Amendment to Standard

Accounting and Reporting

Financial Reporting Council

March 2024

Amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* and other FRSs

Periodic Review 2024

The FRC's purpose is to serve the public interest by setting high standards of corporate governance, reporting and audit and by holding to account those responsible for delivering them. The FRC sets the UK Corporate Governance and Stewardship Codes and UK standards for accounting and actuarial work; monitors and takes action to promote the quality of corporate reporting; and operates independent enforcement arrangements for accountants and actuaries. As the Competent Authority for audit in the UK the FRC sets auditing and ethical standards and monitors and enforces audit quality.

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Periodic Review 2024

Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs – Periodic Review 2024 amends accounting standards. It is issued by the Financial Reporting Council, as a prescribed body, for application in the United Kingdom and Republic of Ireland.

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Overview

Amendments to FRS 102 and other FRSs – Periodic Review 2024

(i) The FRC's overriding objective in setting accounting standards is to enable users of accounts to receive high-quality understandable financial reporting proportionate to the size and complexity of the entity and users' information needs.

(ii) In achieving its overriding objective, the FRC aims to provide succinct financial reporting standards that, amongst other things, have consistency with global accounting standards through the application of an IFRS-based solution unless an alternative clearly better meets the overriding objective.

(iii) FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* is subject to periodic reviews to consider stakeholder feedback, changes in IFRS Accounting Standards and the *IFRS for SMEs* Accounting Standard, and other issues. These periodic reviews take place approximately every five years, to allow time for experience of the existing requirements of FRS 102 to develop before seeking stakeholder feedback.

(iv) The second of these periodic reviews is now complete and this document sets out the resulting amendments to FRS 102 and other UK and Republic of Ireland financial reporting standards (FRSs). These amendments were subject to public consultation in FRED 82 *Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs – Periodic Review*, issued in December 2022, and FRED 84 *Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Supplier finance arrangements*, issued in September 2023. The amendments are focused on updating accounting requirements to reflect changes in IFRS Accounting Standards, particularly with respect to revenue and leases, and making other incremental improvements and clarifications.

(v) In developing these amendments, the FRC considered major and minor changes to IFRS Accounting Standards, the IASB's proposed changes in developing the third edition of the *IFRS for SMEs* Accounting Standard, stakeholder feedback in response to the FRC's 2021 request for views and FREDs 82 and 84, and other developments in corporate reporting.

(vi) As a result of these amendments, FRS 102 will reflect up-to-date IFRS-based solutions, providing high-quality understandable financial reporting to users in line with the FRC's overriding objective. The amendments have been designed to be proportionate to the size and complexity of the entities applying the FRSs. A number of incremental improvements and clarifications are also made, to benefit both preparers and users.

(vii) The principal amendments expected to have an impact on financial statements are:

(a) New accounting requirements for revenue in FRS 102 and FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime*, based on the five-step model for revenue recognition from IFRS 15 *Revenue from Contracts with Customers*, with appropriate simplifications. The extent to which this will change an entity's revenue recognition in practice will depend on the nature of its contracts with customers.

(b) New lease accounting requirements in FRS 102, based on the on-balance sheet model from IFRS 16 *Leases*, with appropriate simplifications. This is expected to result in an impact on the financial statements of most entities that are lessees under one or more operating leases.

(viii) Other incremental improvements and clarifications to FRS 102 include, but are not limited to:

(a) Greater clarity for small entities in the UK applying Section 1A *Small Entities* regarding which disclosures need to be provided in order to give a true and fair view.

(b) A revised Section 2 *Concepts and Pervasive Principles*, updated to reflect the IASB's *Conceptual Framework for Financial Reporting*, issued in 2018.

(c) A new Section 2A *Fair Value Measurement*, replacing the Appendix *Fair Value Measurement* to Section 2 and updated to reflect the principles of IFRS 13 *Fair Value Measurement.*

(d) Removal of the option to newly adopt the recognition and measurement requirements of IAS 39 *Financial Instruments: Recognition and Measurement* under paragraphs 11.2(b) and 12.2(b) (unless needed to achieve consistency with group accounting policies), in preparation for the eventual removal of this option. Entities already applying the IAS 39 option are permitted to continue to apply it.

(ix) When applicable, similar incremental improvements and clarifications are made to FRS 105.

(x) The principal effective date for these amendments is accounting periods beginning on or after 1 January 2026, with early application permitted provided all amendments are applied at the same time. Earlier effective dates apply to new disclosures about supplier finance arrangements in Section 7 *Statement of Cash Flows* of FRS 102 (periods beginning on or after 1 January 2025, with early application permitted) and a new requirement in Section 6 *Transition to this FRS* of FRS 103 *Insurance Contracts* (periods beginning on or after 1 January 2024). Transitional provisions are included.

Organisation of this document

(xi) This document is organised as follows:

(a) the amendments to FRS 102 are set out by section;

(b) amendments to other FRSs are grouped together by standard; and

(c) the amendments to the Basis for Conclusions to FRS 102 are followed by the amendments to the Bases for Conclusions to other FRSs.

Amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*

Amendments to Section 1
Scope

1 The following paragraphs set out the amendments to Section 1 *Scope* (deleted text is struck through, inserted text is underlined).

2 The heading (underlined) preceding paragraph 1.8 is amended as follows:

Reduced disclosures for ~~subsidiaries (and ultimate parents)~~ qualifying entities

3 In paragraph 1.8 the term '(for the purposes of this FRS)' is shown in bold type.

4 Paragraph 1.12 is amended as follows:

1.12 A qualifying entity (for the purposes of this FRS) may take advantage of ~~the following disclosure~~ exemptions from the following disclosure requirements:

(a) [Deleted]

(b) The requirements of Section 7 *Statement of Cash Flows* and paragraph 3.17(d) provided, in the case of paragraph 7.20C, that disclosures equivalent to those required by this FRS are included in the consolidated financial statements in which the qualifying entity is included.

(c) The requirements of paragraphs 11.42, 11.44, 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b), 11.48(c), 12.26 (in relation to those cross-referenced paragraphs from which a disclosure exemption is available), 12.27, 12.29(a), 12.29(b), 12.29A and 12.30 provided that disclosures equivalent to those required by this FRS are included in the consolidated financial statements ~~of the group~~ in which the qualifying entity is ~~consolidated~~ included.

(cA) The requirements of paragraphs 20.80(f) and 20.116.

(cB) The requirements of paragraphs 23.131, 23.132, 23.133(a), 23.135(a) to 23.135(c), 23.136, 23.137 and 23.139.

(d) The requirements of paragraphs 26.18(b), 26.19 to 26.21 and 26.23, provided that for a qualifying entity that is:

(i) a **subsidiary**, the **share-based payment arrangement** concerns equity instruments of another group entity;

(ii) an ultimate parent, the share-based payment arrangement concerns its own equity instruments and its **separate financial statements** are presented alongside the consolidated financial statements of the group;

and, in both cases, provided that ~~the equivalent~~ disclosures equivalent to those required by this FRS are included in the consolidated financial statements ~~of the group~~ in which the qualifying entity is ~~consolidated~~ included.

(e) The requirement of paragraph 33.7.

(f) The requirements of paragraph 24(b) of IFRS 6 to disclose the operating and investing cash flows arising from the exploration for and evaluation of mineral resources (when an entity applies IFRS 6 in accordance with paragraph 34.11).

5 Paragraph 1.13 is amended as follows:

1.13 Reference shall be made to the Application Guidance to FRS 100 in deciding whether the consolidated financial statements ~~of the parent~~ in which the qualifying entity is included provide disclosures ~~which~~ that are equivalent to the requirements of this FRS (ie the full requirements of this FRS when not applying the disclosure exemptions) from which relief is provided in paragraph 1.12.

6 Paragraph 1.18 and its preceding sub-heading are amended as follows:

Triennial ~~review~~ Review 2017

1.18 In December 2017 amendments were made to this FRS as a result of the ~~triennial review~~ Triennial Review 2017. An entity shall apply the amendments to this FRS as set out in the *Triennial review 2017 amendments*, other than the amendments for small entities in the Republic of Ireland, for accounting periods beginning on or after 1 January 2019. The amendments to Section 1A for small entities in the Republic of Ireland are effective for accounting periods beginning on or after 1 January 2017.

Early application is permitted provided that all the amendments to this FRS are applied at the same time, except that early application of each, or any, of the following amendments is permitted:

(a) paragraphs 11.13A(a), 11.13B, 11.13C and 11.14(a)(i);

(b) paragraphs 29.14A and 29.22A; and

(c) the amendments to Section 1A for small entities in the Republic of Ireland, provided the *Companies (Accounting) Act 2017* is applied from the same date.

If an entity applies the *Triennial review 2017 amendments*, other than the amendments for small entities in the Republic of Ireland, before 1 January 2019 it shall disclose that fact, unless it is a small entity applying Section 1A, in which case it is encouraged to disclose that fact.

If a small entity in the Republic of Ireland applies the amendments to Section 1A before 1 January 2017, in addition to the disclosure required by paragraph 1AD.3, it is encouraged to disclose that fact.

7 Paragraph 1.24 is amended as follows:

1.24 In October 2020 amendments were made to this FRS to insert or amend paragraphs 20.15C, 20.15D, 20.16 and 20.25B. These amendments are effective for accounting periods beginning on or after 1 January 2020. Early application is permitted. If an entity applies these amendments to an accounting period beginning before 1 January 2020 it shall disclose that fact, unless it is a small entity, in which case it is encouraged to disclose that fact. In March 2024 amendments were made to this FRS that resulted in the deletion of these paragraphs, as part of the comprehensive update of Section 20 *Leases*.

8 Paragraph 1.25 is amended as follows:

1.25 In December 2020 amendments were made to this FRS to insert or amend paragraphs 11.2, 11.2A, 11.2B, 11.20A to 11.20E, 11.49, 11.50, 12.2, 12.2A, 12.2B, 12.25B, and 12.25H~~, 12.25I~~ to 12.25V ~~and 20.11~~. These amendments are effective for accounting periods beginning on or after 1 January 2021. Early application is permitted~~,~~ if all amendments are applied at the same time. If an entity applies these amendments to an accounting period beginning before 1 January 2021 it shall disclose that fact, unless it is a small entity, in which case it is encouraged to disclose that fact.

9 Paragraph 1.33 is amended as follows:

1.33 In June 2021 an amendment was made to paragraph 20.15D of this FRS. This amendment is effective for accounting periods beginning on or after 1 January 2021. Early application is permitted. If an entity applies this amendment to an accounting period beginning before 1 January 2021 it shall disclose that fact, unless it is a small entity, in which case it is encouraged to disclose that fact. In March 2024 amendments were made to this FRS that resulted in the deletion of this paragraph, as part of the comprehensive update of Section 20.

10 Sub-headings and paragraphs 1.36 to 1.68 are inserted as follows:

Periodic Review 2024

1.36 In March 2024 the FRC issued *Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs – Periodic Review 2024* (the '*Periodic Review 2024 amendments*').

1.37 An entity shall apply:

(a) paragraphs 7.20B and 7.20C for accounting periods beginning on or after 1 January 2025. Early application is permitted.

(b) all other amendments to this FRS for accounting periods beginning on or after 1 January 2026. Early application is permitted, provided that all these amendments are applied at the same time.

1.38 If an entity applies these amendments early it shall disclose that fact, unless it is a small entity in the Republic of Ireland, in which case it is encouraged to disclose that fact.

1.39 When an entity first applies the *Periodic Review 2024 amendments* it shall apply the amendments retrospectively, in accordance with paragraph 10.12, except as specified in paragraphs 1.40 to 1.68.

