 – Borrowing costs

This Framework has no specific section on borrowing costs. Do you agree with this proposal? If you disagree with the proposal, why and what alternative would you propose?

Question 29 – Employee benefits

This Framework has no specific section on employee benefits. Do you agree with this proposal? If not, why and what alternative would you propose?

Question 30 – Share-based payment

This Framework has no specific section on share-based payments. Do you agree with this proposal? If not, why and what alternative would you propose?

Question 31 – Taxation

This Framework requires Secondary Tax on Company (STC) (this will be replaced by the new withholding tax on dividends) to be recognised in the period in which the dividends are declared [Chapter 7, paragraph .33], while Capital Gains Tax (CGT) needs to be recognised in the period in which the sale is made [Chapter 7, paragraph .34]. Do you agree with these proposals and the other requirements relating to STC and CGT? If not, why and what alternative would you propose?

Question 32 – Cash flow statements

Do you agree with the proposals and the other requirements in Chapter 8? If not, why and what alternative(s) would you propose?

Question 33 – Related party disclosures

Question 33 (a)

This Framework requires the disclosure of the total compensation of the Board of Directors or equivalent management body [Chapter 9, paragraph .07]. Do you agree with this proposal? If not, why and what alternative would you propose?

Question 33 (b)

This Framework requires detailed disclosure if there have been transactions between related parties on terms not equivalent to those that prevail in arm's length transactions, as well as any encumbrances [Chapter 9, paragraphs .08 and .09]. Do you agree with this proposal? If not, why and what alternative would you propose?

Question 34 – Events after the Balance Sheet date

Question 34 (a)

This Framework requires that dividends should be recognised when the dividends are declared [Chapter 9, paragraph .18]. It requires that dividends declared after Balance Sheet date, but before the AFS are finalised, should only be disclosed and **not** recognised as a liability [Chapter 9, paragraph .19]. Do you agree with these proposals? If not, why and what alternative would you propose?

Question 34 (b)

Would you support an overall principle that any event, between the Balance Sheet date and the authorisation date of the AFS, which is within management's control (i.e. not market related), (i) may or (ii) should be considered when recognising and measuring items in the AFS; or

Should the entity have a choice of fully disclosing the event after the Balance Sheet date (but not recognising / measure the event), or changing the measurement / recognition based on the event?

Question 35 – Notes to the AFS

This Framework requires that anticipated cash flows for capital commitments, provisional tax payments, lease payments, instalments and dividends proposed be disclosed [Chapter 9, paragraphs .26 to .29]. Do you agree with these proposals and the other requirements relating to anticipated cash flows? If not, please provide details on how this Section may be improved.

Question 36 – Definitions (Appendix A – Glossary of Terms)

Do you agree with the definitions in Appendix A? If you disagree with the definitions in Appendix A, what alternative(s) would you propose? Do you believe there are any definitions that have been omitted? Do you believe there are any definitions that are not required?

Question 37 – General

The Working Group would appreciate any other comments relating to this Framework. Please do not hesitate to raise concerns, identify problems and make suggestions, even if not explicitly requested in the preceding questions.

FRAMEWORK FOR NON-PUBLIC ENTITIES

February 2009

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PREFACE

The Working Group developed this Framework (hereafter referred to as 'the Framework' or 'this Framework') primarily to assist preparers and users of financial statements of entities that are not required by any other law to apply an existing framework (such as IFRS, SA GAAP or Statement of GAAP for SMEs), or any entity that is required by law to apply this Framework. These entities would most likely be small and micro enterprises, such as sole proprietorships, close corporations, trusts and partnerships, as well as NGOs.

The Framework proposes an alternative financial reporting method to International Financial Reporting Standards ((IFRS) / South African Statements of GAAP (SA GAAP) and IFRS for Private Entities / Statement of Generally Accepted Accounting Practice (GAAP) for Small and Medium-sized Entities (SMEs).

The Framework is not a set of standards as these can only be developed and issued by the Financial Reporting Standards Council.

Every effort is made to ensure that the advice given in this Framework is correct. Nevertheless that advice is given purely as guidance and the Working Group will have no responsibility to any person for any claim of any nature whatsoever which may arise out of or relate to the contents of this Framework.

Chapter 1
PURPOSE, OBJECTIVES AND SCOPE

Purposes

.01 The purposes of this Framework are to:

a) provide guidance on the accounting treatments suitable for entities that do not require general purpose financial statements;

b) reduce the reporting burden on entities, by considering whether the benefits derived from information exceed the cost of providing it;

c) enable entities to prepare financial statements that enable the primary users (identified in paragraph .01 (d) below) to evaluate or assess the reporting entity's profitability, liquidity, solvency and other risks; and

d) ensure that transactions are recognised with integrity to enable the primary users to place reliance thereon. The primary users are deemed to be the owners, financial institutions and the local tax authority.

.02 In practice, a trade-off between these purposes is often necessary. Generally, the aim is to achieve an appropriate balance among the purposes in order to meet the objectives of financial statements. The relative importance of the purposes in different cases is a matter of professional judgement.

Objectives

.03 The objectives of this Framework are to:

a) address the majority of transactions and events that a reporting entity may encounter, and omit transactions that are either uncommon or relate to a few entities;

b) ensure this Framework is a standalone document, which is succinct, easy to understand and easy to implement; and

c) ensure minimal deviation from management accounts, with few adjustments as possible required, and reflect the economic reality of the business activities by reflecting the intentions of management.

d) allow for fair presentation of the financial position, financial performance and cash flows of an entity, to be achieved through adherence to this Framework with additional disclosures where necessary.

Scope

.04 The Framework is applicable to entities that are not required by any other law to apply an existing framework (such as IFRS, SA GAAP or Statement of GAAP for SMEs), or any entity that is required by law to apply this Framework.

.05 The scope of this Framework will, over time, be extended to cater for the specific and unique needs of certain entities, by providing for these in addendums to the Framework.

Chapter 2

TRANSITIONAL PROVISIONS AND EFFECTIVE DATE

.01 The transition to this Framework is accounted for as follows:

a) Any changes in accounting policies as a result of adopting this Framework shall be accounted for as a change in accounting policy in accordance with this Framework [Chapter 4, paragraphs .07 to .11].

.02 If an entity has previously reported under IFRS, SA GAAP or the Statement of GAAP for SMEs, it is not required to, but may if it wishes to, restate its comparative financial information to comply with this Framework.

.03 An entity whose previous accounting framework was not IFRS, SA GAAP or the Statement of GAAP for SMEs, shall restate its comparative financial information to comply with this Framework.

.04 An entity shall disclose under which framework it reported previously and whether the comparative information was restated.

Chapter 3
PRINCIPLES, RECOGNITION AND MEASUREMENT

Principles

.01 The recognition and measurement principles are subject to the following assumptions and constraints: going concern, substance over form, matching and materiality.

Going concern

.02 The financial statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity 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.

Substance over form

.03 The substance of a transaction or contract (arrangement), rather than its legal form, governs its accounting treatment in the entity's financial statements.

.04 The accounting shall reflect the substance of the arrangement. All aspects and implications of an arrangement shall be evaluated to determine its substance, with weight given to those aspects and implications that have an economic effect.

Materiality

.05 This Framework shall be applied to all items which, whether individually or in aggregate, which are material in nature or value.

Matching

.06 The matching principle requires an entity to relate (recognise) expenses in the period that the related revenues are recognised. Ideally, matching is based on a cause and effect relationship, e.g. sales results in a cost of goods sold expense and the sales commissions' expense. If no cause and effect relationship exists, an expense shall be recognised in the accounting period when a cost is used up or has expired. If a cost cannot be linked to revenues or to an accounting period, the expense will be recorded immediately.

Recognition and measurement

Historical cost

.07 Assets are initially 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 and provisions), at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business. Exceptions include, inventories shall be carried at the lower of cost or net realisable value and impaired assets shall be carried at fair value less costs to sell.

Accrual basis of accounting

.08 An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.

09 When the accrual basis of accounting is used, an entity recognises assets, liabilities, equity, income and expenses (elements of the financial statements) when they satisfy the definitions and recognition criteria set out in paragraphs .10 to .12 for those elements in the relevant sections of this Framework.

Recognition

.10 Recognition is the process of incorporating in the Balance Sheet or Statement of Income and Retained Earnings an item that meets the definition of an element and satisfies the criteria for recognition set out in paragraphs .11 to .12. Recognition involves the depiction of the item in words and by a monetary amount

and the inclusion of that amount in the Balance Sheet or Statement of Income and Retained Earnings totals. Items that satisfy the recognition criteria should be recognised in the Balance Sheet or Statement of Income and Retained Earnings. The failure to recognise such items is not rectified by disclosure of the accounting policies used nor by notes or explanatory material.

.11 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 entity; and

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

.12 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 paragraph .05. Due to the interrelationship between the elements, an item that meets the definition and recognition criteria for a particular element, for example, an asset, automatically qualifies for recognition of another element, for example, income or a liability.

Measurement

.13 The general measurement principle at initial recognition is that items are measured at the documented value. This document can be an invoice, contract or similar document.

Disclosure

.14 At the discretion of the preparer, an entity may disclose any other value attributed to an asset, liability or equity. This could be the net realisable value, market value, insured value, deemed value or any value the directors believe is a reasonable value. The basis of determining this attributed value shall be disclosed, including, but not limited to, the valuer, the method of valuation and significant assumptions made.

Chapter 4
ACCOUNTING PRINCIPLES AND POLICIES

Selection of accounting policies

.01 Management shall select and apply the entity's accounting policies so that the financial statements comply with all the requirements of this Framework.

.02 Management shall use its judgement in developing an accounting policy that results in information that is relevant to the needs of users of the financial statements and is reliable in nature.

.03 An entity shall select and apply its accounting policies for a period consistently for similar transactions, other events and conditions, unless this Framework specifically requires or permits categorisation of items for which different policies may be appropriate.

.04 When a requirement in this Framework specifically applies to a transaction, event or condition, the accounting policy or policies applied to that item shall be determined by applying the requirements in this Framework.

.05 In the absence of a requirement or guidance in this Framework that specifically applies to a transaction, other event or condition, management shall develop an accounting policy that results in information that is relevant to the needs of users of the financial statements and is reliable in nature, by applying the recognition, measurement and other principles as set out in Chapter 3.

International Financial Reporting Standards (IFRS) / South African Statements of Generally Accepted Accounting Practice (SA GAAP)

.06 Compliance with this Framework will not result in compliance with IFRS / SA GAAP. As stated in paragraph 16 of *IAS 1 (AC 101) Presentation of Financial Statements*, an entity whose financial statements comply with IFRS or SA GAAP shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with IFRS / SA GAAP unless they comply with all requirements of IFRS / SA GAAP.

Statement of Generally Accepted Accounting Practice for Small and Medium–Sized Entities (Statement of GAAP for SMEs)

.06A Compliance with this Framework will not result in compliance with Statement of GAAP for SMEs. As stated in paragraph 3.2 of Statement of GAAP for SMEs, an entity whose financial statements comply with Statement of GAAP for SMEs shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with Statement of GAAP for SMEs unless they comply with all requirements of Statement of GAAP for SMEs.

Changes in accounting policies

.07 An entity shall change an accounting policy only if the change:

(a) is required by this Framework; or

(b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position or financial performance.

.08 An entity shall report the effects of a change in accounting policy as an adjustment to the opening balance of retained earnings for the period in which the policy is first adopted and that period's profit and loss. Comparative information shall be presented as reported in the financial statements of the prior period.

.09 An entity may present additional pro forma comparative information, often as separate columns, in order to show the profit or loss and the financial position of the current period and any prior periods presented as if the new accounting policy had always been applied.

.10 The change in accounting policy shall be applied prospectively when the amount to be included in the opening balance of retained earnings for the period required by paragraph .08 is not readily determinable without undue cost or effort.

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

(a) the reasons for the change, including, for changes other than those required by this Framework, the reasons that applying the new accounting policy provides reliable and more relevant information;

(b) the amount of the adjustment to the opening balance of retained earnings for the period;

(c) the amount of the adjustment included in each period for which pro forma information is presented and the amount of the adjustment relating to periods prior to those included in the financial statements, if any; and

(d) if the adjustment against the opening balance of retained earnings for the period is not readily determinable without undue cost or effort, the circumstances that led to the existence of that condition and a description of how and from when the change in the accounting policy has been made.

Corrections of prior period errors

.12 The amount of the correction of a material prior period error shall be included in the opening balance of retained earnings for the period. Comparative information shall be presented as reported in the financial statements of the prior period.

.13 An entity may present additional pro forma comparative information, often as separate columns, to show the profit or loss of the current period and any prior periods presented as if the prior period error had been corrected in the period when it was made.

.14 The error shall be corrected prospectively when the amount to be included in the opening balance of retained earnings for the period required by paragraph .12 is not readily determinable without undue cost or effort.

.15 An entity shall disclose the following:

(a) the nature of the material prior period error;

(b) the amount of the correction included in the opening balance of retained earnings for the period;

(c) the amount of the correction included in each period for which pro forma information is presented and the amount of the correction relating to periods prior to those included in the pro forma information, if any; and

(d) if the adjustment against the opening balance of retained earnings for the period is not readily determinable without undue cost or effort, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

Changes in accounting estimates

.16 The effect of a change in an accounting estimate shall be included in the determination of profit or loss in:

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

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

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

Chapter 5
PRESENTATION OF FINANCIAL STATEMENTS

Components of financial statements

.01 A complete set of financial statements comprises:

(a) a Balance Sheet;

(b) a Statement of Income and Retained Earnings;

(c) a Cash Flow Statement; and

(d) Notes, comprising a summary of significant accounting policies and other explanatory notes.