1.40 For the purposes of the requirements in paragraphs 1.41 to 1.68:

(a) the date of initial application is the beginning of the reporting period in which an entity first applies the *Periodic Review 2024 amendments* (other than paragraphs 7.20B and 7.20C); and

(b) when the provisions refer to the requirements in place 'previously', this means in reporting periods prior to the application of the *Periodic Review 2024 amendments*.

Fair value measurement

1.41 When an entity first applies the *Periodic Review 2024 amendments*, as an exception to retrospective application, it shall apply Section 2A *Fair Value Measurement* prospectively from the date of initial application.

Supplier finance arrangements

1.42 In the reporting period in which an entity first applies paragraphs 7.20B and 7.20C, an entity is not required to disclose comparative information for the preceding reporting period in respect of the disclosures required by sub-paragraphs 7.20C(a), 7.20C(b)(ii) or 7.20C(c).

Business combinations and goodwill

1.43 The *Periodic Review 2024 amendments* amend Section 19 *Business Combinations and Goodwill*. An entity shall not reassess the accounting for any business combination which took place prior to the date of initial application unless the initial accounting for the business combination is incomplete at that date, as set out in paragraph 19.19.

Leases

1.44 In the reporting period in which an entity first applies the revised Section 20, the entity is not required to disclose the information required by paragraphs 10.13(b) to (d) in relation to Section 20 only. The entity shall disclose:

(a) for the current period, to the extent practicable, the amount of the adjustment to profit or loss for the effect of applying the revised Section 20; or

(b) an explanation if it is **impracticable** to determine the amount to be disclosed in accordance with (a) above.

Leases: definition of a lease

1.45 As a practical expedient, an entity is not required to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, the entity is permitted to apply the requirements of the revised Section 20 to contracts that were previously identified as containing a lease, and not to apply the requirements of the revised Section 20 to contracts that were not previously identified as containing a lease. If an entity chooses this practical expedient, it shall disclose that fact and shall apply the practical expedient to all of its contracts.

Leases: lessees

1.46 When an entity first applies the *Periodic Review 2024 amendments* it shall apply the revised Section 20 retrospectively in accordance with paragraphs 1.47 to 1.50.

1.47 A lessee shall not restate comparative information. Instead, it shall recognise the cumulative effect of initially applying the *Periodic Review 2024 amendments* to Section 20 as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application.

1.48 As a practical expedient, as an alternative to applying paragraphs 1.51 to 1.54, a lessee may recognise at the date of initial application, the carrying amounts as at that date of its lease liabilities and **right-of-use assets** calculated under IFRS 16 *Leases* for the purposes of including the entity in consolidated financial statements prepared in accordance with IFRS Accounting Standards. If an entity chooses this practical expedient, it shall disclose that fact and shall apply the practical expedient to all of its leases.

1.49 Having applied paragraph 1.48 or paragraphs 1.51 to 1.54, a lessee shall subsequently apply the requirements of Section 20, as revised by the *Periodic Review 2024 amendments*.

1.50 A lessee shall provide a description of the transitional provisions it has applied.

Lessees: leases previously classified as operating leases

1.51 Unless it applies paragraph 1.48, for each lease previously classified as an operating lease a lessee shall:

(a) recognise a lease liability at the date of initial application. The lessee shall measure that lease liability at the present value of the remaining **lease payments**, discounted using the **lessee's incremental borrowing rate** or **lessee's obtainable borrowing rate** for each lease at the date of initial application. When applicable, a public benefit entity shall apply paragraph PBE20.50.

(b) recognise a right-of-use asset at the date of initial application. The lessee shall measure that right-of-use asset at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application. The lessee shall use the information readily available to it at the date of initial application to determine whether, at the commencement date or the date of the most recent lease modification, the lessor provided the lessee with incoming resources from a **government grant** or (for a public benefit entity only) a **non-exchange transaction** as described in paragraph 20.35. If so, the lessee shall measure the non-exchange element at the date of initial application and adjust the right-of-use asset accordingly.

(c) apply Section 27 *Impairment of Assets* to right-of-use assets at the date of initial application, unless the lessee applies the practical expedient in paragraph 1.53(b).

1.52 Notwithstanding the requirements in paragraph 1.51, for leases previously classified as operating leases, a lessee:

(a) is not required to make any adjustments on transition for leases for which the **underlying asset** is of low value that will be accounted for applying paragraph 20.6. The lessee shall account for those leases applying the revised Section 20 from the date of initial application.

(b) is not required to make any adjustments on transition for leases previously accounted for as investment property using the fair value model in Section 16 *Investment Property*. The lessee shall account for the right-of-use asset and the lease liability arising from those leases applying Section 16 and the revised Section 20 from the date of initial application.

(c) shall measure the right-of-use asset at fair value at the date of initial application for leases previously accounted for as operating leases and that will be accounted for as investment property from the date of initial application. The lessee shall account for the right-of-use asset and the lease liability arising from those leases applying Section 16 and the revised Section 20 from the date of initial application.

1.53 A lessee may use one or more of the following practical expedients when applying the *Periodic Review 2024 amendments* to leases previously classified as operating leases. A lessee is permitted to apply these practical expedients on a lease-by-lease basis:

(a) a lessee may apply a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining **lease term** for a similar **class of underlying asset** in a similar economic environment).

(b) a lessee may rely on its assessment of whether leases are onerous applying Section 21 *Provisions and Contingencies* immediately before the date of initial application as an alternative to applying Section 27 to right-of-use assets at the date of initial application in line with paragraph 1.51(c). If a lessee chooses this practical expedient, the lessee shall adjust the right-of-use asset at the date of initial application by the amount of any provision for onerous leases recognised in the statement of financial position immediately before the date of initial application.

(c) a lessee may choose not to apply the requirements in paragraph 1.51 to leases for which the lease term ends within 12 months of the date of initial application. In this case, the lessee shall:

(i) account for those leases in the same way as short-term leases as described in paragraph 20.6; and

(ii) include the cost associated with those leases within the disclosure of short-term lease expense in the reporting period starting on the date of initial application.

(d) a lessee may use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

1.54 If a lessee previously recognised an asset or a liability relating to favourable or unfavourable terms of an operating lease acquired as part of a business combination, the lessee shall derecognise that asset or liability and adjust the carrying amount of the right-of-use asset by a corresponding amount at the date of initial application.

Lessees: leases previously classified as finance leases

1.55 Unless it applies paragraph 1.48, for each lease previously classified as a finance lease, a lessee shall recognise a right-of-use asset and lease liability at the date of initial application at the carrying amount of the leased asset and finance lease liability immediately before that date, measured applying this FRS prior to the adoption of the *Periodic Review 2024 amendments*. The lessee shall subsequently apply the requirements of Section 20, as revised by the *Periodic Review 2024 amendments.*

Leases: lessors

1.56 Except as described in paragraph 1.57, a lessor shall not make any adjustments on transition for leases in which it is a lessor and shall account for those leases applying the revised Section 20 from the date of initial application.

1.57 An intermediate lessor shall:

(a) reassess subleases that were classified as operating leases prior to adoption of the *Periodic Review 2024 amendments* and are ongoing at the date of initial application, to determine whether each sublease should be classified as an operating lease or a finance lease applying the *Periodic Review 2024 amendments*. The intermediate lessor shall perform this assessment at the date of initial application on the basis of the remaining contractual terms and conditions of the head lease and sublease at that date.

(b) for subleases that were classified as operating leases prior to adoption of the *Periodic Review 2024 amendments,* but are classified as finance leases applying the *Periodic Review 2024 amendments*, account for the sublease as a new finance lease entered into at the date of initial application.

Leases: sale and leaseback transactions before the date of initial application

1.58 An entity shall not reassess sale and leaseback transactions entered into before the date of initial application to determine whether the transfer of the underlying asset satisfies the requirements in Section 23 *Revenue from Contracts with Customers*, applying the *Periodic Review 2024 amendments*, to be accounted for as a sale.

1.59 If a sale and leaseback transaction was previously accounted for as a sale and finance lease, unless it applies paragraph 1.48, the seller-lessee shall:

(a) account for the leaseback in the same way as it accounts for any other finance lease that exists at the date of initial application; and

(b) continue to amortise any gain or loss on sale over the lease term.

1.60 If a sale and leaseback transaction was previously accounted for as a sale and operating lease, unless it applies paragraph 1.48, the seller-lessee shall:

(a) account for the leaseback in the same way as it accounts for any other operating lease that exists at the date of initial application; and

(b) adjust the leaseback right-of-use asset for any deferred gains or losses that relate to off-market terms recognised in the statement of financial position immediately before the date of initial application.

Revenue from contracts with customers

1.61 When an entity first applies the *Periodic Review 2024 amendments* it shall apply the revised Section 23*:*

(a) retrospectively with the cumulative effect of initially applying that section recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application; or

(b) retrospectively in accordance with paragraph 10.12.

1.62 An entity applying the revised Section 23 retrospectively in accordance with paragraph 1.61(a):

(a) shall not restate comparative information;

(b) shall apply that section retrospectively only to **contracts** that are not completed contracts at the date of initial application; and

(c) may use the practical expedients described in paragraphs 1.65(b) and (c). If an entity uses either expedient, the entity shall apply the expedient consistently to all contracts and disclose the information required by paragraph 1.66.

1.63 If an entity applies the revised Section 23 retrospectively in accordance with paragraph 1.61(a), in the reporting period in which the entity first applies that section it is not required to disclose the information required by paragraphs 10.13(b) to (d) in relation to Section 23 only. The entity shall disclose:

(a) for the current period, to the extent practicable, the amount of the adjustment to **revenue** and to profit or loss for the effect of applying the revised Section 23 and an explanation of the reasons for significant changes; or

(b) an explanation if it is impracticable to determine any of the amounts to be disclosed in accordance with (a) above.

1.64 If an entity applies the revised Section 23 retrospectively in accordance with paragraph 1.61(b), it shall disclose the information required by paragraph 10.13(b) only for the most recent prior period presented (ie the immediately preceding period).

1.65 An entity may use one or more of the following practical expedients when applying the revised Section 23 retrospectively in accordance with paragraph 1.61(b):

(a) for completed contracts, an entity need not restate contracts that:

(i) begin and end within the same annual reporting period; or

(ii) are completed contracts at the beginning of the earliest period presented.

(b) for completed contracts that have variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods.

(c) for contracts that were modified before the date of initial application, an entity need not retrospectively restate the contract for those contract modifications in accordance with paragraphs 23.15 to 23.16. Instead, an entity may reflect the aggregate effect of all of the modifications that occurred before the beginning of the earliest period presented or before the date of initial application when:

(i) identifying the satisfied and unsatisfied **performance obligations**;

(ii) determining the transaction price; and

(iii) allocating the transaction price to the satisfied and unsatisfied performance obligations.

(d) for prior periods presented, an entity need not disclose the information required by paragraph 23.137.

1.66 For any of the practical expedients in paragraph 1.65 that an entity applies, the entity shall apply that expedient consistently to all contracts and periods presented. If an entity applies any of the expedients in paragraph 1.65, it shall disclose that fact.

1.67 In paragraphs 1.62 and 1.65, a completed contract is a contract for which the entity has transferred all the goods or services identified in accordance with previous requirements for accounting for revenue from contracts with **customers**, which the revised Section 23 replaced.

Uncertain tax treatments

1.68 An entity shall apply paragraphs 29.17A to 29.17C either:

(a) retrospectively in accordance with paragraph 10.12, if that is possible without the use of hindsight; or

(b) retrospectively with the cumulative effect of initially applying paragraphs 29.17A to 29.17C recognised at the date of initial application. If an entity selects this transition approach, it shall not restate comparative information. Instead, the entity shall recognise the cumulative effect of initially applying paragraphs 29.17A to 29.17C as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate).

Amendments to Section 1A
Small Entities

11 The following paragraphs set out the amendments to Section 1A *Small Entities* (deleted text is struck through, inserted text is underlined).

12 Paragraph 1A.6 is amended as follows:

1A.6 ~~A~~ In order to comply with the requirement of paragraph 1A.5, a small entity may need to provide disclosures in addition to those set out in this section ~~in order to comply with the requirement of paragraph 1A.5~~ (see also paragraphs 1A.16 ~~and~~ to 1A.17).

13 Paragraph 1A.7 is amended, two sequentially numbered footnotes are deleted, and a sequentially numbered footnote is inserted (subsequent footnotes are renumbered sequentially), as follows:

1A.7 A small entity is not required to comply with the requirements of paragraphs ~~3.3[*footnote], PBE3.3A, 3.9[*footnote],~~ 3.12, 3.13, 3.17, 3.18, 3.19 and 3.24(b), a small entity in the Republic of Ireland is not required to comply with the requirements of paragraphs PBE3.3A, 3.8A and 3.9[*footnote], and a small entity in the Republic of Ireland which is a qualifying partnership is not required to comply with the requirements of paragraph 3.3, insofar as they ~~which~~ relate to presentation and disclosure requirements that are not required of small companies in company law~~, Section 4 *Statement of Financial Position*, Section 5 *Statement of Comprehensive Income and Income Statement*, Section 6 *Statement of Changes in Equity and Statement of Income and Retained Earnings* and Section 7 *Statement of Cash Flows*~~.

~~[*footnote] Irish small entities, other than qualifying partnerships, are required to comply with the requirements of paragraph 3.3.~~

~~[*footnote] If a small entity departs from the principle that it is presumed to be carrying on business as a going concern, it must provide the disclosure required by paragraph 1AC.10 or paragraph 1AD.11, as relevant.~~

[*footnote] If an Irish small entity departs from the principle that it is presumed to be carrying on business as a going concern, it must provide the disclosure required by paragraph 1AD.11.

14 Paragraph 1A.7A is inserted as follows:

1A.7A A small entity is not required to comply with the requirements of Section 4 *Statement of Financial Position*, Section 5 *Statement of Comprehensive Income and Income Statement*, Section 6 *Statement of Changes in Equity and Statement of Income and Retained Earnings* and Section 7 *Statement of Cash Flows*.

15 Paragraph 1A.8 is amended as follows:

1A.8 Instead a complete set of financial statements of a small entity shall include all of the following:

(a) a statement of financial position as at the **reporting date** in accordance with paragraph 1A.12;

(b) an **income statement** for the reporting period in accordance with paragraph 1A.14; and

(c) **notes** in accordance with paragraphs 1A.16 to ~~1A.20~~ 1A.17A.

16 Paragraph 1A.9 is amended as follows:

1A.9 In addition to the statements required by company law and set out in paragraph 1A.8, in order to comply with the requirement of paragraph 1A.5:

(a) when a small entity recognises **gains** or losses in **other comprehensive income** it ~~is encouraged~~ may need to present a statement of **total comprehensive income** (see Section 5); and

(b) when a small entity has ~~transactions with equity holders~~ changes in equity, other than profit or loss, it ~~is encouraged~~ may need to present a ~~statement of changes in equity~~ **statement of changes in equity**, or a **statement of income and retained earnings** (see Section 6)~~, in order to meet the requirements of paragraph 1A.5~~.

17 Paragraphs 1A.16A to 1A.16C are inserted as follows:

1A.16A As a minimum, when relevant to its transactions, other events and conditions, a small entity reporting in the UK shall provide the disclosures set out in Appendix C to this section and a small entity reporting in the Republic of Ireland shall provide the disclosures set out in Appendix D to this section.

1A.16B The paragraphs of other sections of this FRS that are cross-referenced in Appendices C and D are also highlighted in those sections by including an * or a ^ in the left-hand margin.

1A.16C In addition, a small entity reporting in the Republic of Ireland is encouraged to make the disclosures set out in Appendix E to this section, which may be necessary in order to give a true and fair view and comply with the requirement of paragraph 1A.5.

18 Paragraph 1A.17 is amended as follows:

1A.17 ~~A~~ Other than as set out above, a small entity is not specifically required to comply with the disclosure requirements of Section 3 *Financial Statement Presentation* (to the extent set out in paragraph 1A.7) and Sections 8 to 35 of this FRS. However, because those disclosures are usually considered relevant to giving a true and fair view, a small entity ~~is encouraged to consider and~~ may need to provide any of those disclosures that are relevant to **material** transactions, other events or conditions of the small entity in order to meet the requirement set out in paragraphs 1A.5 and 1A.16.

19 Paragraph 1A.17A is amended as follows:

1A.17A In accordance with paragraph 3.16B, a small entity need not provide a specific disclosure (including those set out in paragraph ~~1A.18~~ 1A.16A and Appendix C or Appendix D to this section, as relevant) if the information resulting from that disclosure is not material, except when required by the Act regardless of materiality.

20 Paragraphs 1A.18 to 1A.20 are moved to paragraphs 1A.16A to 1A.16C and amended as follows:

1A.18 ~~As a minimum, where relevant to its transactions, other events and conditions, a small entity reporting in the UK shall provide the disclosures set out in Appendix C to this section and a small entity reporting in the Republic of Ireland shall provide the disclosure set out in Appendix D to this section.~~[Moved to paragraph 1A.16A]

1A.19 ~~The paragraphs of this FRS that are cross-referenced in Appendices C and D are also highlighted in those sections by including an * in the left-hand margin.~~[Moved to paragraph 1A.16B and amended]

1A.20 ~~In addition, a small entity is encouraged to make the disclosures set out in Appendix E to this section, which may nevertheless be necessary in order to give a true and fair view and meet the requirements of paragraph 1A.5.~~[Moved to paragraph 1A.16C and amended]

Appendix C to Section 1A *Disclosure requirements for small entities in the UK*

21 The introductory text is amended as follows:

This appendix is an integral part of Section 1A.

This appendix sets out the disclosure requirements for small entities in the UK.

Some of the disclosure requirements set out in this appendix are requirements of this FRS only and cross-refer to requirements in other sections of this FRS, which are highlighted by including a ^ in the left-hand margin.

This appendix also sets out the disclosure requirements for small entities based on the requirements of company law in the UK. These are shown in italic font in the paragraphs below. Other than substituting company law terminology with the equivalent terminology used in FRS 102 (see Appendix II) the drafting is as close as possible to that set out in company law. References to Schedule 1 are to Schedule 1 of the Small Companies Regulations.

*When there is a similar disclosure requirement in FRS 102 this has been indicated and those paragraphs of FRS 102 that have been cross-referenced are also highlighted by including an * in the left-hand margin (the * against paragraph 6.3(c) refers to a legal requirement in the Republic of Ireland only). In many cases compliance with the similar requirement of FRS 102 will result in compliance with the requirements below, however a small entity must ensure it complies with all the disclosure requirements of this appendix.*

22 Paragraph 1AC.1 is amended as follows:

1AC.1 As a minimum, when relevant to its transactions, other events and conditions, a **small entity** in the UK shall provide the disclosures set out in this appendix. A small entity need not provide a specific disclosure set out in this appendix if the information resulting from that disclosure is not **material**, except when required by the **Act** regardless of materiality.

23 A sub-heading and paragraphs 1AC.2A and PBE1AC.2B are inserted as follows:

Compliance with this FRS

1AC.2A A small entity applying Section 1A whose **financial statements** comply with this FRS shall make an explicit and unreserved statement of such compliance in the **notes**. Financial statements shall not be described as complying with this FRS unless they comply with all the requirements of this FRS and so a small entity applying Section 1A shall clearly state that Section 1A has been applied. A similar requirement is contained in paragraph 3.3 of this FRS.

PBE1AC.2B A **public benefit entity** that applies the 'PBE' prefixed paragraphs shall make an explicit and unreserved statement that it is a public benefit entity. A similar requirement is contained in paragraph PBE3.3A of this FRS.

24 A sub-heading and paragraphs 1AC.2C and 1AC.2D are inserted as follows:

Going concern

1AC.2C A small entity shall provide the disclosures set out in paragraphs 3.8A and 3.9.

25 Paragraph 1AC.3 is amended as follows:

1AC.3 *The accounting policies adopted by the small entity in determining the amounts to be included in respect of items shown in the statement of financial position and in determining the profit or loss of the small entity must be stated (including such policies with respect to the depreciation and impairment of assets). (Schedule 1, paragraph 44)*

~~Paragraph~~ Paragraphs 8.5 and 8.5A ~~addresses~~ address similar requirements for disclosing ~~significant~~ **accounting** ~~**policies**~~ **policy** information. Including information about the judgements made in applying the small entity's accounting policies, as set out in paragraph 8.6, may be useful to users of the small entity's ~~**financial statements**~~ financial statements.

26 In paragraph 1AC.8, the term 'material' is no longer shown in bold type.

27 Paragraph 1AC.11A is inserted as follows:

1AC.11A A small entity shall provide the disclosures relating to **deferred tax** set out in paragraph 29.27(e).

28 Paragraph 1AC.13 is amended as follows:

1AC.13 *In respect of each item within paragraph 1AC.12 there must also be stated:*

(a) the cumulative amount of provisions for depreciation and impairment of assets included under that item as at the date of the beginning of the reporting period and as at the reporting date respectively;

(b) the amount of any such provisions made in respect of the reporting period;

(c) the amount of any adjustments made in respect of any such provisions during the reporting period in consequence of the disposal of any assets; and

(d) the amount of any other adjustments made in respect of any such provisions during the reporting period. (Schedule 1, paragraph 48(3))

These two paragraphs apply to all **fixed assets**, including **investment property**, **property, plant and equipment**, intangible assets (including goodwill), **right-of-use assets**, fixed asset investments, **biological assets** and **heritage assets** recognised in the **statement of financial position**.

Each item refers to a class of fixed assets shown separately either in the statement of financial position, or in the **notes to the financial statements**.

These reconciliations need not be presented for prior periods.

Paragraph 16.10(e) addresses similar requirements for investment property. Paragraphs 17.31(d) and (e) address similar requirements for property, plant and equipment. Paragraphs 18.27(c) and (e) address similar requirements for intangible assets other than goodwill. Paragraph 19.26 addresses similar requirements for goodwill. Paragraphs 20.81(a) and (b) address similar requirements for right-of-use assets. Paragraphs 34.7(c) and 34.10(e) address similar requirements for biological assets. Paragraphs 34.55(e) and (f) address similar requirements for heritage assets recognised in the statement of financial position.

29 Paragraph 1AC.14 is amended as follows:

1AC.14 *Where fixed assets are measured at revalued amounts the items affected and the basis of valuation adopted in determining the amounts of the assets in* *question in the case of each such item must be disclosed in the note on accounting policies. (Schedule 1, paragraph 34(2))*

These requirements apply when:

- investments in **subsidiaries**, **associates** and **joint ventures** are measured at **fair value** with changes in fair value recognised in **other comprehensive income**. Paragraph 9.27(b) addresses a similar disclosure requirement;
- property, plant and equipment are revalued using the revaluation model set out in paragraphs 17.15B to 17.15F. Paragraph 17.31(a) addresses a similar disclosure requirement;~~ and~~
- intangible assets other than goodwill are revalued using the revaluation model set out in paragraphs 18.18B to 18.18H. Paragraph 18.29A(c) addresses a similar disclosure requirement; and
- right-of-use assets are revalued using the revaluation model set out in paragraph 20.61. Paragraph 20.85 addresses a similar disclosure requirement.

These requirements do not apply to investment property and biological assets measured at fair value through **profit or loss**.