.01A An entity may use titles for the financial statements other than those used in this Framework as long as they are not misleading.

Overall considerations

.02 For an entity that applies this Framework, the appropriate application thereof, with additional disclosures where necessary, will result in financial statements that achieve fair presentation.

.03 An entity whose financial statements comply with this Framework shall make an explicit and unreserved statement of such compliance in the notes.

.04 Inappropriate accounting policies are not rectified either by disclosure of the accounting policies used or by notes or explanatory material.

Consistency of presentation

.05 The presentation and classification of items in the financial statements shall be retained from one period to the next unless:

(a) a significant change in the nature of the entity's operations or a review of its financial statements' presentation demonstrates that the change would result in a more appropriate presentation of events or transactions; or

(b) this Framework requires a change in presentation.

Materiality and aggregation

.06 Each material class of similar items shall be presented separately in the financial statements. Items of a dissimilar nature or function shall be presented separately unless they are immaterial.

Offsetting

.07 Assets and liabilities, and income and expenses, shall not be offset unless required or permitted by this Framework.

Comparative information

.08 Except when this Framework permits or requires otherwise, comparative information shall be disclosed in respect of the previous period for all amounts reported in the financial statements, as well as all required disclosure items. Comparative information shall be included for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.

.09 When the presentation or classification of items in the financial statements is amended, comparative amounts shall be reclassified unless the reclassification is not readily determinable without undue cost or effort. When comparative amounts are reclassified, an entity shall disclose:

(a) the nature of the reclassification;

(b) the amount of each item or class of items that is reclassified; and

(c) the reason for the reclassification.

.10 When comparative amounts are not reclassified owing to the reclassification requiring undue cost or effort, an entity shall disclose:

(a) the reason for not reclassifying the amounts; and

(b) the nature of the adjustments that would have been made if the amounts had been reclassified.

Structure and content

.11 Each component of the financial statements shall be identified clearly. In addition, the following information shall be displayed prominently, and repeated when it is necessary for a proper understanding of the information presented:

(a) the name of the reporting entity or other means of identification, and any change in that information from the preceding Balance Sheet date;

(b) the Balance Sheet date or the period covered by the financial statements, whichever is appropriate to that component of the financial statements;

(c) the presentation currency; and

(d) the level of rounding used in presenting amounts in the financial statements.

Reporting period

.12 Financial statements shall be presented at least annually. When an entity's Balance Sheet date changes and the annual financial statements are presented for a period longer or shorter than one year, an entity shall disclose, in addition to the period covered by the financial statements:

(a) the reason for using a longer or shorter period; and

(b) the fact that comparative amounts for the Statement of Income and Retained Earnings, cash flow statement and related notes are not entirely comparable.

Chapter 6

BALANCE SHEET

General

.01 Refer to Chapter 3 for recognition and measurement principles.

.02 An asset or liability that qualifies for recognition in terms of Chapter 3, paragraphs .10 to .12 shall initially be measured at its cost.

.03 After initial recognition, an asset or liability shall generally be carried at its cost less any accumulated depreciation (amortisation) and any accumulated impairment losses.

.04 An entity may choose to disclose the attributed value of an asset or liability as per Chapter 3, paragraph .14.

.05 For ease of reference, an entity may choose to disclose attributed values in aggregate by category on the face of the Balance Sheet, or by means of an additional column. If an entity chooses to disclose the information in an additional column, the column shall be clearly labelled to indicate the measurement base.

Current / Non-current distinction

.06 An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its Balance Sheet.

Current assets

.07 An asset shall be classified as current when it satisfies any of the following criteria:

(a) it is held primarily for the purpose of being traded;

(b) it is expected to be realised within, or is intended for sale or consumption within, 12 months after the Balance Sheet date; or

(c) it is cash or a cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the Balance Sheet date.

.07A All other assets shall be classified as non-current.

Current liabilities

.08 A liability shall be classified as current when it satisfies any of the following criteria:

(a) it is held primarily for the purpose of being traded;

(b) it is due to be settled within twelve months after the Balance Sheet date; or

(c) the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the Balance Sheet date.

.08A All other liabilities shall be classified as non-current.

.09 If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the Balance Sheet date under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, where there is no agreement to refinance), the potential to refinance is not considered and the obligation is classified as current.

.10 When an entity breaches an undertaking under a long-term loan agreement on or before the Balance Sheet date with the effect that the liability becomes payable on demand, the liability is classified as current, even if the lender has agreed, after the Balance Sheet date and before the authorisation of the financial statements for issue, not to demand payment as a consequence of the breach. The liability is classified as current because, at the Balance Sheet date, the entity does not have an unconditional right to defer its

settlement for at least twelve months after that date.

Presentation

.11 The Balance Sheet shall include (on the face or in the notes), where applicable, the line items that present the following amounts:

(a) real estate specified by its nature;

(b) plant and equipment specified by their nature;

(c) investments specified by their nature;

(d) intangible assets specified by their nature;

(e) livestock and/or growing crops specified by their nature;

(f) inventories specified by their nature;

(g) trade and other receivables;

(h) amount(s) due from related parties;

(i) cash and cash equivalents;

(j) trade and other payables;

(k) amount due to related parties;

(l) provisions specified by their nature;

(m) liabilities and assets for current tax;

(n) deferred tax assets and liabilities; and

(o) issued capital and reserves specified by their nature.

.12 Additional line items, headings and subtotals shall be presented on the face of the Balance Sheet when such presentation is relevant to an understanding of the entity's financial position.

.13 An entity shall not classify deferred tax assets or liabilities as current assets or liabilities.

.14 An entity shall disclose the following, for each class of share capital, if applicable, either on the face of the Balance Sheet or in the notes:

(a) the number of shares authorised;

(b) the number of shares issued and fully paid, and issued but not fully paid;

(c) par value per share, or that the shares have no par value;

(d) where there was any movement during the period, a reconciliation of the number of shares outstanding at the beginning and at the end of the period;

(e) the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital;

(f) shares in the entity held by the entity or by its subsidiaries or associates; and

(g) shares reserved for issue under options and contracts for the sale of shares, including the terms and amounts.

Real estate

Definition

.15 Real estate is land along with anything permanently affixed to the land, such as buildings, specifically property that is stationary, or fixed in location. This includes land and buildings used by the entity to produce goods and services, for administration purposes, held for capital appreciation or to earn rental income.

Recognition and measurement

Recognition

.16 Real estate shall be recognised if the recognition criteria as per Chapter 3, paragraphs .10 to .12 have been met.

Initial measurement

.17 Real estate shall initially be measured at cost.

Cost of real estate

.18 The cost of real estate comprises:

(a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and

(b) costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of being operated in the manner intended by management.

.19 Refer to paragraph.37 for examples of cost and paragraph .38 for examples that are not included in cost.

.20 The cost of a self-constructed asset is determined using the same principles as for an acquired asset.

Measurement after initial recognition

.21 After recognition as an asset, real estate shall be carried at its cost less any accumulated impairment losses.

Depreciation

.22 Real estate shall not be depreciated.

Impairment

.23 To determine whether real estate is impaired, an entity applies the guidance in paragraphs .120 to .135 on Impairment of Assets.

Compensation for impairment

.24 Compensation from third parties for real estate that was impaired, lost or given up shall be included in profit or loss when the compensation becomes receivable.

Subsequent expenditure

Tax-deductible subsequent expenditure

.25 Subsequent expenditure on real estate shall be accounted for in a manner consistent with its tax treatment. If a tax deduction is allowed over more than one financial year, the cost of real estate shall be capitalised and depreciated consistent with its period of tax allowance. If expenditure on real estate is fully deductible in the year of the expenditure, the full amount of the expenditure shall be recorded in profit or loss immediately.

Non-tax-deductible subsequent expenditure

.26 If a tax deduction is not permitted at all in respect of the expenditure, an entity does not recognise in the carrying amount of real estate these costs. Rather, these costs are recognised in profit or loss as incurred.

Derecognition

.27 The carrying amount of real estate shall be derecognised:

(a) on disposal; or

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

.28 The gain or loss arising from derecognition of an item of real estate shall be included in profit or loss when the item is derecognised.

.29 The gain or loss arising from derecognition of real estate shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Disclosure

.30 The financial statements shall disclose, for each class of real estate:

(a) the gross carrying amount and the accumulated impairment losses (if applicable) at the beginning and end of the period;

(b) a reconciliation of the carrying amount at the beginning and end of the period showing:

(i) additions;

(ii) disposals;

(iii) impairment losses recognised in the Statement of Income and Retained Earnings during the period (if any);

(iv) net exchange differences arising on the translation of the financial statements into the presentation currency, and on the translation of a foreign operation into the presentation currency of the entity;

(v) and other changes.

.30A Comparative information is not required for the reconciliation.

.31 The financial statements shall also disclose:

(a) the existence and amounts of restrictions on title or encumbrances, and real estate pledged as security for liabilities;

(b) the amount of expenditures recognised in the carrying amount of real estate in the course of its construction;

(c) the amount of contractual commitments for the development or acquisition of real estate; and

(d) if it is not disclosed separately on the face of the Statement of Income and Retained Earnings, the amount of compensation from third parties for real estate that was impaired, lost or given up that is included in profit or loss.

.32 An entity may disclose the attributed value of real estate as per Chapter 3, paragraph .14.

Transitional provisions

.33 An entity that had recorded its real estate at revalued amounts under IFRS, SA GAAP or the Statement of GAAP for SMEs is allowed to continue carrying those assets on the basis of their previous revaluations, subject to the requirement for impairment adjustments.

.34 If the entity has availed itself of the transitional provision on adoption of this Framework in paragraph .34, it shall disclose that fact. In addition, the entity shall disclose the date of the last revaluation that formed the basis of the recorded carrying amounts and the fact that no later valuation has been recorded (except in the case of impairment adjustments based on a valuation).

Separation of land and buildings

.35 An entity is not required to account separately for land and tax-deductible buildings. An entity is, however, permitted to account separately for land and tax-deductible buildings. When an entity does not account separately for land and tax-deductible buildings, the combined cost of such land and buildings shall be allocated on a basis consistent with the period of tax allowance on buildings. The depreciation method used shall reflect the tax allowance percentage on buildings.

Plant and equipment

Definition

.36 Plant and equipment are tangible items, other than real estate, that:

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

.36A Examples include tools, machinery, office fittings and computer equipment used in the operation of the business.

.37 Examples of directly attributable costs are:

(a) costs of employee benefits arising directly from the construction or acquisition of the real estate;

(b) costs of site preparation;

(c) estate agent costs;

(d) initial delivery and handling costs;

(e) installation and assembly costs;

(f) costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition;

(g) professional fees; and

(h) Transfer duty.

.38 Examples of costs that are not costs of real estate are:

(a) costs of opening a new facility;

(b) costs of introducing a new product or service (including costs of advertising and promotional activities);

(c) costs of conducting business in a new location or with a new class of customer (including costs of staff training); and

(d) administration and other general overhead costs.

Recognition and measurement

Recognition

.39 Plant and equipment shall be recognised if the recognition criteria as per Chapter 3, paragraphs .10 to .12 have been met.

Initial measurement

.40 An item of plant and equipment shall initially be measured at cost.

Cost of plant and equipment

.41 The cost of plant and equipment comprises:

(a) the purchase price of the asset, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and

(b) costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of being operated in the manner intended by management.

.42 The cost of a self-constructed asset is determined with the same principles as for an acquired asset.

Measurement after initial recognition

.43 Subsequent to initial recognition as an asset, an item of plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation

.44 The depreciation charge for each period shall be recognised in profit or loss.

Depreciation period and method

Tax-deductible assets

.45 The cost of an asset shall be allocated on a basis consistent with its tax treatment.

Non-tax-deductible assets

.46 The cost of an asset shall be allocated on a straight-line basis over its useful life.

Commencement of depreciation

Tax-deductible assets

.47 Depreciation shall commence consistent with the asset's tax treatment.

Non-tax-deductible assets

.48 Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of being operated in the manner intended by management. Depreciation of an asset ceases when the asset is derecognised. However, depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

Impairment

.49 To determine whether an item of plant and equipment is impaired, an entity applies the guidance in paragraphs .120 to .135 on Impairment of Assets.

Compensation for impairment

.50 Compensation from third parties for items of plant and equipment that were impaired, lost or given up shall be included in profit or loss when the compensation becomes receivable.

Subsequent expenditure

Tax-deductible subsequent expenditure

.51 Subsequent expenditure on plant and equipment shall be accounted for in a manner consistent with the tax treatment of the item of plant and equipment. If a tax deduction is allowed over more than one financial year, the cost of an item of plant and equipment shall be capitalised and depreciated consistent with its period of tax allowance. If expenditure on an item of plant and equipment is fully deductible in the year of the expenditure, the full amount of the expenditure shall be recorded in profit or loss immediately.

Non-tax-deductible subsequent expenditure

.52 If a tax deduction is not permitted at all in respect of the expenditure, an entity does not recognise in the carrying amount of an item of plant and equipment these costs. Rather, these costs are recognised in profit or loss as incurred.