30 Paragraph 1AC.16 is amended as follows:

1AC.16 *In the case of each item in the statement of financial position measured at a revalued amount, the comparable amounts determined according to the historical cost accounting rules must be shown in a note to the financial statements. (Schedule 1, paragraph 34(3))*

The comparable amounts refers to the aggregate amount of cost and the aggregate of accumulated depreciation and accumulated impairment losses that would have been required according to the historical cost accounting rules (Schedule 1, paragraph 34(4)).

Paragraphs 17.32A(d)~~ and~~, 18.29A(d) and 20.85 address similar requirements.

These requirements apply in the same circumstances as those set out in paragraph 1AC.14.

31 Paragraph 1AC.29 is amended as follows:

1AC.29 *The total amount of any financial commitments, guarantees and contingencies that are not included in the balance sheet must be stated. (Schedule 1, paragraph 57(1))*

The total amount of any commitments concerning pensions must be separately disclosed. (Schedule 1, paragraph 57(3))

The total amount of any commitments which are undertaken on behalf of or for the benefit of:

(a) any parent, fellow subsidiary or any subsidiary of the small entity; or

(b) any undertaking in which the small entity has a participating interest,

must be separately stated and those within (a) must also be stated separately from those within (b). (Schedule 1, paragraph 57(4))

Such commitments can arise in a variety of situations, including in relation to **group** entities, investments, property, plant and equipment, leases and pension obligations. Paragraphs 15.19(d), 16.10(d), 17.32(b), 18.28(d), 20.~~16~~82, 21.15, 28.40A(a), 28.40A(b), 28.41A(d), 33.9(b)(ii) and 34.62 address similar requirements.

32 Paragraph 1AC.31 is amended as follows:

1AC.31 *If in any reporting period a small entity is or has been party to arrangements that are not reflected in its statement of financial position and at the reporting date the risks or benefits arising from those arrangements are material the nature and business purpose of the arrangements must be given in the notes to the financial statements to the extent necessary for enabling the financial position of the small entity to be assessed. (Section 410A of the Act)*

Examples of off-balance sheet arrangements include risk and benefit-sharing arrangements or obligations arising from a ~~contract~~ **contract** such as debt factoring, combined sale and repurchase arrangements, consignment stock arrangements, take or pay arrangements, securitisation arranged through separate entities, pledged assets, ~~operating lease arrangements,~~ leases for which the lessee has taken a recognition exemption, outsourcing and the like. In many cases the disclosures about financial commitments and contingencies required by paragraphs 1AC.29 and 1AC.30 will also address such arrangements.

33 Paragraphs 1AC.31A to 1AC.31C are inserted as follows:

1AC.31A A small entity that is a lessee shall provide a general description of its significant leasing arrangements. A similar disclosure requirement is set out in paragraph 20.76.

1AC.31B If necessary to enable users to understand its significant leasing arrangements, a lessee shall provide additional qualitative and quantitative information. A similar disclosure requirement is set out in paragraph 20.77.

1AC.31C A small entity shall provide the disclosures relating to **provisions** and contingencies set out in paragraphs 21.14 to 21.17A.

1AC.31D A small entity shall provide the disclosures relating to **share-based payment transactions** set out in paragraphs 26.18(a), 26.18(b)(i), 26.18(b)(vi), 26.18(b)(vii) and 26.23.

34 Paragraphs 1AC.32A, 1AC.32B and 1AC.32C are inserted as follows:

1AC.32A A small entity shall provide the disclosures relating to short-term leases, leases of low-value assets and variable **lease payments** set out in paragraphs 20.80(b) to 20.80(d).

1AC.32B A small entity shall provide the disclosures relating to its **performance obligations** in contracts with customers set out in paragraphs 23.135(a) to 23.135(c).

1AC.32C A small entity shall provide the disclosures relating to **current tax** and deferred tax set out in paragraphs 29.26 and 29.27(b).

35 Paragraph 1AC.35 is amended as follows:

1AC.35 ~~*Particulars must be given of material transactions the small entity has entered into that have not been concluded under normal market conditions with:*~~

~~*(a) owners holding a participating interest in the small entity;*~~

~~*(b) companies in which the small entity itself has a participating interest; and*~~

~~*(c) the small entity's directors [or members of its governing body].*~~

~~*Particulars must include:*~~

~~*(a) the amount of such transactions;*~~

~~*(b) the nature of the related party relationship; and*~~

~~*(c) other information about the transactions necessary for an understanding of the financial position of the small entity.*~~

~~*Information about individual transactions may be aggregated according to their nature, except where separate information is necessary for an understanding of the effects of the related party transactions on the financial position of the small entity.*~~

~~*Particulars need not be given of transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly-owned by such a member. (Schedule 1, paragraph 66)*~~

~~Although disclosure is only required of material transactions with the specified **related parties** that have not been concluded under normal market conditions, small entities disclosing all transactions with related parties would still be compliant with company law.~~

~~Transactions with directors, or members of an entity's governing body, include directors' remuneration and dividends paid to directors.~~

~~Paragraphs 33.9 and 33.14 address similar requirements for all related parties.~~

<u>A small entity shall provide the disclosures required by paragraphs 33.9 and 33.14, subject to the provisions of paragraphs 33.1A and 33.11.</u>

36 In paragraph 1AC.36 the term 'related parties' is now shown in bold type.

37 Paragraph 1AC.40 is inserted as follows:

<u>1AC.40 A small entity shall disclose dividends declared and paid or payable during the period. Paragraph 6.5(b) addresses similar requirements.</u>

38 Paragraph 1AC.41 is inserted as follows:

<u>1AC.41 On first-time adoption of this FRS a small entity shall provide an explanation of how the transition has affected its **financial position** and financial **performance** as set out in paragraph 35.13.</u>

Appendix D to Section 1A *Disclosure requirements for small entities in the Republic of Ireland*

39 The introductory text to Appendix D to Section 1A is amended as follows:

This appendix sets out the disclosure requirements for small entities based on the requirements of company law in the Republic of Ireland. These are shown in italic font in the paragraphs below. The drafting is as close as possible to that set out in company law, other than, for example, substituting company law terminology with the equivalent terminology used in FRS 102 (see Appendix II). References in this appendix to ~~sections of the Companies Act 2014 are to the sections of that Act as amended by the Companies (Accounting) Act 2017 and references to~~ Schedule 3A are to Schedule 3A to the Companies Act 2014. Qualifying partnerships are required to apply the provisions of the Companies Act 2014 set out in this appendix in accordance with the European Union (Qualifying Partnerships: Accounting and Auditing) Regulations 2019 (SI No. 597 of 2019).

40 Paragraph 1AD.1 is amended as follows:

1AD.1 As a minimum, when relevant to its transactions, other events and conditions, a **small entity** in the Republic of Ireland shall provide the disclosures set out in this appendix. <u>A small entity need not provide a specific disclosure set out in this appendix if the information resulting from that disclosure is not **material**, except when required by the *Companies Act 2014* regardless of materiality.</u>

41 The sequentially numbered footnote to paragraph 1AD.3 is amended as follows:

[*footnote] Small entities that are qualifying partnerships are not required to comply with the disclosure requirements in paragraph 1AD.3 (Regulation 11 of the *European Union (Qualifying Partnership: Accounting and Auditing) Regulations 2019* (SI No. 597 of 2019)). However, paragraph 9 of FRS 100 encourages ~~a small entity~~ <u>an Irish qualifying partnership</u> applying the small entities regime to include a statement of compliance in the notes to the financial statements.

42 Paragraph 1AD.4 is amended as follows:

1AD.4 *A small entity shall disclose in the notes to its financial statements the accounting policies adopted by the small entity in determining:*

(a) the items and amounts to be included in its statement of financial position; and

(b) the items and amounts to be included in its income statement. (Section 321(1) of the Companies Act 2014)

~~Paragraph~~ <u>Paragraphs</u> 8.5 <u>and 8.5A</u> ~~addresses~~ <u>address</u> similar requirements for disclosing ~~significant~~ **accounting** ~~**policies**~~ <u>**policy** information</u>. Including information about the judgements made in applying the small entity's accounting policies, as set out in paragraph 8.6, may be useful to users of the small entity's **financial statements**.

43 In paragraph 1AD.10, the term 'material' is no longer shown in bold type.

44 Paragraph 1AD.14 is amended as follows:

1AD.14 *In respect of each item within paragraph 1AD.13 there shall also be stated:*

(a) the cumulative amount of value adjustments for depreciation and impairment of assets included under that item as at the date of the beginning of the reporting period and as at the reporting date respectively;

(b) the amount of any such value adjustments made in respect of the reporting period;

(c) the amount of any adjustments made in respect of any such value adjustments during the reporting period in consequence of the disposal of any assets; and

(d) the amount of any other adjustments made in respect of any such value adjustments during the reporting period. (Schedule 3A, paragraph 45(3))

Comparatives are not required for the movements in fixed assets during the reporting period noted in paragraphs 1AD.13 and 1AD.14 above. (Schedule 3A, paragraph 5(2))

These two paragraphs apply to all **fixed assets**, including **investment property**, **property, plant and equipment**, **intangible assets** (including

goodwill), **right-of-use assets**, fixed asset investments, **biological assets** and **heritage assets** recognised in the **statement of financial position**.

Each item refers to a class of fixed assets shown separately either in the statement of financial position, or in the **notes to the financial statements**.

Paragraph 16.10(e) addresses similar requirements for investment property. Paragraphs 17.31(d) and (e) address similar requirements for property, plant and equipment. Paragraphs 18.27(c) and (e) address similar requirements for intangible assets other than goodwill. Paragraph 19.26 addresses similar requirements for goodwill. Paragraphs 20.81(a) and (b) address similar requirements for right-of-use assets. Paragraphs 34.7(c) and 34.10(e) address similar requirements for biological assets. Paragraphs 34.55(e) and (f) address similar requirements for heritage assets recognised in the statement of financial position.

45 Paragraph 1AD.15 is amended as follows:

1AD.15 *Where fixed assets are measured at revalued amounts, the items affected and the basis of valuation adopted in determining the amounts of the assets in question in the case of each such item shall be disclosed in the note on accounting policies. (Schedule 3A, paragraph 35(2))*

These requirements apply when:

- Investments in **subsidiaries, associates** and **joint ventures** are measured at fair value with changes in fair value recognised in **other comprehensive income.** Paragraph 9.27(b) addresses a similar disclosure requirement.
- Property, plant and equipment are revalued using the revaluation model set out in paragraphs 17.15B to 17.15F. Paragraph 17.31(a) addresses a similar disclosure requirement.
- Intangible assets other than goodwill are revalued using the revaluation model set out in paragraphs 18.18B to 18.18H. Paragraph 18.29A(c) addresses a similar disclosure requirement.
- Right-of-use assets are revalued using the revaluation model set out in paragraph 20.61. Paragraph 20.85 addresses a similar disclosure requirement.

These requirements do not apply to investment property and biological assets measured at fair value through profit or loss.

46 Paragraph 1AD.16 is amended as follows:

1AD.16 *In the case of each item in the statement of financial position measured at a revalued amount, the comparable amounts determined according to the historical cost accounting rules shall be shown separately in the statement of financial position or in a note to the financial statements. (Schedule 3A, paragraph 35(3))*

The comparable amounts refers to the aggregate amount of cost and the aggregate of accumulated depreciation and accumulated impairment losses that would have been required according to the historical cost accounting rules. (Schedule 3A, paragraph 35(4))

Paragraphs 17.32A(d) ~~and~~, 18.29A(d) and 20.85 address similar requirements.

These requirements apply in the same circumstances as those set out in paragraph 1AD.15.