Derecognition

.53 The carrying amount of an item of plant and equipment shall be derecognised:

(a) on disposal; or

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

.54 The gain or loss arising from the derecognition of an item of plant and equipment shall be included in profit or loss when the item is derecognised.

.55 The gain or loss arising from the derecognition of an item of plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Disclosure

.56 The financial statements shall disclose, for each class of plant and equipment:

(a) the depreciation methods used;

(b) the useful lives or the depreciation rates used;

(c) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period;

(d) a reconciliation of the carrying amount at the beginning and end of the period showing:

(i) additions;

(ii) disposals;

(iii) impairment losses recognised in profit or loss;

(iv) depreciation;

(v) the net exchange differences arising on the translation of the financial statements of a foreign entity or foreign branch; and

(vi) other changes.

.56A Comparative information is not required for the reconciliation.

.57 The financial statements shall also disclose:

(a) the existence and amounts of restrictions on title or encumbrances, and plant and equipment pledged as security for liabilities;

(b) the amount of expenditures recognised in the carrying amount of an item of plant and equipment in the course of its construction;

(c) the amount of contractual commitments for the development or acquisition of plant and equipment; and

(d) if not disclosed separately on the face of the Statement of Income and Retained Earnings, the amount of compensation from third parties for items of plant and equipment that were impaired, lost or given up that is included in profit or loss.

.58 An entity may disclose the attributed value of plant and equipment as per Chapter 3, paragraph .14.

Transitional provisions

.59 An entity that had recorded its plant and equipment at revalued amounts under IFRS, SA GAAP or the Statement of GAAP for SMEs is allowed to continue carrying those assets on the basis of their previous revaluations subject to continuity in its depreciation policy and the requirement for impairment adjustments.

.60 If the entity has availed itself of the transitional provision on adoption of this Framework in paragraph .59, it shall disclose that fact. In addition, the entity shall disclose the date of the last revaluation that formed the basis of the recorded carrying amounts and the fact that no later valuation has been recorded (except in the case of impairment adjustments based on a valuation).

Intangible assets

General

.61 Entities frequently expend resources, or incur liabilities, on the acquisition, development, maintenance or enhancement of intangible resources such as scientific or technical knowledge, design and implementation of new processes or systems, licences, intellectual property, market knowledge and trademarks (including brand names and publishing titles). Common examples of items encompassed by these broad headings are computer software, patents, copyrights, motion picture films, customer lists, mortgage servicing rights, fishing licences, import quotas, franchises, customer or supplier relationships, customer loyalty, market share and marketing rights.

.62 Not all the items described in paragraph .61 meet the definition of an intangible asset, i.e. identifiable, control over a resource and existence of future economic benefits. If an item within the scope of this Section does not meet the definition of an intangible asset, expenditure to acquire it or generate it internally is recognised as an expense when it is incurred.

Identifiable

.63 An asset meets the identifiable criterion in the definition of an intangible asset when it:

(a) is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or

(b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Control

.64 An entity controls an asset if the entity has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits. The capacity of an entity to control the future economic benefits from an intangible asset would normally stem from legal rights that are enforceable in a court of law. In the absence of legal rights, it is more difficult to demonstrate control. However, legal enforceability of a right is not a necessary condition for control because an entity may be able to control the future economic benefits in some other way.

Future economic benefits

.65 The future economic benefits flowing from an intangible asset may include; revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset by the entity. For example, the use of intellectual property in a production process may reduce future production costs rather than increase future revenues.

Recognition and measurement

Recognition

.66 Intangible assets shall be recognised if the recognition criteria as per Chapter 3, paragraphs .10 to .12 have been met.

Initial measurement

.67 An intangible asset shall initially be measured at cost.

Cost of intangible assets

.68 The cost of a separately acquired intangible asset comprises:

(a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and

(b) any directly attributable cost of preparing the asset for its intended use.

.69 Examples of directly attributable costs are:

(a) costs of employee benefits;

(b) professional fees arising directly from bringing the asset to its working condition; and

(c) costs of testing whether the asset is functioning properly.

.70 Examples of expenditures that are not part of the cost of an intangible asset are:

(a) costs of introducing a new product or service (including costs of advertising and promotional activities);

(b) costs of conducting business in a new location or with a new class of customer (including costs of staff training); and

(c) administration and other general overhead costs.

.71 Internally generated goodwill and internally generated intangible assets shall not be recognised as an asset.

Subsequent expenditure

.72 Subsequent expenditure incurred on an intangible item, after initial recognition, shall be recognised as an expense in profit or loss as incurred.

Measurement after initial recognition

.73 After initial recognition, an intangible asset shall be carried at its cost less any accumulated amortisation and any accumulated impairment losses.

Amortisation period and method

.74 The amortisation charge for each period shall be recognised in profit or loss.

Tax-deductible intangible assets

.75 The cost of an intangible asset shall be allocated on a basis consistent with its tax treatment.

Non-tax-deductible intangible assets

.76 The cost of an intangible asset shall be allocated on a straight-line basis over its useful life. Amortisation shall begin when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of being operated in the manner intended by management. Amortisation shall cease when the asset is derecognised. The rebuttable presumption is that the maximum useful life of an intangible asset is 10 years.

Impairment

.77 To determine whether an intangible asset is impaired, an entity applies the guidance in paragraphs .120 to .135 on Impairment of Assets.

Retirements and disposals

.78 An intangible asset shall be derecognised on disposal or when no future economic benefits are expected from its use or disposal.

.79 The gain or loss arising from derecognition of an intangible asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. It shall be recognised in profit or loss when the asset is derecognised. Gains shall not be classified as revenue.

Disclosure

.80 An entity shall disclose the following for each class of intangible assets:

(a) the useful lives or the amortisation rates used;

(b) the amortisation method used;

(c) the gross carrying amount and the accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the period; and

(d) a reconciliation of the carrying amount at the beginning and end of the current period showing:

(i) additions;

(ii) retirements and disposals;

(iii) impairment losses recognised in the Statement of Income and Retained Earnings during the period (if any);

(iv) amortisation recognised during the period;

(v) net exchange differences arising on the translation of the financial statements into the presentation currency, and on the translation of a foreign operation into the presentation currency of the entity; and

(vi) other changes in the carrying amount during the period.

.81 A class of intangible assets is a grouping of assets of a similar nature and use in an entity's operations.

.82 An entity shall disclose the aggregate amount of research and development expenditure recognised as an expense during the period.

.83 An entity shall also disclose:

(a) the existence and amounts of restrictions on title or encumbrances, and intangible assets pledged as security for liabilities; and

(b) the amount of contractual commitments for the development or acquisition of intangible assets.

.84 An entity may disclose the attributed value of intangible assets as per Chapter 3, paragraph .14.

Goodwill

Recognition and definition

.85 When purchasing the assets and liabilities of a business, without acquiring the actual legal entity, the purchase price may exceed the value of the net assets (i.e. deemed value of assets minus liabilities). This excess shall be treated as an intangible asset.

Initial measurement

.86 Goodwill shall initially be measured at cost, being the excess of the cost over the net deemed value of the identifiable assets and liabilities. These identifiable assets and liabilities shall be recognised at their deemed values, with reference to the measurement requirements of this Framework.

Subsequent measurement and disclosure

.87 After initial recognition, the entity shall measure goodwill in the same manner as other intangible assets, i.e. by applying the guidance in paragraphs .72 to .79. The entity shall make the disclosures required by paragraph .80.

Leases

Definition

.88 A lease is a contract where the lessee is entitled to deduct the full lease payments for tax purposes. An entity shall classify all leases as operating leases. An instalment sale as defined in paragraph .99 is not a lease.

Financial statements of the lessee

.89 A payment made on entering into a lease shall be included in profit and loss in the period in which it occurs.

.90 Lease payments under an operating lease shall be recognised as and when they are deductible for tax purposes. Contingent rents shall be expensed as they are incurred.

Disclosure

.91 Lessees shall make the following disclosures for operating leases:

(a) the total of future minimum lease payments under non-cancellable operating leases for each of the following periods:

(i) not later than one year;

(ii) between one and five years;

(iii) later than five years;

(b) the total of future minimum sublease payments expected to be received under non-cancellable subleases at the Balance Sheet date;

(c) lease and sublease payments recognised as an expense in the period, with separate amounts for minimum lease payments, contingent rents, and sublease payments;

(d) a general description of the lessee's significant leasing arrangements, including, but not limited to, the following:

(i) the basis on which contingent rent payable is determined;

(ii) the existence and terms of renewal or purchase options, escalation clauses and variations on the interest charges (i.e. fixed or floating interest rates); and

(iii) restrictions imposed by lease arrangements, such as those concerning dividends, additional debt and further leasing.

Financial statements of the lessor

.92 Lessors shall present assets subject to operating leases in their Balance Sheet according to the nature of the asset.

.93 The operating lease payments are recognised in income in a manner consistent with the tax treatment. Contingent rents shall be recognised in income as they are received.

.94 Costs, including depreciation, incurred in earning the lease income are recognised as an expense consistent with the tax treatment.

.95 Initial direct costs incurred by lessors in negotiating and arranging a lease shall be included in profit and loss in the period in which they occur.

.96 The depreciation policy for depreciable leased assets shall be consistent with the lessor's normal depreciation policy for similar assets.

.97 A manufacturer or dealer lessor does not recognise any selling profit on entering into an operating lease because it is not the equivalent of a sale.

Disclosure

.98 Lessors shall disclose the following for operating leases:

(a) the future minimum lease payments under non-cancellable operating leases in the aggregate and for each of the following periods:

(i) not later than one year;

(ii) between one and five years;

(iii) later than five years;

(b) total contingent rents recognised as income in the period; and

(c) a general description of the lessor's leasing arrangements.

Instalment sales

Definition

.99 An instalment sale is the sale of an asset in exchange for a specified series of payments (the instalments), where the purchasing entity may claim wear and tear as well as all interest paid as tax deductions and the selling entity includes interest received in its tax calculation.

Financial statements of the purchaser

Recognition and measurement

Initial measurement

.100 Purchasers shall recognise instalment sales as assets and liabilities in their Balance Sheets at amounts equal to the cost of the asset to be purchased, excluding interest charges, i.e. principal debt plus any deposits paid.

.101 Initial direct costs incurred by the purchaser in negotiating and arranging an instalment sale shall be included in profit and loss in the period in which they occur.

Subsequent measurement

.102 Instalments shall be apportioned between the interest charge and the reduction of the outstanding liability. The interest charge shall be allocated to each period during the instalment sale term in the same manner that interest is deductible for tax purposes.

.103 An instalment sale gives rise to a depreciation expense as well as an interest expense for each accounting period. The depreciation charge shall be allocated to each period during the instalment sale term in the same manner as the tax treatment.

Disclosure

.104 The purchaser shall make the following disclosures for an instalment sale:

(a) for each class of asset, the net carrying amount at the Balance Sheet date;

(b) the total of future instalments at the Balance Sheet date for each of the following periods:

(i) not later than one year;

(ii) between one and five years;

(iii) later than five years;

(c) a general description of the purchaser’s material instalment sale arrangements, including, but not limited to, the following:

(i) the existence and terms of escalation clauses and variations on the interest charges (i.e. fixed or floating interest rates); and

(ii) restrictions imposed by instalment sale arrangements, such as those concerning dividends, additional debt, and further leasing.

Financial statements of the seller

Measurement and recognition

Initial measurement

.105 Sellers shall not recognise assets held under an instalment sale in their Balance Sheets. The seller shall present the instalment sale agreement as a receivable at an amount equal to the sales price (i.e. principal debt), excluding interest charges and deposits paid.

.106 Initial direct costs are often incurred by sellers and include amounts such as commissions, legal fees and internal costs that are incremental and directly attributable to negotiating and arranging an instalment sale. These costs shall be included in profit and loss in the period in which they occur.

Subsequent measurement

.107 The interest income shall be recognised in the same manner as interest is included for tax purposes. Instalments relating to the period, excluding costs for services, are applied against the gross investment in the instalment sale to reduce both the principal and the unearned interest income.

.108 Manufacturers or dealers who sell on instalment agreement terms shall recognise selling profit or loss in the period, in accordance with the policy followed by the entity for outright sales. Costs incurred by manufacturers or dealers in connection with negotiating and arranging an instalment sale shall be recognised as an expense when the selling profit is recognised.

Disclosure

.109 Sellers shall disclose the following for instalment sales:

(a) a reconciliation between the gross investment in the instalment sale at the Balance Sheet date, and the present value of instalment payments receivable at the Balance Sheet date. In addition, an entity shall disclose the gross investment in the instalment sale and the present value of instalments receivable at the Balance Sheet date, for each of the following periods:

(i) not later than one year;

(ii) between one and five years;

(iii) later than five years;

(b) unearned interest income;

(c) the accumulated allowance for uncollectible instalments receivable; and

(d) a general description of the seller's material instalment sales arrangements.

Inventories

Recognition and measurement

Recognition

.110 Inventories shall be recognised if the recognition criteria as per Chapter 3, paragraphs .10 to .12 have been met.

Initial measurement

.111 Inventories shall initially be measured at cost.

Cost of inventories

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

.113 The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items shown on the invoice are deducted in determining the costs of purchase.

.114 Cost of conversion comprise costs directly related to the units of production, such as direct labour together with a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods.

Cost formulas

.115 The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects shall be assigned by using specific identification of their individual costs.

.115A The cost of inventories, other than those dealt with in the preceding paragraph, shall be assigned by using the first-in, first-out (FIFO) or weighted average cost formula. An entity shall use the same cost formula for

all inventories having a similar nature and use to the entity. For inventories with a different nature or use, different cost formulas may be justified.

Impairment

.116 To determine whether inventory is impaired, an entity applies the guidance, in paragraphs .120 to .135 on Impairment of Assets.

Measurement after initial recognition

.117 Subsequent to initial recognition as an asset, inventory shall be carried at its cost less any accumulated impairment losses.

Recognition as an expense

.118 When inventories are sold the carrying amount of those inventories shall be recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories shall be recognised as an expense in the period in which the write-down or loss occurs.

Disclosure

.119 The financial statements shall disclose:

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

(b) the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;

(c) the amount of inventories recognised as an expense during the period;

(d) the amount of any write-down of inventories recognised as an expense in the period;

(e) the existence and amounts of restrictions on title or encumbrances, and inventories pledged as security for liabilities; and

(f) the amount of contractual commitments for the development or acquisition of inventories.

Impairment of assets

Identifying an asset that may be impaired

.120 An entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the fair value less costs to sell of the asset. If, and only if, the fair value less costs to sell of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its fair value less costs to sell. That reduction is an impairment loss.

.121 In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indicators:

External sources of information

(a) During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.

(b) Significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.

(c) The carrying amount of the net assets of the entity is more than its market capitalisation.

Internal sources of information

(d) Evidence is available of obsolescence or physical damage of an asset.

(e) Significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or

restructure the operations to which the asset belongs, plans to dispose of the asset before the previously expected date, and reassessing the useful life of the asset as finite rather than indefinite.

(f) Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

.122 The list in paragraph .121 is not exhaustive. An entity may identify other indicators that an asset may be impaired and these would also require the entity to determine the asset's fair value less costs to sell.

.123 Evidence from internal reporting that indicates that an asset may be impaired includes the existence of:

(a) cash flows for acquiring the asset, or subsequent cash needs for operating or maintaining it, that are significantly higher than those originally budgeted for;

(b) actual net cash flows or operating profit or loss flowing from the asset that are significantly worse than those budgeted for;

(c) a significant decline in budgeted net cash flows or operating profit, or a significant increase in budgeted loss, flowing from the asset; or

(d) operating losses or net cash outflows for the asset, when current period amounts are aggregated with budgeted amounts for the future.

.124 An entity shall only test goodwill for impairment if there is an indication that goodwill may be impaired.

.125 Evidence from internal reporting that indicates that the goodwill may be impaired includes the existence of actual net cash flows or operating profit or loss flowing from the business that are significantly worse than those budgeted for.

Measuring fair value less costs to sell

.126 The best evidence of an asset's fair value less costs to sell is a price in a binding sale agreement in an arm's length transaction, adjusted for incremental costs that would be directly attributable to the disposal of the asset.

.127 If there is no binding sale agreement, but an asset is traded in an active market, fair value less costs to sell is the asset's market price less the costs of disposal. The appropriate market price is usually the current bid price. When current bid prices are unavailable, the price of the most recent transaction may provide a basis from which to estimate fair value less costs to sell, provided that there has not been a significant change in economic circumstances between the transaction date and the date as at which the estimate is made.

.128 If there is no binding sale agreement or active market for an asset, fair value less costs to sell is based on the best information available to reflect the amount that an entity could obtain, at the Balance Sheet date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal. In determining this amount, an entity considers the outcome of recent transactions for similar assets within the same industry. Fair value less costs to sell does not reflect a forced sale, unless management is compelled to sell immediately.

.129 Costs of disposal, other than those that have been recognised as liabilities, are deducted in determining fair value less costs to sell. Examples of such costs are legal costs, stamp duty and similar transaction taxes, costs of removing the asset, and direct incremental costs to bring an asset into condition for its sale.

Recognising an impairment loss

.130 An impairment loss shall be recognised as an expense in the Statement of Income and Retained Earnings immediately.

.131 After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset shall be adjusted in future periods to realign the asset's revised carrying amount with its tax value as soon as possible.

.132 An entity may not reverse an impairment loss, even if the indicator(s) of impairment no longer exist(s).

.133 If an entity believes that the cost of an asset better reflects the financial position of the entity, even if there is (an) indicator(s) of impairment and the cost of the asset exceeds the fair value less costs to sell thereof, it may decide not to impair the asset. The asset will then be carried at cost with additional disclosure made as required by paragraph .135.

Disclosure

.134 An entity shall disclose the following for each class of asset:

(a) The amount of impairment losses recognised in profit or loss during the period and the line item(s) of the Statement of Income and Retained Earnings in which those impairment losses are included.

An entity shall disclose the following information for the aggregate impairment losses recognised during the period:

(a) the main classes of assets affected by impairment losses; and

(b) the main events and circumstances that led to the recognition of these impairment losses.

.135 If an entity decides to carry an asset at cost, based on the entity's discretion in paragraph .133, even though (an) indicator(s) of impairment exists and the cost of the asset exceeds the fair value less costs to sell thereof, it shall disclose the following :

(a) the carrying amount of the assets not impaired;

(b) the circumstances that led to the decision not to impair, and justification for the decision; and

(c) information that enables users to determine the fair value less costs to sell of the assets that have not been impaired.

Provisions, contingent liabilities and contingent assets

Recognition and definitions

Provisions

.136 A provision shall be recognised when:

(a) an entity has a present obligation (legal or constructive) as a result of a past event;

(b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

(c) a reliable estimate can be made of the amount of the obligation.

.136A If these conditions are not met, no provision shall be recognised.

Probable outflow of resources embodying economic benefits

.137 For a liability to qualify for recognition there must be not only a present obligation but also the probability of an outflow of resources embodying economic benefits to settle that obligation. For the purpose of this Section, an outflow of resources or other event is regarded as probable if the event is more likely than not to occur, i.e. the probability that the event will occur is greater than the probability that it will not. Where it is not probable that a present obligation exists, an entity discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote (Chapter 6, paragraph .140).

Reliable estimate of the obligation

.138 The use of estimates is an essential part of the preparation of financial statements and does not undermine their reliability. This is especially true in the case of provisions, which by their nature are more uncertain than most other Balance Sheet items. Except in extremely rare cases, an entity will be able to determine a range of possible outcomes and can therefore make an estimate of the obligation that is sufficiently reliable to use in recognising a provision.

.139 In the extremely rare case where no reliable estimate can be made, a liability exists that cannot be recognised. That liability is disclosed as a contingent liability (Chapter 6, paragraphs .140 and .156).

Contingent liabilities and assets

.140 A contingent liability is disclosed, as required by paragraph 156, unless the possibility of an outflow of resources embodying economic benefits is remote.

.141 Contingent assets are not recognised in financial statements since this may result in the recognition of income that may never be realised. However, when the realisation of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.

.142 A contingent asset is disclosed, as required by paragraph .157, where an inflow of economic benefits is probable.

Measurement

Best estimate

.143 The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the Balance Sheet date.

.144 The amount disclosed for a contingent liability and contingent asset will be the best estimate of the possible undiscounted cash outflows and inflows respectively.

Risks and uncertainties

.145 The risks and uncertainties that inevitably surround many events and circumstances shall be taken into account in reaching the best estimate of a provision.

Present value

.146 Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditure expected to be required to settle the obligation.

.147 The discount rate (or rates) shall be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability. The discount rate(s) shall not reflect risks for which future cash flow estimates have been adjusted.

Reimbursements

.148 Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that the reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.

.149 In the Statement of Income and Retained Earnings, the expense relating to a provision may be presented net of the amount recognised for a reimbursement.

Changes in provisions

.150 Provisions shall be reviewed at each Balance Sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision shall be reversed.

Use of provisions

.151 A provision shall be used only for expenditure for which the provision was originally recognised.

Future operating losses

.152 Provisions shall not be recognised for future operating losses.

Onerous contracts

.153 If an entity has a contract that is onerous, a provision may be recognised. The provision will either be the present obligation under the contract, or the cost to exit the contract, depending on the intention of management.

Disclosure

.154 For each class of provision, an entity shall disclose:

(a) the carrying amount at the beginning and end of the period;

(b) additional provisions made in the period, including increases to existing provisions;

(c) amounts used (i.e. incurred and charged against the provision) during the period;

(d) unused amounts reversed during the period; and

(e) the increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate.

.154A Comparative information is not required.

.155 An entity shall disclose the following for each class of provision:

(a) a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits; and

(b) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

.156 Unless the possibility of any outflow in settlement is remote, an entity shall disclose for each class of contingent liability at the Balance Sheet date a brief description of the nature of the contingent liability and, where possible without undue cost and effort:

(a) an estimate of its financial effect, measured under paragraphs .143, .145 and .146;

(b) an indication of the uncertainties relating to the amount or timing of any outflow; and

(c) the possibility of any reimbursement.

.157 Where an inflow of economic benefits is probable, an entity shall disclose a brief description of the nature of the contingent assets at the Balance Sheet date, and, where possible without undue cost and effort:

(a) an estimate of their financial effect, measured using the principles set out for provisions in Chapter 6, paragraphs .143, .144 and .147; and

(b) an indication of the uncertainties relating to the amount or timing of any outflow.

.158 In extremely rare cases, disclosure of some or all of the information required by Chapter 6, paragraphs .155 to .157 can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, an entity need not disclose the information, but shall disclose the general nature of the dispute, together with the fact that, and reason that, the information has not been disclosed.

.159 The following information relating to any derivative instrument issued or acquired by an entity shall be disclosed:

(a) description of the instrument, including the:

i. underlying asset, index or reference rate; and

ii. associated risks, including trigger events (if applicable);

(b) nominal or notional amount and/or quantity;

(c) exercise or strike price;

(d) exercise date; and

(e) gains or losses due to settlement, sale or transfer of derivatives during the period.

Income taxes

Deferred tax

.160 Current tax is determined in accordance with tax legislation. In certain circumstances, the treatment of transactions for tax purposes is different from the treatment of transactions for accounting purposes. The effect of this is that there may be a difference between the amounts of taxable profit or loss and accounting profit or loss, and that some assets and liabilities will have tax values that differ from book values. The tax payable in respect of any period may thus not necessarily represent the tax consequences of accounting profit or loss for that period, but rather the tax payable for the year in terms of tax legislation.

.161 The differences between the amounts of taxable profit or loss and accounting profit or loss may arise from:

- permanent differences
- timing differences

.162 Provision shall be made for both current and deferred tax in the financial statements of entities.

Permanent differences

.163 The circumstances where permanent differences arise include the following:

- revenue or gains are exempt from tax;
- non-tax-deductible assets exists;
- expenses or losses not allowed as deductions in determining taxable profit or loss; or
- certain incentive allowances are allowed as a deduction for tax purposes that are not taken into account in arriving at accounting profit or loss.

.164 Tax effects of permanent differences are recognised in the Statement of Income and Retained Earnings of the period in which they arise.

Timing differences

.165 Timing differences result in income or expenditure arising in one period being taxed or allowed in a different period. It is not appropriate for entities to charge in their financial statements only the current tax, since the financial statements would fail to reflect the future tax burden or benefit arising from transactions during the same period.

.166 Providing for deferred tax is the recognised means of accounting for the effects of timing differences in the financial statements of entities. All timing differences are recognised in the financial statements in the period in which they arise.

.167 Where timing differences have the effect of postponing tax payable, an accrual for deferred tax is made which results in both the matching of expense with revenue and the recognition of the liability for taxes payable in the future. Timing differences which result in the prepayment of tax are also recognised in order to avoid understating income after tax in the period in which the timing differences originate, and overstating income after tax in the period in which these differences reverse.

Determination of deferred tax

.168 The liability method is used to calculate deferred tax. Under the liability method the tax effects of timing differences originating or reversing in the current period and adjustments to deferred tax balances are determined using the tax rates that will apply to the ensuing period.

.169 Deferred tax assets and liabilities are adjusted in subsequent periods for changes in the tax rate used to raise deferred tax in order to reflect the likely tax effect of the deferred tax asset or liability. The adjustment to

the asset or liability is merely a change in estimate and so forms part of the tax charge in the Statement of Income and Retained Earnings.

.170 The changes in tax rates and tax laws should be applied to the period to which they relate. For example, a change in tax rates could be announced during a tax year as being applicable to the following year, in which case the current tax balances in the Balance Sheet would be based on the previous tax rate, whereas the deferred tax balance in the Balance Sheet would be based on the new tax rate.

Recognition and measurement

Recognition of current tax liabilities and current tax assets

.171 Current tax payable for current and prior periods shall, to the extent unpaid, be recognised as a current liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess shall be recognised as a current asset.

.172 Any over- or under-provision for current income taxes is accounted for as a change in estimate and is adjusted for when the taxation authorities have made an assessment of the amount of current income tax payable.

Measurement of current tax

.173 Current tax liabilities (assets) for the current and prior periods shall be measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws), including any accrual for penalties and interest.

Recognition of current and deferred tax income or expense

.174 Current and deferred tax shall be recognised as income or an expense and included in the profit or loss for the period.

.175 An entity shall offset current tax assets and current tax liabilities if, and only if, the entity:

(a) has a legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Disclosure

.176 Tax assets and tax liabilities should be presented separately from other assets and liabilities in the Balance Sheet. Deferred tax assets and liabilities should be distinguished from current tax assets and liabilities.