47 Paragraph 1AD.22 is amended as follows:

1AD.22 *Where financial instruments or assets other than financial instruments have been measured in accordance with the fair value accounting rules there shall be stated:*

(a) the significant assumptions underlying the valuation models and techniques where fair values have been determined otherwise than by reference to market price in an active market;

(b) for each category of financial instruments or assets other than financial instruments, the fair value of the financial instruments or assets other than financial instruments in that category and the change in value:

(i) included in the income statement; or

(ii) credited or debited to the fair value reserve,

in respect of those financial instruments or assets other than financial instruments. (Schedule 3A, paragraphs 46(2)(a) and (b))

This does not apply where **financial instruments** or assets other than financial instruments are measured at fair value only on initial recognition.

This applies where financial instruments, investment property and biological assets are subsequently measured at fair value through profit or loss, which is permitted or required by paragraphs 9.26(c), 11.14(b), ~~11.14(d)(i),~~ 11.14(d)(iii), 11.14(d)(iv), 12.8, 13.4A, 14.4(d), 15.9(d), 16.7 and 34.4.

Paragraphs 11.41, 11.43, 11.48(a)(i), 11.48(a)(ii), 12.28, 12.29(c), and 12.29(e) address similar disclosure requirements for financial instruments. Paragraphs 16.10(a) and 16.10(e)(ii) address similar disclosure requirements for investment property. Paragraphs 34.7(b) and 34.7(c)(i) address similar disclosure requirements for biological assets.

48 Paragraph 1AD.33 is amended as follows:

1AD.33 *Where any commitment referred to in paragraph 1AD.31 or 1AD.32 relates wholly or partly to retirement benefits payable to past directors of the company, separate particulars shall be given of that commitment. (Schedule 3A, paragraph 51(6))*

A small entity that is not a company shall provide the disclosures required by this paragraph in relation to past members of its governing body. For ~~a~~ qualifying ~~partnership~~ partnerships, the disclosures shall ~~provide this disclosure~~ be provided in relation to past members ~~of the qualifying partnership~~.

Such commitments as referred to in 1AD.29 to 1AD.33 can arise in a variety of situations, including in relation to group entities, investments, property, plant and equipment, leases and retirement benefit obligations. Paragraphs 15.19(d), 16.10(d), 17.32(b), 18.28(d), 20.~~16~~82, 21.15, 28.40A(a), 28.40A(b), 28.41A(d), 33.9(b)(ii) and 34.62 address similar requirements.

Paragraph 28.41(k) addresses similar requirements for the assumptions underlying retirement benefit commitments recognised in the statement of financial position.

49 Paragraph 1AD.34 is amended as follows:

1AD.34 *The nature and business purpose of any arrangements of a small entity that are not included in its statement of financial position shall be provided in the notes to the financial statements if the risks or benefits arising from such arrangements are material and in so far as the disclosure of such risks or* *benefits is necessary for assessing the financial position of the small entity. (Sections 323(1) and 323(1A) of the Companies Act 2014)*

Examples of off-balance sheet arrangements include risk and benefit-sharing arrangements or obligations arising from a ~~contract~~ **contract** such as debt factoring, combined sale and repurchase arrangements, consignment stock arrangements, take or pay arrangements, securitisation arranged through separate entities, pledged assets, ~~operating lease arrangements,~~ leases for which the lessee has taken a recognition exemption, outsourcing and the like. In many cases the disclosures about financial commitments and contingencies required by paragraphs 1AD.28 to 1AD.33 will also address such arrangements.

Appendix E to Section 1A *Additional disclosure encouraged for small entities*

50 Appendix E to Section 1A is retitled from *Additional disclosure encouraged for small entities* to *Additional disclosures encouraged for small entities in the Republic of Ireland*.

51 Paragraph 1AE.1 is amended as follows:

1AE.1 ~~When~~ As part of meeting the requirement of paragraph 1A.5, when relevant to its transactions, other events and conditions, a **small entity** ~~in the UK~~ in the Republic of Ireland is encouraged to provide the following disclosures, which may be necessary in order to give a true and fair view:

(a) ~~a statement of compliance with this FRS as set out in paragraph 3.3, adapted to refer to Section 1A;~~[Deleted]

(b) a statement that it is a **public benefit entity** as set out in paragraph PBE3.3A;

(c) the disclosures relating to **material** uncertainties related to events or conditions that may cast significant doubt upon the small entity's ability to continue as a **going concern** as set out in paragraph 3.9; and

(d) ~~dividends declared and paid or payable during the period (for example, as set out in paragraph 6.5(b)); and~~[Deleted]

(e) on first-time adoption of this FRS an explanation of how the transition has affected its **financial position** and financial performance as set out in paragraph 35.13.

52 Paragraph 1AE.2 is deleted as follows:

1AE.2 ~~When relevant to its transactions, other events and conditions, a small entity in the Republic of Ireland is encouraged to provide the disclosures in paragraph 1AE.1(b), (c) and (e).~~[Deleted]

Amendments to Section 2
Concepts and Pervasive Principles

53 The following paragraphs set out the amendments to Section 2 *Concepts and Pervasive Principles*. For ease of reading, revised text is not underlined.

54 Paragraphs 2.1 to 2.52 and all sub-headings are deleted and replaced with the following:

Scope of this section

2.1 This section describes the **objective of financial statements** of entities within the scope of this FRS. It also sets out the concepts and basic principles underlying the financial statements of entities within the scope of this FRS.

2.2 If there are inconsistencies between this section and the requirements of another section, the requirements in the other section within this FRS take precedence over this section.

2.3 When this FRS does not specifically address a transaction, other event or condition, the concepts and pervasive principles in this section are applied in developing an accounting policy, in the circumstances described in paragraphs 10.4 and 10.5.

The objective of financial statements

2.4 The objective of **general purpose financial statements** is to provide financial information about the entity that is useful for decision-making by a wide range of users who are not in a position to demand reports tailored to meet their particular information needs.

2.5 Such information includes information about:

(a) the **economic resources** of the entity, claims against the entity and changes in those resources and claims; and

(b) how efficiently and effectively the entity's management has discharged its responsibilities to use the entity's economic resources (management's stewardship).

2.6 However, general purpose financial statements do not and cannot provide all the information that users need. Users also need to consider pertinent information from other sources, for example, general economic conditions and expectations, political events and the political climate, and industry and company outlooks.

2.7 General purpose financial statements allow users to make decisions and develop expectations based on their assessment of the amount, timing and uncertainty of future net cash inflows to the entity. They also help users to assess management's stewardship of those resources.

Qualitative characteristics of useful financial information

2.8 The qualitative characteristics of useful financial information described in paragraphs 2.9 to 2.23 identify the types of information that are likely to be the most useful to users for making decisions about the entity on the basis of information in its financial statements.

Fundamental qualitative characteristics

2.9 The fundamental qualitative characteristics are relevance and faithful representation. If financial information is to be useful, it must both be relevant and faithfully represent what it purports to represent. The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable.

Relevance

2.10 Relevant financial information is capable of making a difference in the decisions made by users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations. Information may be capable of making a difference in a decision even if some users choose not to take advantage of it or are already aware of it from other sources.

Materiality

2.11 Information is **material** if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the users of general purpose financial statements make on the basis of those financial statements.

2.12 Materiality is an entity-specific aspect of relevance that depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.

2.13 Information is obscured if it is communicated in a way that would have a similar effect for users of general purpose financial statements to omitting or misstating that information. Examples of circumstances that may result in information being obscured could include: usage of vague or unclear language; inappropriate aggregation of dissimilar information or disaggregation of similar information; and hiding material information using immaterial information.

Faithful representation

2.14 Financial statements represent economic phenomena in words and numbers. To be useful, financial information must not only represent relevant phenomena, but it must also faithfully represent the substance of the phenomena that it purports to represent. In many circumstances, the substance of an economic phenomenon and its legal form are the same. If they are not the same, providing information only about the legal form would not faithfully represent the economic phenomenon.

2.15 To be a perfectly faithful representation, a depiction would be complete, neutral and free from **error**. Faithful representation involves maximising those qualities but does not mean being accurate in all respects.

2.16 A complete depiction includes all information necessary for a user to understand the phenomenon being depicted, including all necessary descriptions and explanations.

2.17 A neutral depiction is without bias in the selection or presentation of financial information. Neutrality is supported by the exercise of **prudence**. Prudence is the exercise of caution when making judgements under conditions of uncertainty. The exercise of prudence means that **assets** and **income** are not overstated and **liabilities** and **expenses** are not understated. Equally, the exercise of prudence does not allow for the understatement of assets or income or the overstatement of liabilities or expenses. Such misstatements can lead to the overstatement or understatement of income or expenses in future periods. The exercise of prudence does not imply a need for asymmetry (eg a systematic need for more persuasive evidence to support the **recognition** of assets or income than the recognition of liabilities or expenses), although particular sections may contain asymmetric requirements if these are a consequence of decisions intended to select the most relevant information that faithfully represents what it purports to represent.

2.18 Free from error means there are no errors or omissions in the description of the events, and the process used to produce the reported information has been selected and applied with no errors. In this context, free from error does not mean perfectly accurate in all respects.

Enhancing qualitative characteristics

2.19 Comparability, verifiability, timeliness and understandability are qualitative characteristics that enhance the usefulness of information that both is relevant and provides a faithful representation of what it purports to represent. The enhancing qualitative characteristics may also help determine how to depict a phenomenon if there are multiple ways to provide equally relevant information and an equally faithful representation of that phenomenon.

Comparability

2.20 Information about a reporting entity is more useful if it can be compared with similar information about other entities and with similar information about the same entity for another period or another date. Comparability is the qualitative characteristic that enables users to identify and understand similarities in, and differences among, items. It is diminished when alternative accounting methods are applied to the same economic phenomena. It is enhanced by informing users of the accounting policies employed in the preparation of the financial statements, and of any changes in those policies and the effects of such changes.

Verifiability

2.21 Verifiability helps assure users that information faithfully represents the economic event it purports to represent. Verifiability means that different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation. Quantified information need not be a single point estimate to be verifiable. A range of possible amounts and the related probabilities can also be verified.

Timeliness

2.22 Timeliness means having information available to decision-makers in time to be capable of influencing their decisions. Generally, the older the information is the less useful it is. However, some information may continue to be timely long after the end of a reporting period because, for example, some users need to identify and assess trends.

Understandability

2.23 Classifying, characterising and presenting information clearly and concisely makes it understandable. However, excluding information from financial statements about phenomena that are inherently complex and cannot be made easy to understand would make these reports incomplete and therefore possibly misleading. The need for understandability does not allow relevant information to be omitted on the grounds that it may be too difficult for some users to understand.

The cost constraint on useful financial reporting

2.24 Cost is a pervasive constraint on the information that can be provided by financial reporting. Reporting financial information imposes costs, and it is important that those costs are justified by the benefits of reporting that information. The evaluation of costs and benefits is substantially a judgemental process. The costs are not necessarily borne by those users who enjoy the benefits, and often the benefits are enjoyed by a broad range of external users.

2.25 Reporting financial information that is relevant and faithfully represents what it purports to represent helps users to make decisions with more confidence. This may result in more efficient functioning of capital markets and a lower cost of capital for the economy as a whole. An individual user also receives benefits by making more informed decisions. The benefits may also include better management decisions because financial information used internally is often based at least partly on information prepared for general purpose financial reporting purposes. However, it is not possible for general purpose financial statements to provide all the information that every user finds relevant.

Financial statements and the reporting entity

Reporting period

2.26 Financial statements are prepared for a specified period of time (**reporting period**) and provide information about:

(a) assets and liabilities – including unrecognised assets and liabilities – and **equity** that existed at the end of the reporting period, or during the reporting period; and

(b) income and expenses for the reporting period.

2.27 To help users of financial statements to identify and assess changes and trends, financial statements also provide comparative information for at least one preceding reporting period, except when this FRS permits or requires otherwise.

2.28 Information about possible future transactions and other possible future events is included in financial statements if it:

(a) relates to the entity's assets or liabilities – including unrecognised assets or liabilities – or equity that existed at the end of the reporting period, or during the reporting period, or to income or expenses for the reporting period; and

(b) is useful to users of financial statements.

Financial statements do not typically provide other types of forward-looking information, for example, explanatory material about management's expectations and strategies for the reporting entity.

Perspective adopted in financial statements

2.29 Financial statements provide information about transactions and other events viewed from the perspective of the reporting entity as a whole.

Going concern assumption

2.30 Financial statements are normally prepared on the assumption that the reporting entity is a **going concern** and will continue in operation for the foreseeable future. However, if management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so, the financial statements shall be prepared on a different basis. If so, the financial statements shall describe the basis used, as set out in paragraph 3.9.

The reporting entity

2.31 A reporting entity is an entity that is required, or chooses, to prepare financial statements. A reporting entity can be a single entity or a portion of an entity or can comprise more than one entity. A reporting entity is not necessarily a legal entity. If a reporting entity comprises both a **parent** and its **subsidiaries**, the reporting entity's financial statements are referred to as **consolidated financial statements**.

The elements of financial statements

Introduction

2.32 The elements of financial statements defined in this section are:

(a) assets, liabilities and equity, which relate to a reporting entity's **financial position**; and

(b) income and expenses, which relate to a reporting entity's financial **performance**.

Definition of an asset

2.33 An asset is a present economic resource controlled by the entity as a result of past events. An economic resource is a right that has the potential to produce economic benefits.

2.34 Rights that have the potential to produce economic benefits take many forms, including:

(a) rights that correspond to an obligation of another party, for example:

  (i) rights to receive **cash**;

  (ii) rights to receive goods or services;

  (iii) rights to exchange economic resources with another party on favourable terms. Such rights include, for example, a forward **contract** to buy an economic resource on terms that are currently favourable, or an option to buy an economic resource; and

  (iv) rights to benefit from an obligation of another party to transfer an economic resource if a specified uncertain future event occurs; and

(b) rights that do not correspond to an obligation of another party, for example:

  (i) rights over physical objects, such as **property, plant and equipment** or **inventories**. Examples of such rights are a right to use a physical object or a right to benefit from the **residual value** of a leased object;

  (ii) rights to use intellectual property; and

(iii) rights that create or enhance the **service potential** of physical objects or intellectual property.

2.35 Many rights are established by contract, legislation or similar means. For example, an entity might obtain rights from owning or leasing a physical object, from owning a debt instrument or an equity instrument, or from owning a registered patent. However, an entity might also obtain rights in other ways, for example:

(a) by acquiring or creating know-how that is not in the public domain; or

(b) through an obligation of another party that arises because that other party has no practical ability to act in a manner inconsistent with its customary practices, published policies or specific statements.

2.36 For the potential to produce economic benefits to exist, it does not need to be certain, or even likely, that the right will produce economic benefits. It is only necessary that the right already exists.

2.37 Control links an economic resource to an entity. Assessing whether control exists helps to identify the economic resource for which the entity accounts. An entity controls an economic resource if it has the present ability to direct the use of the economic resource and obtain the economic benefits that may flow from it. An entity has the present ability to direct the use of an economic resource if it has the right to deploy that economic resource in its activities, or to allow another party to deploy the economic resource in that other party's activities.

Definition of a liability

2.38 For a liability to exist, three criteria must all be satisfied:

(a) the entity has an obligation;

(b) the obligation is to transfer an economic resource; and

(c) the obligation is a present obligation that exists as a result of past events.

2.39 An obligation is a duty or responsibility that an entity has no practical ability to avoid. An obligation is always owed to another party (or parties). It is not necessary to know the identity of the party (or parties) to whom the obligation is owed. Many obligations are established by contract, legislation or similar means and are legally enforceable by the party (or parties) to whom they are owed. Obligations can also arise, however, from an entity's customary practices, published policies or specific statements if the entity has no practical ability to act in a manner inconsistent with those practices, policies or statements. The obligation that arises in such situations is sometimes referred to as a **constructive obligation**.

2.40 To satisfy the criterion in paragraph 2.38(b), the obligation must have the potential to require the entity to transfer an economic resource to another party (or parties). For that potential to exist, it does not need to be certain, or even likely, that the entity will be required to transfer an economic resource – the transfer may, for example, be required only if a specified uncertain future event occurs. It is only necessary that the obligation already exists and that, in at least one circumstance, it would require the entity to transfer an economic resource.

2.41 Obligations to transfer an economic resource include, for example:

(a) obligations to pay cash;

(b) obligations to deliver goods or provide services;

(c) obligations to exchange economic resources with another party on unfavourable terms;

(d) obligations to transfer an economic resource if a specified uncertain future event occurs; and

(e) obligations to issue a **financial instrument** if that financial instrument will oblige the entity to transfer an economic resource.

2.42 Instead of fulfilling an obligation to transfer an economic resource to the party that has a right to receive that resource, entities sometimes decide to, for example:

(a) settle the obligation by negotiating a release from the obligation;

(b) transfer the obligation to a third party; or

(c) replace that obligation to transfer an economic resource with another obligation by entering into a new transaction.

2.43 To satisfy the criterion in paragraph 2.38(c), a present obligation exists as a result of past events only if:

(a) the entity has already obtained economic benefits or taken an action; and

(b) as a consequence, the entity will or may have to transfer an economic resource that it would not otherwise have had to transfer.

2.44 The economic benefits obtained could include, for example, goods or services. The action taken could include, for example, operating a particular **business** or operating in a particular market. If economic benefits are obtained, or an action is taken, over time, the resulting present obligation may accumulate over that time.

Unit of account

2.45 The unit of account is the right or the group of rights, the obligation or the group of obligations, or the group of rights and obligations, to which recognition criteria and **measurement** concepts are applied.

2.46 A unit of account is selected for an asset or liability when considering how recognition criteria and measurement concepts will apply to that asset or liability and to the related income and expenses. In some circumstances, it may be appropriate to select one unit of account for recognition and a different unit of account for measurement. For example, contracts may sometimes be recognised individually but measured as part of a portfolio of contracts. For presentation and disclosure, assets, liabilities, income and expenses may need to be aggregated or separated into components.

Income and expenses

2.47 Users of financial statements need information about both an entity's financial position and its financial performance. Hence, although income (which includes both **revenue** and **gains**) and expenses are defined in terms of changes in assets and liabilities, information about income and expenses is just as important as information about assets and liabilities.

2.48 An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting. On the accrual basis, items are recognised as assets, liabilities, equity, income or expenses when they satisfy the definitions and recognition criteria for those items.

Recognition and derecognition

The recognition process

2.49 Recognition links the elements of financial statements, the **statement of financial position**, and the **statement(s) of financial performance** as follows:

(a) in the statement of financial position at the beginning and end of the reporting period, total assets minus total liabilities equal total equity; and

(b) recognised changes in equity during the reporting period comprise:

(i) income minus expenses recognised in the statement(s) of financial performance; plus

(ii) contributions from equity holders, minus distributions to equity holders.

Recognition criteria

2.50 Only items that meet the definition of an asset, a liability or equity are recognised in the statement of financial position. Similarly, only items that meet the definition of income or expenses are recognised in the statement(s) of financial performance.

2.51 However, not all items that meet the definition of one of those elements are recognised, for example if doing so would not provide relevant information, or if the costs of doing so outweigh the benefits.

2.52 The recognition criteria for an item that meets the definition of one of the elements of financial statements are set out in the applicable sections of this FRS.

2.53 The failure to recognise an item that satisfies the recognition criteria, and that would otherwise provide relevant information, is not rectified by disclosure of the **accounting policies** used or by notes or explanatory material.

2.54 Unless explicitly required or permitted by this FRS, an entity shall not recognise items in the statement of financial position that do not meet the definition of assets or of liabilities regardless of whether they result from applying the notion commonly referred to as ‘matching’ for measuring **profit or loss**.

2.55 An item that fails to meet the recognition criteria may qualify for recognition at a later date as a result of subsequent circumstances or events.

Relevance

2.56 Information about assets, liabilities, equity, income and expenses is relevant to users of financial statements. However, recognition of a particular asset or liability and any resulting income, expenses or changes in equity may not always provide relevant information. That may be the case if, for example, it is uncertain whether an asset or liability exists; or an asset or liability exists, but the probability of an inflow or outflow of economic benefits is low. The presence of one or both of the factors does not lead automatically to a conclusion that the information provided by recognition lacks relevance, as other factors may need to be taken into account.

Existence uncertainty

2.57 Uncertainty about whether an asset or liability exists, possibly combined with a low probability of inflows or outflows of economic benefits and an exceptionally wide range of possible outcomes, may mean that the recognition of an asset or liability, necessarily measured at a single amount, would not provide relevant information. Whether or not the asset or liability has been recognised, explanatory information about the associated uncertainties may need to be provided in the financial statements.

Low probability of an inflow or outflow of economic benefits

2.58 If the probability of an inflow or outflow of economic benefits is low, the most relevant information about the asset or liability may be information about the magnitude of the possible inflows or outflows, their possible timing and the factors affecting the probability of their occurrence. However, even if the probability of an inflow or outflow of economic benefits is low, recognition may provide relevant further information.

Faithful representation

2.59 Recognition of a particular asset or liability is appropriate if it provides not only relevant information, but also a faithful representation of that asset or liability and of any resulting income, expenses or changes in equity. Whether a faithful representation can be provided may be affected by the level of measurement uncertainty associated with the asset or liability or by other factors.

Measurement uncertainty and outcome uncertainty

2.60 For an asset or liability to be recognised, it must be measured. In many cases, such measurements must be estimated and are therefore subject to measurement uncertainty. The use of reasonable estimates is an essential part of the preparation of financial information and does not undermine the usefulness of the information if the estimates are clearly and accurately described and explained.

2.61 Whether or not an asset or liability is recognised, a faithful representation of the asset or liability may need to include explanatory information about the uncertainties associated with the asset or liability's existence or measurement, or with its outcome – the amount or timing of any inflow or outflow of economic benefits that will ultimately result from it.

Derecognition

2.62 **Derecognition** normally occurs when an item no longer meets the definition of an asset or of a liability:

(a) for an asset, derecognition normally occurs when the entity loses control of all or part of the recognised asset; and

(b) for a liability, derecognition normally occurs when the entity no longer has a present obligation for all or part of the recognised liability.

2.63 Accounting requirements for derecognition aim to faithfully represent both any assets and liabilities retained after the transaction or other event that led to derecognition and the change in assets or liabilities as a result of that transaction or other event.

2.64 The aim of paragraph 2.63 is normally achieved by:

(a) derecognising any assets or liabilities (components) that have expired or have been consumed, collected, fulfilled or transferred (collectively, the transferred components), and recognising, and presenting separately in the statement of financial performance, any resulting income and expenses;

(b) continuing to recognise, and presenting separately in the statement of financial position, any retained assets or liabilities (the retained component); and

(c) providing explanatory information.

Measurement

2.65 Elements recognised in financial statements are quantified in monetary terms. This requires the selection of a measurement basis.

2.66 A measurement basis is an identified feature – for example, historical cost, **fair value** or fulfilment value – of an item being measured. Applying a measurement basis to an asset or liability creates a measure for that asset or liability and for related income and expenses.

2.67 Different measurement bases may be appropriate for different assets, liabilities, income and expenses.

Measurement bases

Historical cost

2.68 Historical cost measures provide monetary information about the assets, liabilities and related income and expenses, using information derived, at least in part, from the price of the transaction or other event that gave rise to them.