Agriculture

Scope and definitions

.177 This Section shall be applied to account for the following when they relate to agricultural activity:

(a) livestock and growing crops; and

(b) agricultural produce at the point of harvest.

.178 This Section is applied to agricultural produce, which is the harvested product of the entity’s livestock and growing crops, only at the point of harvest. Thereafter, paragraphs .110 to .119 on Inventories apply. Accordingly, this Section does not deal with the processing of agricultural produce after harvest; for example, the processing of grapes into wine by a vintner who has grown the grapes. While such processing may be a logical and natural extension of agricultural activity, and the events taking place may bear some similarity to biological transformation, such processing is not included within the definition of agricultural activity in this Section.

.179 The table below provides examples of livestock and growing crops, agricultural produce, and products that are the result of processing after harvest.

Livestock and growing crops	**Agricultural produce**	**Products that are the result of processing after harvest**
Sheep	Wool	Yarn, carpet
Trees in a plantation forest	Logs	Lumber
Plants	Cotton	Thread, clothing
	Harvested cane	Sugar
Dairy cattle	Milk	Cheese
Pigs	Carcass	Sausages, cured hams
Bushes	Leaf	Tea, cured tobacco
Vines	Grapes	Wine
Fruit trees	Picked fruit	Processed fruit

.180 Biological transformation results in the following types of outcomes:

(a) an asset changes through:

(i) growth (an increase in quantity or improvement in quality of an animal or plant);

(ii) degeneration (a decrease in the quantity or deterioration in quality of an animal or plant); or

(iii) procreation (creation of additional living animals or plants); or

(b) production of agricultural produce such as wheat, maize, wool, and milk.

Recognition and measurement

Recognition

.181 Livestock and growing crops shall be recognised if the recognition criteria as per Chapter 3, paragraphs .10 to .12 have been met.

Initial measurement

.182 Livestock and growing crops acquired shall initially be measured on initial recognition and at each subsequent Balance Sheet date at the cost of acquiring the livestock and growing crops. Additional livestock and growing crops generated internally are therefore not capitalised.

Cost of livestock and growing crops

.183 The cost of livestock and growing crops comprises:

(a) the purchase price of the asset, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and

(b) costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of being operated in the manner intended by management.

.184 Examples of costs that are not costs of livestock and growing crops are:

(a) administration and other general overhead costs; and

(b) costs related to the biological transformation of livestock and growing crops (e.g. feeding sheep or ongoing fertilisation of the soil in a plantation). Such costs are expensed as incurred.

.185 Agricultural produce harvested from an entity's livestock and growing crops shall be measured at its cost at the point of harvest. Such measurement is the cost at that date when applying paragraphs .110 to .119 on Inventories.

Amortisation and impairment losses

.186 Livestock and growing crops shall not be amortised.

.187 An entity shall apply paragraphs .120 to .135 on Impairment of Assets to assess whether livestock and growing crops are impaired. Impairment shall be assessed separately for each group of livestock and growing crops.

Disclosure

.188 An entity shall provide a description of each group of livestock and growing crops. The disclosure shall take the form of a narrative description.

.189 An entity shall describe:

(a) the nature of its activities involving each group of livestock and growing crops; and

(b) non-financial measures or estimates of the physical quantities of:

(i) each group of the entity's livestock and growing crops at the end of the period; and

(ii) output of agricultural produce during the period.

.190 An entity shall disclose:

(a) the existence and amounts of restrictions on title or encumbrances, and livestock and growing crops pledged as security for liabilities; and

(b) the amount of contractual commitments for the development or acquisition of livestock and growing crops.

.191 An entity shall disclose for each group of livestock and growing crops the gross carrying amount and the accumulated impairment losses at the beginning and end of the period.

.192 An entity shall present a reconciliation of changes in the carrying amount of each group of livestock and growing crops between the beginning and the end of the current period.

.193 An entity shall disclose the profit or loss on disposal for each group of livestock and growing crops.

.194 An entity may disclose the attributed value of livestock and growing crops as per Chapter 3, paragraph .14.

Investments

Scope and definitions

.195 This Section shall be applied to contracts that give rise to a loan payable or an equity instrument of another entity, or derivative instruments held for speculative purposes.

Recognition and measurement

Recognition

.196 Investments shall be recognised if the recognition criteria as per Chapter 3, paragraphs .10 to .12 have been met.

Initial measurement

.197 When an investment is recognised initially, an entity shall measure it at cost. Transaction costs that are directly attributable to the acquisition of the investment are included in the initial measurement of cost.

Subsequent measurement

.198 After initial recognition, an entity shall measure all investments at their cost (loans at amortised cost), less any accumulated impairment losses.

.199 Amortised cost is calculated using the effective interest method.

Impairment of investments

.200 An entity shall assess at each Balance Sheet date whether there is any objective evidence that an investment is impaired. If any such evidence exists, the entity shall apply paragraphs .120 to .135 on Impairment of Assets.

Disclosure

.201 An entity shall provide a description of each significant type of investment.

.202 An entity shall disclose the existence and carrying amounts of investments where title is restricted or encumbered, and the carrying amounts of investments pledged as security.

.203 An entity shall disclose for each significant type of investment the gross carrying amount and the accumulated impairment losses at the beginning and end of the period.

.204 An entity shall present a reconciliation of changes in the carrying amount of each significant type of investment between the beginning and the end of the current period.

.205 An entity shall disclose the profit or loss on disposal for each significant type of investment.

.206 An entity may disclose the attributed value of investments as per Chapter 3, paragraph .14.

Investments with control, joint control or significant influence

.207 An entity is not required to prepare consolidated financial statements or apply the equity method of accounting. An entity is, however, permitted to prepare consolidated financial statements, for investments with control, or apply the equity method of accounting, for investments with significant influence or joint control. Where an entity prepares consolidated financial statements or equity accounts for associates or joint ventures, it shall apply the guidance in Appendix B for the investments it holds. An entity preparing consolidated financial statements shall also apply the guidance in Appendix B on Business Combinations. An entity preparing consolidated financial statements or an entity which equity accounts shall also consider guidance in other chapters of this Framework; for example, the guidance on cash flow statements in Chapter 8.

.208 An entity may disclose the attributed value of investments with control, joint control or significant influence as per Chapter 3, paragraph .14.

Disclosure of non-consolidation

.209 Where an entity does not prepare consolidated financial statements or apply the equity method of accounting, it shall make the following disclosures, in the notes to the financial statements, with regard to controlled entities and entities with significant influence (e.g. subsidiaries, special purpose entities, associates and jointly controlled entities):

.210 The financial statements shall include a statement that they have not been prepared on a consolidated basis and therefore do not reflect all assets and liabilities under control of the investor.

.211 The following information shall be disclosed in the notes to the financial statements, for each non-consolidated controlled entity and for each entity with significant influence where the equity accounting method is not applied:

a) the names of such entities, and the nature of the relationship (including the percentage shareholding or interest in the entity);

b) the total amount of net profits for such entities;

c) the total amount of net losses for such entities;

d) all inter-entity balances owing to and owing from such entities;

e) dividends received from such entities; and

f) the amount of owners' equity of such entities.

.212 Inter-entity transactions and inter-entity balances between the investor and the non-consolidated controlled entities shall not be eliminated but shall be disclosed.

Classification of financial instruments as loans payable or owners' equity

.213 The issuer of a financial instrument shall classify the instrument as a loan payable or owners' equity in accordance with the substance of the contractual arrangement.

.214 A financial instrument is a loan payable if it is a liability with agreed repayment terms or if repayment is at the discretion of a third party. All other instruments or contracts are classified as owners' equity.

.215 If the issued financial instrument has any potential voting (or similar) rights or any other potential right to share in the residual interest of the entity, this fact shall be disclosed. A common example of this would be mezzanine finance arrangements.

Equity

Recognition and measurement

Original issue of shares or other equity instruments

.216 An entity shall recognise the issue of shares or other equity instruments as equity when it issues those instruments and another party is obliged to provide cash or other resources to the entity in exchange for the instruments.

(a) If the instruments are issued or subscribed for before the cash or other resources are provided, the entity shall present the amount receivable as an offset to owners' equity in its Balance Sheet, not as an asset.

(b) If the cash or other resources are received before the instruments are issued, and the entity cannot be required to repay the cash or other resources received, the entity shall recognise the corresponding increase in owners' equity to the extent of the consideration received.

Initial measurement

.217 An entity shall initially measure the equity instruments at the amount agreed between the entity and the purchaser of the equity instrument, net of direct costs of issuing the equity instruments.

Disclosure

.218 An entity with share capital shall refer to the disclosure requirements for share capital in paragraph .14.

.219 If an entity has any other forms of owners' equity, other than shares, the entity shall disclose, either on the face of the Balance Sheet or in the notes, for each class of equity, a reconciliation of the equity at the beginning and at the end of the period. In that reconciliation, the entity shall identify separately each significant type of change in the owners' equity.

Reserves

Definition

.220 Reserves are any amounts that an entity generates internally and retains for future use.

Measurement

.221 An entity shall measure the reserves at the amounts recognised, based on the historical cost.

Disclosure

.222 An entity with reserves shall disclose, either on the face of the Balance Sheet or in the notes, for each class of reserves, a reconciliation of amount at the beginning and at the end of the period. In that reconciliation, the entity shall identify separately each significant type of change in the reserves.

.223 An entity shall disclose the nature of any reserves other than retained earnings created.

Loans payable

Definitions

.224 Loans payable are liabilities that are created through specific financing arrangements with agreed repayment terms or where repayment is at the discretion of a third party, and not through the normal trading activities of an entity.

.225 If an entity does not have an unconditional right to avoid delivering cash or another asset to settle a contractual obligation, the obligation meets the definition of a loan payable. For example, a contractual obligation that is conditional on a counterparty exercising its right to redeem is debt because the entity does not have the unconditional right to avoid delivering cash or another asset.

Recognition and measurement

Recognition

.226 Loans payable shall be recognised if the recognition criteria as per Chapter 3, paragraphs .10 to .12 have been met.

Initial measurement

.227 Loans payable shall be measured at the documented amount agreed between the parties.

Subsequent measurement

.228 At each reporting date, an entity shall measure the loans payable at the amounts outstanding as of the Balance Sheet date, including accrued interest (if applicable) on the effective interest rate method.

.229 If a loan payable is issued at a premium or discount the premium or discount should be spread over the period of the instrument, using the effective interest rate method.

Derecognition

.230 An entity shall remove a loan payable (or a part thereof) from its Balance Sheet when, and only when, the obligation specified in the contract is discharged or cancelled or expires.

Disclosure

.231 An entity with loans payable shall disclose, either on the face of the Balance Sheet or in the notes, for each loan, a reconciliation of the loan at the beginning and at the end of the period. In that reconciliation, the entity shall identify separately each significant type of change in the loan(s).

.232 When an entity has pledged assets as collateral for loans payable, it shall disclose:

(a) the carrying amount of the asset(s) pledged as collateral; and

(b) the terms and conditions relating to its pledge.

.233 For loans payable recognised at the reporting date, an entity shall disclose:

(a) details of any defaults during the period of; principal, interest, or redemption terms of those loans payable that permit the lender to demand repayment at financial statement authorisation date; and

(b) the carrying amount of the loans payable in default at the financial statement authorisation date.

Cash and cash equivalents

Definitions

.234 Cash and cash equivalents are cash on hand and demand deposits, including short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Recognition and measurement

.235 Cash and cash equivalents shall be recognised if the recognition criteria as per Chapter 3, paragraphs .10 to .12 have been met.

.236 Cash and cash equivalents shall be measured at nominal amount.

Disclosure

.237 An entity shall disclose separately, either on the face of the Balance Sheet or in the notes, each significant type and currency of cash and cash equivalents.

.238 The financial statements shall disclose the existence and amounts of restrictions on title or encumbrances of cash and cash equivalents.

Amounts receivable

Definitions

.239 An amount receivable is an amount that is claimable from another party owing to contractual or other legal rights, other than investments.

.239A Amount receivable would include debtors, prepayments and other short-term receivables.

Recognition and measurement

Recognition

.240 Amounts receivable shall be recognised if the recognition criteria as per Chapter 3, paragraphs .10 to .12 have been met.

.241 In terms of the general recognition principles amounts receivable will only be recognised when there is a legal enforceable right to claim the amount. For example, a contract to sell inventory is only recognised by the seller as a receivable when the legal ownership of the inventory is transferred.

Initial measurement

.242 Amounts receivable shall be measured at the documented amount agreed between the parties, usually the invoiced amount.

Subsequent measurement

.243 At each reporting date, an entity shall measure amounts receivable at the amount outstanding as of the Balance Sheet date, including accrued interest (if applicable), on the effective interest rate method, and less any accumulated impairment (if applicable).

.244 If an amount receivable is issued at a premium or discount the premium or discount should be spread over the period of the instrument, using the effective interest rate method.

Derecognition

.245 An entity shall remove an amount receivable (or a part thereof) from its Balance Sheet when, and only when, the contractual rights to the cash flows from the receivable expire, or it transfers the receivable as set out in paragraph .246.

.246 An entity transfers a receivable if, and only if, it transfers the contractual rights to receive the cash flows of the receivable. When an entity transfers a receivable, it shall evaluate the extent to which it may still retain the risks and rewards of ownership of the receivable. In this case:

(a) If the entity transfers substantially all the risks and rewards of ownership of the receivable, the entity shall derecognise the receivable and recognise separately as receivables or payables any rights and obligations created or retained in the transfer.