2.69 The historical cost of an asset when it is acquired or created is the value of the costs incurred in acquiring or creating the asset, comprising the consideration paid to acquire or create the asset plus transaction costs. The historical cost of a liability when it is incurred or taken on is the value of the consideration received to incur or take on the liability minus transaction costs.

2.70 The historical cost of an asset is updated over time to depict, if applicable:

(a) the consumption of part or all of the economic resource that constitutes the asset (**depreciation** or **amortisation**);

(b) payments received that extinguish part or all of the asset;

(c) the effect of events that cause part or all of the historical cost of the asset to be no longer recoverable (impairment); and

(d) accrual of interest to reflect any financing component of the asset.

2.71 The historical cost of a liability is updated over time to depict, if applicable:

(a) fulfilment of part or all of the liability, for example, by making payments that extinguish part or all of the liability or by satisfying an obligation to deliver goods;

(b) the effect of events that increase the value of the obligation to transfer the economic resources needed to fulfil the liability to such an extent that the liability becomes onerous. A liability is onerous if the historical cost is no longer sufficient to depict the obligation to fulfil the liability; and

(c) accrual of interest to reflect any financing component of the liability.

2.72 One way to apply a historical cost measurement basis to **financial assets** and **financial liabilities** is to measure them at **amortised cost**. For variable rate instruments measured at amortised cost, the discount rate is updated to reflect changes in the variable rate.

Current value

2.73 Current value measures provide monetary information about assets, liabilities and related income and expenses, using information updated to reflect conditions at the measurement date. Current value measurement bases include:

(a) ***Fair value***

Because fair value is not derived, even in part, from the price of the transaction or other event that gave rise to the asset or the liability, and because transaction costs are a characteristic of a transaction and not of an asset or liability, fair value is not increased by any transaction costs incurred when acquiring the asset and is not decreased by any transaction costs incurred when the liability is incurred.

(b) ***Value in use for assets and fulfilment value for liabilities***

Value in use is the **present value** of the cash flows, or other economic benefits, that an entity expects to derive from the use of an asset and from its ultimate disposal. Fulfilment value is the present value of the cash, or other economic resources, that an entity expects to be obliged to transfer as it fulfils a liability. Because value in use and fulfilment value are based on future cash flows, they do not include transaction costs incurred on acquiring an asset or taking on a liability.

(c) ***Current cost***

The current cost of an asset is the cost of an equivalent asset at the measurement date, comprising the consideration that would be paid at the measurement date plus the transaction costs that would be incurred at that date. The current cost of a liability is the consideration that would be received for an equivalent liability at the measurement date minus the transaction costs that would be incurred at that date.

Factors to consider when selecting a measurement basis

2.74 In selecting a measurement basis it is necessary to consider the nature of the information that the measurement basis will produce in both the statement of financial position and the statement(s) of financial performance.

2.75 In most cases, no single factor will determine which measurement basis should be selected. The relative importance of each factor will depend on facts and circumstances.

Relevance

2.76 The relevance of information provided by a measurement basis is affected by:

(a) the characteristics of the asset or liability, in particular the variability of cash flows and whether the value of the asset or liability is sensitive to market factors or other risks; and

(b) how that asset or liability contributes to future cash flows.

2.77 If the value of an asset or liability is sensitive to market factors or other risks, its historical cost might differ significantly from its current value. Consequently, historical cost may not provide relevant information if information about changes in value is important to users of financial statements.

2.78 For assets and liabilities that produce cash flows directly, such as assets that can be sold independently and without a significant economic penalty, the measurement basis that provides the most relevant information is likely to be a current value that incorporates current estimates of the amount, timing and uncertainty of the future cash flows. For assets and liabilities that do not produce cash flows directly, the principles of relevance and faithful representation should be considered to the extent that they apply to the facts and circumstances.

Faithful representation

2.79 In some circumstances, avoiding an accounting mismatch by using the same measurement basis for related assets and liabilities may provide users of financial statements with information that is more useful than the information that would result from using different measurement bases. This may be particularly likely when the cash flows from one asset or liability are directly linked to the cash flows from another asset or liability.

2.80 When a measure cannot be determined directly by observing prices in an **active market** and must instead be estimated, measurement uncertainty arises. The level of measurement uncertainty associated with a particular measurement basis may affect whether information provided by that measurement basis provides a faithful representation of an entity's financial position and financial performance. A high level of measurement uncertainty does not necessarily prevent the use of a measurement basis that provides relevant information. However, in some cases the level of measurement uncertainty is so high that information provided by a measurement basis might not provide a sufficiently faithful representation. In such cases, it is appropriate to consider selecting a different measurement basis that would also result in relevant information.

2.81 Measurement uncertainty is different from both outcome uncertainty and existence uncertainty:

(a) outcome uncertainty arises when there is uncertainty about the amount or timing of any inflow or outflow of economic benefits that will result from an asset or liability.

(b) existence uncertainty arises when it is uncertain whether an asset or a liability exists

Enhancing qualitative characteristics

2.82 The enhancing qualitative characteristics of comparability, understandability and verifiability, and the cost constraint, have implications for the selection of a measurement basis. The enhancing qualitative characteristic of timeliness has no specific implications for measurement.

2.83 Consistently using the same measurement bases for the same items, either from period to period within a reporting entity or in a single period across entities, can help make financial statements more comparable.

2.84 A change in measurement basis can make financial statements less understandable. However, a change may be justified if other factors outweigh the reduction in understandability, for example, if the change results in more relevant information. If a change is made, users of financial statements may need explanatory information to enable them to understand the effect of that change.

2.85 Understandability depends partly on how many different measurement bases are used and on whether they change over time. In general, if more measurement bases are used in a set of financial statements, the resulting information becomes more complex and, hence, less understandable and the totals or subtotals in the statement of financial position and the statement(s) of financial performance become less informative. However, it could be appropriate to use more measurement bases if that is necessary to provide useful information.

2.86 Verifiability is enhanced by using measurement bases that result in measures that can be independently corroborated either directly – for example, by observing prices – or indirectly – for example, by checking inputs to a model. If a measure cannot be verified, users of financial statements may need explanatory information to enable them to understand how the measure was determined. In some such cases, it may be necessary to specify the use of a different measurement basis.

Measurement of equity

2.87 The total **carrying amount** of equity (total equity) is not measured directly. It equals the total of the carrying amounts of all recognised assets less the total of the carrying amounts of all recognised liabilities.

2.88 Although total equity is not measured directly, it may be appropriate to measure directly the carrying amount of some individual classes of equity and some components of equity.

Presentation and disclosure

Classification

2.89 Classification is the sorting of assets, liabilities, equity, income or expenses on the basis of shared characteristics for presentation and disclosure purposes. Such characteristics include – but are not limited to – the nature of the item, its role (or function) within the business activities conducted by the entity, and how it is measured.

2.90 Classifying dissimilar assets, liabilities, equity, income or expenses together can obscure relevant information, reduce understandability and comparability and may not provide a faithful representation of what it purports to represent.

2.91 Classification is applied to the unit of account selected for an asset or liability. However, it may sometimes be appropriate to separate an asset or liability into components that have different characteristics and to classify those components separately, when this would enhance the usefulness of the resulting financial information.

2.92 Income and expenses are classified and included either in profit or loss, or in **other comprehensive income**.

2.93 The **income statement** is the primary source of information about an entity's financial performance for the reporting period. Therefore, all income and expenses are, in principle, included in that statement, unless this FRS requires or permits otherwise, or unless prohibited by the **Act.**

2.94 In principle, income and expenses included in other comprehensive income in one period are reclassified from other comprehensive income into profit or loss in a future period when doing so results in the income statement providing more relevant information, or providing a more faithful representation of the entity's financial performance for that future period. Accordingly, income and expenses included in other comprehensive income will not necessarily be reclassified into profit or loss. Individual sections of this FRS set out when income and expenses included in other comprehensive income may, shall or shall not be subsequently reclassified.

Offsetting

2.95 Offsetting occurs when an entity recognises and measures both an asset and liability as separate units of account, but groups them into a single net amount in the statement of financial position. Offsetting classifies dissimilar items together and therefore is generally not appropriate.

2.96 An entity shall not offset assets and liabilities, or income and expenses, unless required or permitted by this FRS.

2.97 Measuring assets net of valuation allowances (eg allowances for inventory obsolescence and allowances for uncollectible receivables) is not offsetting.

2.98 If an entity's normal operating activities do not include buying and selling **fixed assets**, including investments and operating assets, then the entity reports gains and losses on disposal of such assets by deducting from the proceeds on disposal the carrying amount of the asset and related selling expenses.

Classification of equity

2.99 To provide useful information, it may be necessary to classify components of equity separately if some of those components are subject to particular legal, regulatory or other requirements.

Aggregation

2.100 Aggregation is the adding together of assets, liabilities, equity, income or expenses that have shared characteristics and are included in the same classification.

2.101 Aggregation makes information more useful by summarising a large volume of detail. However, aggregation conceals some of that detail. Hence, a balance needs to be found so that relevant information is not obscured either by a large amount of insignificant detail or by excessive aggregation.

Amendments to Appendix to Section 2
Fair value measurement

55 The following paragraphs set out the replacement of the Appendix *Fair Value Measurement* to Section 2 *Concepts and Pervasive Principles* with a new Section 2A *Fair Value Measurement*. For ease of reading, revised text is not underlined.

56 The Appendix to Section 2 is deleted and a new Section 2A is inserted as follows:

Section 2A
Fair Value Measurement

Scope of this section

2A.1 This section applies when another section requires or permits **fair value** measurements or disclosures about fair value measurements, except:

(a) **share-based payment transactions** within the scope of Section 26 *Share-based Payment*; and

(b) leasing transactions within the scope of Section 20 *Leases*.

Measurement

2A.2 The objective of a fair value **measurement** is to estimate the price at which an orderly transaction to sell an **asset** or to transfer a **liability** would take place between **market participants** at the measurement date.

2A.3 Fair value is a market-based measurement, not an entity-specific measurement. Therefore, it is measured using the assumptions that market participants would use when pricing the asset or liability. An entity's intention to hold an asset or to settle or otherwise fulfil a liability is not relevant when measuring fair value.

2A.4 When measuring fair value an entity shall take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. For example:

(a) the condition and location of the asset; and

(b) restrictions, if any, on the sale or use of the asset.

2A.5 A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

(a) in the **principal market** for the asset or liability; or

(b) in the absence of a principal market, in the **most advantageous market** for the asset or liability.

2A.6 An entity need not undertake an exhaustive search of all possible markets to identify the principal market or, in the absence of a principal market, the most advantageous market, but it shall take into account all information that is reasonably available. In the absence of evidence to the contrary, the market in which an entity would normally transact is presumed to be that market.

2A.7 The entity must have access to the principal market (or most advantageous market) at the measurement date. If there is no market to which the entity has access at the measurement date, the entity shall assume that a transaction takes place at the measurement date as a basis for estimating fair value.

2A.8 The price in the market shall not be adjusted for **transaction costs** because they are not a characteristic of an asset or a liability; they are specific to a transaction. However, the price in the market shall be adjusted for costs incurred to transport the asset from its current location to the market, if applicable (as might be the case, for example, for a commodity).

Application to non-financial assets

2A.9 A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

2A.10 The highest and best use takes into account the use of the asset that is physically possible, legally permissible and financially feasible.

2A.11 An entity's current use of a non-financial asset is presumed to be its highest and best use unless factors suggest that a different use by market participants would maximise the value of the asset.

2A.12 If the highest and best use of a non-financial asset is or would be achieved through its use in combination with other assets (and liabilities) as a group, the fair value measurement of the non-financial asset shall reflect that use, by assuming that a market participant already holds the complementary assets and the associated liabilities. Assumptions about the highest and best use shall be consistent for all the assets (and liabilities) within that group.