(b) If the entity retains substantially all the risks and rewards of ownership of the receivable, the entity shall continue to recognise the receivable.

(c) If the entity neither transfers nor retains substantially all the risks and rewards of ownership of the receivable, the entity shall determine whether it has retained control of the receivable. In this case:

(i) if the entity has not retained control, it shall derecognise the amount receivable and recognise separately as receivables or payables any rights and obligations created or retained in the transfer; and

(ii) if the entity has retained control, it shall continue to recognise the receivable to the extent of its continuing involvement in the receivable.

Disclosure

.247 An entity shall disclose separately, either on the face of the Balance Sheet or in the notes, significant types of amounts receivable.

.248 The financial statements shall also disclose the existence and amounts of restrictions on title or encumbrances of amounts receivable.

Amounts payable

Definitions

.249 An amount payable is an amount owing to another party due to contractual or other legal rights, other than loans payable.

.249A Amounts payable would include creditors, accruals, pre-invoicing and other short-term obligations.

Recognition and measurement

Recognition

.250 Amounts payable shall be recognised if the recognition criteria as per Chapter 3, paragraphs .10 to .12 have been met.

.251 In terms of the general recognition principles amounts payable will only be recognised when there is a legal enforceable right to claim the amount. For example, a contract to purchase inventory is only recognised by the purchaser as a payable when the legal ownership of the inventory is transferred.

Initial measurement

.252 Amounts payable will be measured at the documented amount agreed between the parties.

Subsequent measurement

.253 At each reporting date, an entity shall measure amounts payable at the amount outstanding as of the Balance Sheet date, including accrued interest (if applicable) on the effective interest rate method.

Derecognition

.254 An entity shall remove an amount payable (or a part thereof) from its Balance Sheet when, and only when the obligation specified in the contract is discharged, cancelled or expires.

Disclosure

.255 An entity shall disclose separately, either on the face of the Balance Sheet or in the notes, significant types of amounts payable.

.256 When an entity has pledged assets as collateral for amounts payable, it shall disclose:

(a) the carrying amount of the assets pledged as collateral; and

(b) the terms and conditions relating to its pledge.

.257 For amounts payable recognised at the reporting date, an entity shall disclose:

(a) details of any defaults during the period of principal, interest, or redemption terms of those amounts payable; and

(b) the carrying amount of the amounts payable in default at the financial statement authorisation date.

Chapter 7
STATEMENT OF INCOME AND RETAINED EARNINGS

General

.01 Refer to Chapter 3 for recognition and measurement principles.

.02 As a minimum, the face of the Statement of Income and Retained Earnings (or notes) shall include line items that present the:

(a) material categories of revenue, income and expense;

(b) discounts given;

(c) discounts received;

(d) tax expense;

(e) interest expense;

(f) interest income;

(g) profit or loss,

(h) a reconciliation of the opening and closing retained earnings; and

(i) amount of dividends recognised, as distributions to equity holders, relating to the period.

.03 Additional line items, headings and subtotals shall be presented on the face of the Statement of Income and Retained Earnings when such presentation is relevant to an understanding of the entity's financial performance.

Abnormal items

.04 Items or events that are not in the ordinary course of business or events that are wholly outside of the control of the entity shall be separated from operational items, either on the face of the Statement of Income and Retained Earnings or in the notes. These items will be described as abnormal. Examples would include the sale of fixed assets not in the ordinary course of business, governmental expropriation and natural disasters.

Revenue

Scope and definitions

.05 This Section shall be applied in accounting for revenue arising from the following transactions and events:

(a) the sale of goods;

(b) the rendering of services; and

(c) the use by others of entity assets yielding interest, royalties, rentals and dividends.

.06 Goods include goods produced by the entity for the purpose of sale and goods purchased for resale, such as merchandise purchased by a retailer or land and other property held for resale.

Construction contracts

.07 The rendering of services typically involves the performance by the entity of a contractually agreed task over an agreed period of time. The services may be rendered within a single period or over more than one period. Some contracts for the rendering of services are directly related to construction contracts; for example, for contractors, project managers, architects, etc. Revenue arising from these contracts shall be recognised as invoiced, except when invoicing was done as per paragraph .12.

Definitions

.08 Revenue includes only the gross inflows of economic benefits received and receivable by the entity on its own account. Amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes are not economic benefits which flow to the entity and do not result in increases in equity. Therefore, they are excluded from revenue. Similarly, in an agency relationship, the gross inflows of economic benefits include amounts collected on behalf of the principal and which do not result in increases in equity for the entity. The amounts collected on behalf of the principal are not revenue. Instead, revenue is the amount of commission.

Recognition and measurement

Recognition

.09 Revenue shall be recognised if the recognition criteria as per Chapter 3, paragraphs .10 to .12 have been met.

.10 Revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the entity. However, when an uncertainty arises about the collectability of an amount already included in revenue, the uncollectable amount, or the amount in respect of which recovery has ceased to be probable, is recognised as an expense, rather than as an adjustment of the amount of revenue originally recognised.

Measurement

.11 The amount of revenue arising on a transaction is usually determined by agreement between the entity and the customer or client. It is measured at the invoiced value, net of Value Added Tax (VAT), deducting the amount of any trade discounts and volume rebates included in the invoice.

.12 If the amount invoiced is for services to be rendered or goods to be delivered after the Balance Sheet date (pre-invoicing), these amounts should not be recognised as revenue. If these amounts are received before the Balance Sheet date, they will be classified as deferred revenue in other amounts payable.

.13 When goods or services are exchanged or swapped for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction which generates revenue. This is often the case with commodities like oil or milk where suppliers exchange or swap inventories in various locations to fulfil demand on a timely basis in a particular location. When goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction which generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

Identification of the transaction

.14 The recognition criteria in this Section are usually applied separately to each transaction. However, in certain circumstances, it is necessary to apply the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. For example, when the selling price of a product includes an identifiable amount for subsequent servicing, that amount is deferred and recognised as revenue over the period during which the service is performed. Conversely, the recognition criteria are applied to two or more transactions together when they are linked in such a way that the commercial effect cannot be understood without reference to the series of transactions as a whole. For example, an entity may sell goods and, at the same time, enter into a separate agreement to repurchase the goods at a later date, thus negating the substantive effect of the transaction; in such a case, the two transactions are dealt with together.

Interest, royalties, rentals and dividends

.15 Revenue arising from the use by others of entity assets yielding interest, royalties, rentals and dividends shall be recognised on the bases set out in paragraph .16 when the recognition criteria as per Chapter 3, paragraphs .10 to .12 have been met.

.16 Revenue shall be recognised on the following bases:

(a) interest shall be recognised using the effective interest method;

(b) royalties shall be recognised on an accrual basis in accordance with the substance of the relevant agreement;

(c) rentals shall be recognised when received or receivable by the entity; and

(d) dividends shall be recognised when rights are established (usually the date on which the dividends are authorised).

Government grants

.17 Government grants shall be recognised if the recognition criteria as per Chapter 3, paragraphs .10 to .12 have been met.

.18 Government grants shall be recognised as income when received or receivable.

Disclosure

.19 An entity shall disclose:

(a) the accounting policies adopted for the recognition of revenue, including the methods adopted to determine the stage of completion of transactions involving the rendering of services;

(b) the amount of each significant category of revenue recognised during the period, including revenue arising from:

(i) the sale of goods;

(ii) the rendering of services;

(iii) interest;

(iv) royalties;

(v) rentals;

(vi) dividends; and

(c) the amount of revenue arising from exchanges of goods or services included in each significant category of revenue.

Discounts

.20 An entity shall disclose discounts allowed, which are not indicated on sales invoices issued, separately on the face of the Statement of Income and Retained Earnings. This would include the amount of any trade discounts and volume rebates allowed by the entity subsequent to invoicing.

.21 An entity shall disclose discounts received, which are not indicated on invoices for goods and services received, separately on the face of the Statement of Income and Retained Earnings. This would include the amount of any trade discounts and volume rebates received by the entity subsequent to the original invoice.

The effects of changes in foreign exchange rates

Functional currency

.22 The primary economic environment in which an entity operates is normally the one in which it primarily generates and expends cash. An entity considers the following factors in determining its functional currency:

(a) the currency:

(i) that mainly influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled); and

(ii) of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services;

(b) the currency that mainly influences labour, material and other costs of providing goods or services (this will often be the currency in which such costs are denominated and settled).

.23 When the above indicators are mixed and the functional currency is not obvious, management uses its judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

.24 An entity's functional currency reflects the underlying transactions, events and conditions that are relevant to it. Accordingly, once determined, the functional currency is not changed unless there is a change in those underlying transactions, events and conditions.

Change in functional currency

.25 When there is a change in an entity's functional currency, the entity shall apply the translation procedures applicable to the new functional currency prospectively from the date of the change.

Recognition and measurement

Monetary items and non-monetary items

.26 The essential feature of a monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: pensions and other employee benefits to be paid in cash; provisions that are to be settled in cash; and cash dividends that are recognised as a liability. Conversely, the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: amounts prepaid for goods and services (e.g. prepaid rent); goodwill; intangible assets; inventories; plant and equipment; and provisions that are to be settled by the delivery of a non-monetary asset.

Foreign currency transactions

.27 A transaction denominated in a foreign currency shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction, except where the entity has covered its foreign exchange purchases or sales by use of a derivative (cover rate), whether partially or completely, in relation to the specific transaction, in which case the cover rate shall be applied to the extent that it covers the transaction.

.28 For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used; for example, an average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.

Reporting at subsequent Balance Sheet date

.29 At each Balance Sheet date:

(a) foreign currency monetary items shall be translated using the closing rate; and

(b) non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated, using the exchange rate at the date of the transaction.

Recognition of exchange differences

.30 Exchange differences arising on the settlement of monetary items or on reporting an entity's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, shall be recognised as income or as expenses in the period in which they arise.

Foreign operations

.31 Appendix B on Business Combinations, Investments in Subsidiaries and Associates and Interests in Joint Ventures deals with the requirements on how to account for an investment in a foreign operation. In accordance with Appendix B, this Framework does not require that an entity prepares consolidated

financial statements, but it may do so if it wishes to. The guidance on foreign operations only applies if the entity prepares consolidated financial statements in accordance with Appendix B.

Disclosure

.32 An entity shall disclose the amount of exchange differences included in the net profit or loss for the period.

Taxation

Recognition and measurement

Secondary Tax on Companies (STC) [Section to be replaced by withholding tax on dividends]

.33 STC should be treated as part of the income tax charge in the Statement of Income and Retained Earnings in the period in which the dividends are declared. The amount of STC credits should be reflected in the tax notes.

Capital Gains Tax (CGT)

.34 CGT should be treated as part of the income tax charge in the Statement of Income and Retained Earnings of the period in which the disposal took place.

Disclosure

.35 The major components of tax expense shall be disclosed separately, either on the face or in the notes to the financial statements.

Tax rate reconciliation

.36 An entity shall disclose a reconciliation in percentage terms between the normal tax rate applicable to the entity and the effective tax rate reflected in the Statement of Income and Retained Earnings taxation charge.

.37 An entity shall disclose any assessed or estimated tax losses, and STC credits available.

Derivatives

Disclosure

.38 The major components of tax expense shall be disclosed separately, either on the face or the notes to the financial statement.

Chapter 8
CASH FLOW STATEMENT

.01 Information about the cash flows of an entity is useful in providing users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows. The economic decisions that are taken by users require an evaluation of the ability of an entity to generate cash and cash equivalents and the timing and certainty of their generation.

Cash and cash equivalents

.02 Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less.

.03 Bank borrowings are generally considered to be financing activities. However, in some circumstances, bank overdrafts which are repayable on demand form an integral part of an entity's cash management. In these circumstances, bank overdrafts are included as a component of cash and cash equivalents. A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn.

.04 Cash flows exclude movements between items that constitute cash or cash equivalents because these components are part of the cash management of an entity rather than part of its operating, investing and financing activities. Cash management includes the investment of excess cash in cash equivalents.

Presentation of a cash flow statement

.05 Cash flows from abnormal items shall be presented or disclosed separately, either on the face of the cash flow statement or in the notes.

.06 The cash flow statement is basically a reconciliation of the opening and closing cash and cash equivalents of the entity. The reconciliation is classified into the type of activities it relates to. The classification may differ depending on the type of entity and the nature of the entity's activities. This classification may be made into the following categories:

Cash from trading activities

.07 Cash flows from trading activities represents the actual trading activities of the entity and may include the sale of goods and services, the purchase of inventories and the costs incurred in connection with the production costs of goods and services.

Cash inflows from sales

.08 Cash flows from sales are the cash received from customers and clients for the sale of goods or services. The amount of cash received shall be calculated by starting with revenue, and adjusting for changes in the trade debtor balance(s) and other related Balance Sheet items.

.09 Some transactions, such as the sale of an item of plant, may give rise to a gain or loss which is included in the determination of profit or loss. However, the cash flows relating to such transactions are cash flows from plant, equipment and investments.

Cash outflows for cost of sales

.10 Cash flows for cost of sales are the cash paid to suppliers for the purchase of goods or services related to trading activities or the production of goods and services. The amount of cash paid should be calculated by starting with cost of sales, and adjusting for changes in trade creditor balance(s), inventory balance(s) and other related Balance Sheet items.

Cash outflows for operating expenses

.11 Cash flows for operating expenses are the cash paid to suppliers, employees and others for the running of the entity activities, other than trading or the production of goods and services. The amount of cash paid should be calculated by starting with items such as salaries and wages, administrative expenses, changes in other amounts payable balance(s), and other related Balance Sheet items.

.12 Cash after operations is the total of cash inflows from sales, cash outflows for cost of sales and cash outflows for operating expenses.

Cash flows relating to other operating items

.13 Cash flows relating to the following items may be grouped together to determine the net cash inflow or outflow before investing activities and maintenance of non-current assets and financing activities:

(a) Abnormal items;

(b) Other operating income / (expenses);

(c) Interest received / (paid);

(d) Investment income / (expense);

(e) Changes in other debtors;

(f) Changes in other creditors;

(g) Changes in tax payable / receivable balances;

(h) Changes in deferred tax balances;

(i) Changes in dividends payable;

(j) Changes in provisions payable in cash.

.14 It may be useful to distinguish cash flows from the items above between:

(a) Other income or expenses;

(b) Changes in other assets or liabilities;

(c) Cash paid for taxation; and

(d) Cash paid for interest and dividends

Cash flows relating to investing activities

.15 Investing activities include cash that the entity has paid (or received) related to investing its excess cash in different investments (shares, bonds, loans, other investments in entities and similar investments) and amounts spent on investments in capital assets such as real estate, plant and equipment.

.16 Cash flows relating to investments in capital assets can usually be distinguished between investing and maintenance.

.17 To determine the cash flow implications of investments in capital assets, the changes in the above mentioned balances, including accumulated depreciation on fixed assets should be presented, depreciation charges on fixed assets should be deducted, and gains or losses on disposal of fixed assets should be added or deducted respectively.

.18 Examples of cash flows arising from investing activities are:

(a) cash payments to acquire plant and equipment, intangibles and other long-term assets. These payments include those relating to capitalised development costs and self-constructed plant and equipment;

(b) cash receipts from disposals of plant and equipment, intangibles and other long-term assets;

(c) cash receipts and payments related to investments [refer to paragraph .15]

(d) cash advances and loans made to other parties; and

(d) cash receipts from the repayment of advances and loans made to other parties.

Cash flows relating to financing activities

.19 Financing activities include the inflow of cash from funders and investors, such as banks and owners, as well as the outflow of cash to owners as dividends as the entity generates income. Financing activities also include other activities which impact the long-term liabilities and equity of the entity.

.20 Examples of cash flows arising from financing activities are:

(a) cash proceeds from issuing equity instruments;

(b) payments of dividends;

(c) cash payments to owners to acquire or redeem the entity's own equity instruments;

(d) cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short or long-term borrowings;

(e) cash repayments of amounts borrowed;

(f) repayment of debt principal; and

(g) for non-profit organizations, receipts of donor-restricted cash that is limited to long-term purposes.

Chapter 9
NOTES TO FINANCIAL STATEMENTS

General

.01 The notes shall:

(a) present information about the basis of preparation of the financial statements and the specific accounting policies selected and applied for significant transactions and events;

(b) disclose the information required by the Framework that is not presented on the face of the Balance Sheet, Statement of Income and Retained Earnings, or cash flow statement; and

(c) provide additional information that is not presented on the face of the Balance Sheet, Statement of Income and Retained Earnings, or cash flow statement, but is relevant to an understanding of any of them.

.02 Notes shall, as far as possible, be presented in a systematic manner. Each item on the face of the Balance Sheet, Statement of Income and Retained Earnings and cash flow statement shall be cross-referenced to any related information in the notes. Comparative

.03 An entity shall disclose in the summary of significant accounting policies:

(a) the measurement basis (or bases) used in preparing the financial statements; and

(b) the other accounting policies used that are relevant to an understanding of the financial statements.

.04 An entity shall disclose the following, if not disclosed elsewhere in information published with the financial statements:

(a) Name, the domicile and legal form of the entity, its country of incorporation, its registration number and the address of its registered office (or principal place of business, if different from the registered office);

(b) a description of the nature of the entity's operations and its principal activities; and

(c) the name of the parent and ultimate parent of the group.

Related party disclosures

Definitions and scope

.05 A party is related to an entity if:

(a) directly, or indirectly through one or more intermediaries, the party:

(i) controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);

(ii) has an interest in the entity that gives it significant influence over the entity; or

(iii) has joint control over the entity;

(b) the party is a member of the Board of Directors or equivalent management body of the entity or its parent;

(c) the party is related to any individual referred to in (a) or (b);

(d) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (a), (b) or (c); or

(e) the entity has entered into an encumbrance in favour of the party.

.05A In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

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

Disclosure

.07 An entity shall disclose the total compensation of the Board of Directors (executive and non-executive) or equivalent management body.

.08 If there have been transactions between related parties on terms **not** equivalent to those that prevail in arm's length transactions, an entity shall disclose the nature of the related party relationship as well as information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to the requirements in paragraph .07 to disclose compensation of the Board of Directors or equivalent management body. At a minimum, disclosures shall include:

(a) the amount of the transactions;

(b) the amount of outstanding balances and:

  (i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and

  (ii) details of any guarantees given;

.09 Disclose all encumbrances with regards to related parties. These would include guarantees, suretyships and other similar arrangements.

.10 The disclosures required by paragraphs .08 and .09 shall be made separately for each of the following categories:

(a) the parent;

(b) entities with joint control or significant influence over the entity;

(c) subsidiaries;

(d) associates;

(e) joint ventures in which the entity is a venturer;

(f) the Board of Directors or equivalent management body of the entity or its parent; and

(g) other related parties.

.11 Items of a similar nature may be disclosed in aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity.

.12 Related party transactions are made on terms equivalent to those that prevail in arm's length transactions only if such terms can be substantiated.

.13 Relationships between controlled parties and controlling parties shall be disclosed irrespective of whether there have been transactions between those related parties.

Events after the Balance Sheet date

Adjusting events after the Balance Sheet date

.14 An entity shall adjust the amounts recognised in its financial statements to reflect adjusting events after the Balance Sheet date.

.15 The following are examples of adjusting events after the Balance Sheet date that require an entity to adjust the amounts recognised in its financial statements, or to recognise items that were not previously recognised:

(a) the settlement after the Balance Sheet date of a court case that confirms that the entity had a present obligation at the Balance Sheet date. The entity adjusts any previously recognised provision related to this court case in accordance with Chapter 6, paragraphs 136 to 139 and .143 to .147 or recognises a new provision.

(b) the receipt of information after the Balance Sheet date indicating that an asset was impaired at the Balance Sheet date, or that the amount of a previously recognised impairment loss for that asset needs to be adjusted. For example:

   (i) the bankruptcy of a customer that occurs after the Balance Sheet date usually confirms that a loss existed at the Balance Sheet date on a trade receivable and that the entity needs to adjust the carrying amount of the trade receivable; and

   (ii) the sale of inventories after the Balance Sheet date may give evidence about their net realisable value at the Balance Sheet date.

(c) the determination after the Balance Sheet date of the cost of assets purchased, or the proceeds from assets sold, before the Balance Sheet date.

(d) the determination after the Balance Sheet date of the amount of profit-sharing or bonus payments, if the entity had a present legal or constructive obligation at the Balance Sheet date to make such payments as a result of events before that date.

(e) the discovery of fraud or errors that show that the financial statements are incorrect.

(f) a legal obligation to perform a review, audit or other service that relates to the period, to the extent that the services have been performed.

Non-adjusting events after the Balance Sheet date

.16 An entity shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the Balance Sheet date.

.17 An example of a non-adjusting event after the Balance Sheet date is a decline in market value of investments between the Balance Sheet date and the date when the financial statements are authorised for issue. The decline in market value does not normally relate to the condition of the investments at the Balance Sheet date, but reflects circumstances that have arisen subsequently. Therefore, an entity does not adjust the amounts recognised in its financial statements for the investments.

Dividends

.18 Dividends shall be recognised once declared (i.e. the dividends are appropriately authorised and no longer at the discretion of the entity).

.19 If dividends are declared (i.e. the dividends are appropriately authorised and no longer at the discretion of the entity) after the Balance Sheet date but before the financial statements are authorised for issue, the dividends are only disclosed, and not recognised as a liability at the Balance Sheet date.

Going concern

.20 An entity shall not prepare its financial statements on a going concern basis if management determines after the Balance Sheet date either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.

Disclosure

Date of authorisation for issue

.21 An entity shall disclose the date when the financial statements were authorised for issue and who gave that authorisation. If the entity's owners or others have the power to amend the financial statements after issue, the entity shall disclose that fact.

.22 It is important for users to know when the financial statements were authorised for issue, because the financial statements do not reflect events after this date.

Updating disclosure about conditions at the Balance Sheet date

.23 If an entity receives information after the Balance Sheet date about conditions that existed at the Balance Sheet date, it shall update disclosures that relate to those conditions, in the light of the new information.

Non-adjusting events after the Balance Sheet date

.24 If non-adjusting events after the Balance Sheet date are material, non-disclosure could influence the economic decisions of users taken on the basis of the financial statements. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the Balance Sheet date:

(a) the nature of the event; and

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

Anticipated future cash flows

.25 If no specific time bands are specified, anticipated future cash flows shall distinguish between within one year, and more than one year.

Capital expenditure

.26 Amounts of anticipated capital expenditure on all assets shall be disclosed per category as required by Chapter 6, paragraphs .31 (c), .57 (c), .83 (b), .119 (f) and .190 (b). These amounts shall not be recognised as liabilities, unless it is a liability as defined and meet the recognition criteria as per Chapter 3, paragraphs .10 to .12. This disclosure should distinguish between committed and approved capital commitments.

Provisional tax payments

.27 Provisional tax payments anticipated in the ensuing financial period shall be disclosed in the notes.

Leases and instalment sales

.28 Amounts of anticipated cash flows relating to leases and instalment sales shall be disclosed as required by Chapter 6, paragraphs .91 (a), .98 (a), .104 (b) and .109 (a)

Dividends

.29 Amounts of dividends proposed by directors or a similar commitment, not yet recognised due to the amount not satisfying the recognition criteria as per paragraph .18 and .19 shall be disclosed.

Guarantees

.30 An entity shall disclose amounts that an entity might have to pay in terms of encumbrances, such as guarantees, suretyships and other similar arrangements, which have become more likely than not that the entity may need to pay.

Appendix A
DEFINED TERMS

This Appendix is an integral part of the Framework.

The following terms are used in the Framework with the meanings as specified.

abnormal items — Items or events that are not in the ordinary course of business or events that are wholly outside of the control of the entity.

accounting policies — The specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

accounting profit or loss — The profit or loss for a period before deducting tax expense.

active market — A market in which all the following conditions exist:

(a) the items traded within the market are homogeneous;

(b) willing buyers and sellers can normally be found at any time; and

(c) prices are available to the public.

agricultural activity — Agricultural activity is the management by an entity of the biological transformation of livestock and growing crops for sale, into agricultural produce, or into additional livestock and growing crops.

agricultural produce — Agricultural produce is the harvested product of the entity's livestock and growing crops.

amortised cost — The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount.

amounts payable — An amount payable is an amount owing to another party due to contractual or other legal rights, other than loans payable.

amounts receivable — An amount receivable is an amount that is claimable from another party owing to contractual or other legal rights, other than investments.

arm's length transaction — A transaction conducted strictly on a commercial basis, unaffected by abnormal pressure or by the absence of normal competitive negotiation as might be true in the case of a transaction between related parties.

asset — An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.

associate — An entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

attributed value — The value attributed to the asset or liability, which could be the net realisable value, market value, insured value, deemed value or any value the directors believe is a reasonable value.

biological transformation — Biological transformation comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in livestock and growing crops.

carrying amount — The amount at which an asset or liability is recognised in Balance Sheet.

cash — Cash on hand and demand deposits.

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

cash flows — Inflows and outflows of cash and cash equivalents.

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

class of assets — Grouping of assets of a similar nature and use in an entity's operations.

closing rate — The spot exchange rate at the Balance Sheet date.

consolidated financial statements — The financial statements of a group presented as those of a single economic entity.

construction contract — A contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

constructive obligation — An obligation that derives from an entity's actions where:

(a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and

(b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

contingent asset — A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

contingent liability — A contingent liability is:

(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or

(b) a present obligation that arises from past events but is not recognised because:

   (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

   (ii) the amount of the obligation cannot be measured with sufficient reliability.

contingent rent — That portion of the lease payments that is not fixed in amount but is based on the future amount of a factor that changes other than with the passage of time (e.g. percentage of future sales, amount of future use, future price indices, future market rates of interest).

control (of an entity) — The power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

If an entity has more than 50% of the voting rights of another entity, the rebuttable presumption is that the entity has control.

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

costs of disposal	Incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.
cover rate	The exercise price of a foreign exchange derivative instrument.
current tax	The amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period.
depreciation (amortisation) *	The systematic allocation of the cost of an asset over its useful life (non tax deductible assets) or its period of tax deduction (tax deductible assets). * In the case of an intangible asset, the term ‘amortisation’ is generally used instead of ‘depreciation’. The two terms have the same meaning.
derecognition	The removal of a previously recognised asset or liability from an entity’s Balance Sheet.
derivative instruments (derivatives)	A special type of financial instrument whose value depends on the value of an underlying asset, an index or a reference rate. Examples are swaps, forwards, futures and options.
dividends	Distributions from reserves to owners of an entity.
effective interest method	The effective interest method is a method of calculating the amortised cost of an asset or a liability and of allocating the interest income or interest expense over the relevant period.
effective interest rate	The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the asset or liability.
effective tax rate	Effective tax rate is the taxation charge in the Statement of Income and Retained Earnings expressed as a percentage of accounting profit.
element of the financial statement (element)	Elements of the financial statement can be assets, liabilities, equity, income or expenses.
employee benefits	Employee benefits are all forms of consideration given by an entity in exchange for services rendered by employees.
encumbrance	An encumbrance includes any guarantee, suretyship or notarial bond, for the benefit of a third party.
entity	Any association, business, company, cooperative, corporation, country, governmental unit, group, institution, organisation, partnership, sole proprietorship, trust, union or other establishment.
equity	The residual interest in the assets of an entity after deducting all of its liabilities.
equity instrument	Any financial instrument that evidences a residual interest in the assets of an entity after deducting all of its liabilities.
events after the Balance Sheet date	Events after the Balance Sheet date are those events, favourable and unfavourable, that occur between the Balance Sheet date and the date when the financial statements are authorised for issue. Two types of events can be identified: (a) those that provide evidence of conditions that existed at the Balance Sheet date (adjusting events after the Balance Sheet date); and (b) those that are indicative of conditions that arose after the Balance Sheet date (non-adjusting events after the Balance Sheet date).
exchange difference	The difference resulting from translating a given number of units of one currency into another currency at different exchange rates.

exchange rate	The ratio of exchange for two currencies.
expense	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.
fair value	The amount for which an asset could be exchanged, or a liability settled, or an equity instrument granted could be exchanged between knowledgeable, willing parties in an arm's length transaction. The best evidence of fair value is a quoted price in an active market.
fair value less costs to sell	Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.
FIFO (first-in, first-out)	The assumption that the items of inventory that were purchased or produced first are sold first, and consequently the items remaining in inventory at the end of the period are those most recently purchased or produced.
financial instrument	Financial instruments are cash, evidence of an ownership interest in an entity, or a contractual right to receive, or a contractual obligation to deliver, cash or another asset.
financial position	The relationship of the assets, liabilities, and equities of an entity, as reported in the Balance Sheet.
financing activities	Activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.
foreign currency	A currency other than the functional currency of the entity.
foreign currency transaction	A transaction that is denominated in or requires settlement in a foreign currency.
foreign operation	Foreign operation is an entity that is a subsidiary, associate, joint venture or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.
functional currency	Functional currency is the currency of the primary economic environment in which the entity operates.
gains	Gains are increases in economic benefits and as such are no different in nature from revenue.
going concern	The entity is normally viewed as a going concern; that is, as continuing in operation for the foreseeable future. It is assumed that the entity has neither the intention nor the necessity of liquidation or of curtailing materially the scale of its operations.
goodwill	Future economic benefits arising from assets that are not capable of being individually identified and separately recognised.
government	Government, government agencies and similar bodies whether local, national or international.
government grants	Assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity.

gross investment in the instalment sale	Gross investment in the instalment sale is the minimum instalment payments receivable by the seller under an instalment sale.
group	A parent and all its subsidiaries.
group of livestock and growing crops	A group of livestock and growing crops is an aggregation of similar living animals or plants.
harvest	Harvest is the detachment of produce from livestock and growing crops, or the cessation of a plant or animal's life processes.
impairment loss	The amount by which the carrying amount of an asset exceeds its fair value less costs to sell.
income	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.
initial direct costs	Initial direct costs are incremental costs that are directly attributable to negotiating and arranging an instalment sale and lease, except for such costs incurred by manufacturers or dealers.
instalment sale	An instalment sale is the sale of an asset in exchange for a specified series of payments (the instalments), where the purchasing entity may claim wear and tear as well as all interest paid as tax deductions.
intangible asset	An identifiable non-monetary asset without physical substance.
inventories	Inventories are assets: (a) held for sale in the ordinary course of business; (b) in the process of production for such sale; or (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services. Inventories encompass goods purchased and held for resale including, for example, merchandise purchased by a retailer and held for resale, or land and other property held for resale. Inventories also encompass finished goods produced, or work in progress being produced, by the entity and include materials and supplies awaiting use in the production process. In the case of a service provider, inventories include the costs of the service for which the entity has not yet recognised the related revenue.
investing activities	The acquisition and disposal of long-term assets and other investments not included in cash equivalents.
joint control	The contractually agreed sharing of control over an economic activity.
joint venture	A contractual arrangement whereby two or more parties undertake an economic activity which is subject to joint control.
jointly controlled entity	A joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity.
lease	A lease is a contract where the lessee is entitled to deduct the full lease payments for tax purposes.

legal obligation — A legal obligation is an obligation that derives from:

(a) a contract (through its explicit or implicit terms);

(b) legislation; or

(c) other operation of law.

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

livestock and growing crops — Livestock and growing crops are living animals or plants.

loan payable — Loans payable are liabilities that are created through specific financing arrangements with agreed repayment terms or where repayment is at the discretion of a third party, and not through the normal trading activities of an entity.

material — Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances.

measurement — 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 Statement of Income and Retained Earnings.

minimum lease payments — The payments over the lease term that the lessee is or can be required to make, excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor, together with:

(a) for a lessee, any amounts guaranteed by the lessee or by a party related to the lessee; or

(b) for a lessor, any residual value guaranteed to the lessor by:

  (i) the lessee;

  (ii) a party related to the lessee; or

  (iii) a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.

monetary items — Units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.

net investment in the instalment sale — Net investment in the instalment sale is the gross investment in the instalment sale less unearned interest income.

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

'Net realisable value' refers to the net amount that an entity expects to realise from the sale of inventory in the ordinary course of business.

nominal amount — The face value of a financial instrument.

non-current asset — An asset that does not meet the definition of a current asset.

notes — Notes contain information in addition to that presented in the Balance Sheet, Statement of Income and Retained Earnings and cash flow statement. Notes provide narrative descriptions or disaggregations of items disclosed in those statements and information about items that do not qualify for recognition in those statements.

notional amount	The face value of the underlying instruments on which derivative instruments are traded.
offsetting	See '**set-off', 'legal right of'**
onerous contract	A contract in which the unavoidable costs of meeting obligations under the contract exceed the economic benefits expected to be received under it.
operating activities	The principal revenue-producing activities of an entity and other activities that are not investing or financing activities.
parent	An entity that has one or more subsidiaries.
permanent differences	Permanent differences are the differences between taxable profit and accounting profit for a period that originate in the current period and will not reverse in subsequent periods.
plant and equipment	Tangible items, other than real estate, that: (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and (b) are expected to be used during more than one period.
presentation currency	Presentation currency is the currency in which the financial statements are presented.
present value	A current estimate of the present discounted value of the future net cash flows in the normal course of business.
prior period errors	Omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that: (a) was available when financial statements for those periods were authorised for issue; and (b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements. Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.
probable	More likely than not.
prospective application	Prospective application of a change in accounting policy and of recognising the effect of a change in an accounting estimate, respectively, are: (a) applying the new accounting policy to transactions, other events and conditions occurring after the date as at which the policy is changed; and (b) recognising the effect of the change in the accounting estimate in the current and future periods affected by the change.
provision	A liability of uncertain timing or amount.
real estate	Real estate is land along with anything permanently affixed to the land, such as buildings, specifically property that is stationary, or fixed in location. This includes land and buildings used by the entity to produce goods and services, for administration purposes, held for capital appreciation or to earn rental income.

related individuals
An individual is related to another individual if they—

(i) are married, or live together in a relationship similar to a marriage; or

(ii) are separated by no more than two degrees of natural or adopted consanguinity.

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

set-off, legal right of
A debtor's legal right, by contract or otherwise, to settle or otherwise eliminate all or a portion of an amount due to a creditor by applying against that amount an amount due from the creditor.

significant influence
Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

If an investor holds, directly or indirectly through subsidiaries, 20% or more of the voting power of the investee, it is presumed that the investor does have significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds, directly or indirectly through subsidiaries, less than 20% of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an investor from having significant influence.

The existence of significant influence by an investor is usually evidenced in one or more of the following ways:

a. representation on the Board of Directors or equivalent governing body of the investee;
b. participation in policy-making processes;
c. material transactions between the investor and the investee;
d. interchange of managerial personnel; or
e. provision of essential technical information.

spot exchange rate
The exchange rate for immediate delivery.

subsidiary
An entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as the parent). This includes a special purpose entity (SPE) when the substance of the relationship between an entity and the SPE indicates that the SPE is controlled by that entity.

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

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

tax-deductible asset
An asset for which a wear and tear allowance is granted by the tax authorities.

timing differences
Timing differences are the differences between taxable profit and accounting profit that arise because certain items of income and expense are included in taxable profit in periods different from those in which they are included in accounting profit.

unearned interest income	Unearned interest income is the amount of interest income receivable over the period of the instalment sale arrangement.
useful life	The period over which an asset is expected to be available for use by an entity.
venturer	A party to a joint venture that has joint control over that joint venture.
weighted average cost formula	Under this method, the cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period and the cost of similar items purchased or produced during the period. The average may be calculated on a periodic basis, or as each additional shipment is received, depending upon the circumstances of the entity.

Appendix B
Business Combinations, Consolidation and Equity Accounting

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Appendix C
ILLUSTRATIVE EXAMPLE

This illustrative example accompanies, but is not part of the Framework.

Introduction

Example 1 illustrates some of the disclosure requirements of the Framework. A reporting entity is required to provide some of the disclosures in a tabular format, unless another format is more appropriate. However, the formats used in the illustrations are not mandatory.

This example relates to a reporting entity, Close Corporation XYZ, and illustrates the disclosure requirements relating to the cash flow statement.

The example is not intended to be all-inclusive. It may, however, include information that is not required explicitly by the Framework but which is provided to meet the disclosure objectives.

Example 1
Cash flow statement of XYZ CC for the year ended 31 December 2008

In thousands of Rand

	2008	2007
Revenue	19,750	18,000
Change in amounts receivable (trade debtors)	2,821	(1,950)
Change in current amounts due from group and related entities	(1,129)	(1,800)
Change in provision for doubtful debtors	(705)	450
CASH COLLECTED FROM REVENUE	20,737	14,700
Cost of sales	(10,200)	(8,250)
Change in inventories	(1,800)	675
Change in amounts payable (trade creditors)	1,200	(1,350)
Change in current amounts due to group and related entities	1,200	-
CASH PAID TO SUPPLIERS	(9,600)	(8,925)
CASH FROM TRADING ACTIVITIES	**11,137**	**5,775**
Salaries and wages	(3,600)	(3,150)
Administrative expenses	(1,200)	(990)
Other operating expenses	(1,950)	(1,260)
Bad debt write-offs	(750)	(480)
Operating lease expenses	(1,740)	(1,470)
Change in prepayments	(330)	180
Change in accruals	240	60
CASH PAID FOR OPERATING EXPENSES	(9,330)	(7,110)
CASH AFTER OPERATIONS	**1,807**	**(1,335)**
Abnormal items	(150)	480
Other income / (expenses)	(90)	-
Interest received	90	360
TOTAL OTHER INCOME / (EXPENSE)	(150)	840
Change in other operating current assets	30	(45)
Change in other operating current liabilities	(105)	(30)
Change in provisions	36	75
CHANGE - OTHER ASSETS / LIABILITIES	(39)	-
Current taxation	(720)	(90)
Deferred taxation	(30)	-
Change in tax payable	360	90
Change in deferred tax	30	-
CASH PAID FOR TAXATION	(360)	-

NET CASH AFTER OPERATIONS	**1,258**	**(495)**
Change in land and buildings	(500)	(200)
Change in plant and equipment	(380)	(80)
Change in vehicles	(350)	-
Change in other fixed assets	190	145
Change in accumulated depreciation	190	100
Depreciation	(560)	(470)
Gain (loss) on fixed assets disposals	(40)	85
CASH RECEIVED / (PAID) – CAPITAL ASSETS	(1,450)	(420)
Change in investment in group and related entities	(100)	-
Change in other non-operating non-current assets	50	(80)
Change in loans to group and related entities	500	300
Change in other investments	150	-
Change in intangibles	-	(300)
Change in accumulated amortisation	60	60
Amortisation	(60)	(60)
CASH RECEIVED / (PAID) - INVESTMENTS	600	(80)
INVESTING SURPLUS / (REQUIREMENTS)	(850)	(500)
CASH AFTER INVESTING	**408**	**(995)**
Change in owners' equity (owners' contribution)	-	250
Change in overdrafts	(100)	150
Change in loans payable	(250)	400
Change in loans from group and related entities	500	300
Change instalment sale obligation	150	150
FINANCING SURPLUS / (REQUIREMENTS)	300	1,250
Interest paid	(45)	(30)
Dividends	(600)	(225)
Change in dividends payable	300	150
CASH PAID FOR INTEREST AND DIVIDENDS	(345)	(105)
CASH AFTER FINANCING	**363**	**150**
Change in other reserves	(200)	(200)
Adjustments to retained earnings (prior period adjustments)	50	120
TOTAL CASH GENERATED / EXPENDED	**213**	**70**
Cash at the beginning of the period	320	250
CASH AT THE END OF THE PERIOD	**533**	**320**

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