Application to liabilities

2A.13 The fair value of a liability reflects the effect of **non-performance risk**. Non-performance risk is assumed to be the same before and after the transfer of the liability.

2A.14 The fair value of a financial liability that is due on demand is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Valuation techniques

2A.15 The entity shall use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of inputs determined by reference to a market price in an **active market**. An entity shall use the following methodology to estimate fair value:

(a) The best evidence of fair value is an unadjusted quoted price for an identical or comparable asset or liability in an active market at the measurement date.

(b) When an unadjusted quoted price is not available, the price of a recent orderly transaction between market participants for an identical or comparable asset or liability provides evidence of fair value. However, this price may not be a reliable estimate of fair value if there has been a significant change in economic circumstances or a significant period of time between the date of the transaction, and the measurement date.

(c) If neither (a) nor (b) above are available or reliable, the fair value shall be estimated using another valuation technique. The objective of using another valuation technique is to estimate the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date.

2A.16 An entity shall use valuation techniques consistent with one or more of these approaches:

(a) the market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities or a group of assets and liabilities, such as a **business**.

(b) the cost approach reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

(c) the income approach reflects expectations of future performance (eg **cash flows** or **income** and **expenses**). Valuation techniques using the income approach include **present value** techniques, option pricing models, and the multi-period excess earnings method.

2A.17 Valuation techniques used to measure fair value shall be applied consistently. However, a change in a valuation technique or its application is appropriate if the change results in a measurement that is equally or more representative of fair value in the circumstances. This may be the case, for example, if new markets develop or new information becomes available. Revisions resulting from such a change in the valuation technique used or in its application shall be accounted for as a change in accounting estimate in accordance with paragraphs 10.14D to 10.17. However, an entity need not provide the disclosures required by paragraph 10.18.

2A.18 If an asset or a liability measured at fair value has a bid price and an ask price (eg an input from a dealer market), the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value. The use of bid prices for asset positions and ask prices for liability positions is permitted, but is not required. This section does not preclude the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread.

Reliable measure of fair value

2A.19 A valuation technique would be expected to arrive at a reliable measure of the fair value if:

(a) it reasonably reflects how the market could be expected to price the asset; and

(b) the inputs to the valuation technique reasonably represent market expectations and measures of the risk return factors inherent in the asset.

2A.20 Valuation techniques, or the use of multiple techniques, can often produce a range of reasonable valuations. The selection of the most appropriate fair value within the range requires judgement, considering qualitative and quantitative factors specific to the measurement.

2A.21 A fair value selected from within a range of reasonable valuations is a reliable measure of the fair value if:

(a) the range of reasonable fair value measures is not significant; or

(b) the probabilities of the various measures within the range can be reasonably assessed and used to select the most appropriate fair value.

2A.22 There are many situations in which the range of reasonable fair value estimates of assets that do not have a quoted market price is likely not to be significant. Normally it is possible to estimate the fair value of an asset that an entity has acquired from an outside party. However, if the range of reasonable fair value measures is significant and the probabilities of the various measures within the range cannot be reasonably assessed, the entity is precluded from measuring the asset at fair value.

2A.23 If a reliable measure of fair value is no longer available for an asset measured at fair value, its **carrying amount** at the last date the asset was reliably measurable becomes its new cost. An entity shall measure the asset at this cost amount less impairment until a reliable measure of fair value becomes available.

Measurements based on fair value

2A.24 Some sections of this FRS require or permit measurements based on fair value, such as fair value less costs to sell. Adjustments made to determine a measurement based on fair value shall not include factors that have already been taken into account when determining that fair value. For example, costs incurred to transport the asset from its current location to the market that are taken into account when measuring fair value shall not be adjusted for again when measuring fair value less costs to sell.

Amendments to Section 3
Financial Statement Presentation

57 The following paragraphs set out the amendments to Section 3 *Financial Statement Presentation* (deleted text is struck through, inserted text is underlined).

58 Paragraph 3.1A is amended and the sequentially numbered footnotes are deleted (subsequent footnotes are renumbered sequentially) as follows:

3.1A A **small entity** applying Section 1A *Small Entities* is not required to comply with:

(a) the disclosure requirements of paragraphs ~~3.3[*footnote], PBE3.3A, 3.9[*footnote],~~ 3.12, 3.13 and 3.24(b); and

(b) paragraphs 3.17, 3.18 and 3.19.

~~[*footnote] Irish small entities, other than qualifying partnerships, are required to comply with the requirements of paragraph 3.3.~~

~~[*footnote] If a small entity 3.9 that it is presumed to be a carrying on business as a going concern, it must provide the disclosure required by paragraph 1AC.10 or 1AD.11, as relevant.~~

59 Paragraph 3.1AA and a sequentially numbered footnote (subsequent footnotes are renumbered sequentially) are inserted as follows:

3.1AA In addition, when applying Section 1A, a small entity reporting in the Republic of Ireland is not required to comply with the disclosure requirements of paragraphs PBE3.3A, 3.8A and 3.9[footnote], and a small entity reporting in the Republic of Ireland which is a qualifying partnership is not required to comply with the disclosure requirements of paragraph 3.3.

[*footnote] If an Irish small entity departs from the principle that it is presumed to be carrying on business as a going concern, it must provide the disclosure required by paragraph 1AD.11.

60 Paragraph 3.3 is preceded by a ^ in the left-hand margin.

61 Paragraph PBE3.3A is preceded by a ^ in the left-hand margin.

62 Paragraph 3.8A is inserted as follows:

^ 3.8A When an entity prepares financial statements on a going concern basis, it shall disclose that fact, together with confirmation that management has considered information about the future as set out in paragraph 3.8. It shall also disclose, in accordance with paragraph 8.6, any significant judgements made in assessing the entity's ability to continue as a going concern.

63 Paragraph 3.9 is amended as follows:

^ 3.9 When management is aware, in making its assessment, of **material** uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.

64 Paragraph 3.17 is amended as follows:

3.17 A complete set of financial statements of an entity shall include all of the following:

(a) a **statement of financial position** as at the **reporting date**;

(b) either:

(i) a single **statement of comprehensive income** for the reporting period displaying all items of **income** and **expense** recognised during the period including those items recognised in determining profit or loss (which is a subtotal in the statement of comprehensive income) and items of **other comprehensive income**; or

(ii) a separate **income statement** and a separate statement of comprehensive income. If an entity chooses to present both an income statement and a statement of comprehensive income, the statement of comprehensive income begins with profit or loss and then displays the items of other comprehensive income;

(c) a **statement of changes in equity** for the reporting period;

(d) a statement of cash flows for the reporting period; and

(e) notes, comprising ~~significant~~ material accounting ~~policies~~ policy information and other explanatory information.

65 Paragraph 3.24 is amended as follows:

3.24 An entity shall disclose the following in the notes:

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

(b) a description of the nature of the entity's operations and its principal activities unless this is disclosed in the business review (or similar statement) accompanying the financial statements.

Amendments to Section 4
Statement of Financial Position

66 The following paragraphs set out the amendments to Section 4 *Statement of Financial Position* (deleted text is struck through, inserted text is underlined).

67 Paragraph 4.2B is amended as follows:

4.2B An entity choosing to apply paragraph 1A(1) of Schedule 1 to the Regulations shall also disclose, either in the statement of financial position or in the **notes**, the following sub-classifications of the line items presented:

(a) property, plant and equipment in classifications appropriate to the entity;

(b) intangible assets and **goodwill** in classifications appropriate to the entity;

(c) investments, showing separately shares and loans;

(d) trade and other receivables showing separately amounts due from **related parties**, amounts due from other parties, prepayments and ~~receivables arising from~~ accrued income ~~not yet billed~~;

(e) inventories, showing separately amounts of inventories:

(i) held for sale in the ordinary course of **business**;

(ii) in the process of production for such sale; and

(iii) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

(f) trade and other payables, showing separately amounts payable to trade suppliers, payable to related parties, deferred income and accruals; and

(g) classes of equity, such as share capital, share premium, retained earnings, revaluation reserve, fair value reserve and other reserves.

68 In paragraph 4.12 the term ‘contracts’ is now shown in bold type.

69 Paragraph 4.14 is amended as follows:

4.14 If, at the reporting date, an entity has a binding sale agreement for a major disposal of assets, or a **disposal group**, the entity shall disclose the following information:

(a) a description of the asset(s) or the disposal group;

(b) a description of the facts and circumstances of the sale; and

(c) the **carrying amount** of the assets or, for a disposal group, the carrying amounts of the ~~underlying~~ assets and liabilities <u>within the disposal group</u>.

Amendments to Section 5
Statement of Comprehensive Income and Income Statement

70 The following paragraphs set out the amendments to Section 5 *Statement of Comprehensive Income and Income Statement* (deleted text is struck through, inserted text is underlined).

71 Paragraph 5.1A is amended as follows:

5.1A A **small entity** applying Section 1A *Small Entities* is not required to comply with this section. <u>However, paragraph 1A.9 states that a small entity may need to present a statement of total comprehensive income in order to give a true and fair view, when the small entity recognises **gains** or losses in **other comprehensive income**.</u>

72 Paragraph 5.5A is amended as follows:

5.5A In addition an entity shall include, in the statement of comprehensive income, line items that present the following amounts for the period:

(a) Classified by nature (excluding amounts in (b)), the components of ~~**other comprehensive income**~~ <u>other comprehensive income</u> recognised as part of total comprehensive income outside profit or loss as permitted or required by this FRS. An entity may present the components of other comprehensive income either:

(i) net of related tax effects; or

(ii) before the related tax effects with one amount shown for the aggregate amount of **income tax** relating to those components.

(b) Its share of the other comprehensive income of **associates** and **jointly controlled entities** accounted for ~~by~~ <u>using</u> the equity method.

(c) Total comprehensive income.

73 Paragraph 5.5B is amended as follows:

5.5B An entity choosing to apply paragraph 1A(2) of Schedule 1 to the Regulations and adapt one of the profit and loss account formats shall, as a minimum, include in its statement of comprehensive income line items that present the following amounts for the period:

(a) **revenue**;

(b) finance costs;

(c) share of the profit or loss of investments in associates (see Section 14 *Investments in Associates*) and jointly controlled entities (see Section 15 *Investments in Joint Ventures*) accounted for using the equity method;

(d) profit or loss before taxation;

(e) **tax expense** excluding tax allocated to items (h) and (i) below or to **equity** (see paragraph 29.27);

(f) as set out in paragraph 5.7E (including a column identified as **discontinued operations**) a single amount comprising the total of:

(i) the post-tax profit or loss of a discontinued operation; and

(ii) the post-tax gain or loss attributable to the impairment or on the disposal of the **assets** or **disposal group(s)** constituting discontinued operations.

(g) profit or loss;

(h) each item of other comprehensive income classified by nature (excluding amounts in (i));

(i) share of other comprehensive income of associates and jointly controlled entities accounted for ~~by~~ using the equity method; and

(j) total comprehensive income.

In addition, an analysis of expenses shall be presented, either in the income statement or in the **notes** to the **financial statements**, which is equivalent to what would have been presented if paragraph 5.5 had been applied.

Amendments to Section 6 *Statement of Changes in Equity and Statement of Income and Retained Earnings*

74 The following paragraphs set out the amendments to Section 6 *Statement of Changes in Equity and Statement of Income and Retained Earnings* (deleted text is struck through, inserted text is underlined).

75 In paragraph 6.1, the term 'statement of changes in equity' is now shown in bold type.

76 Paragraph 6.1A is amended as follows:

6.1A A **small entity** applying Section 1A *Small Entities* is not required to comply with this section. However, paragraph 1A.9 ~~encourages~~ <u>states that</u> a small entity <u>may need</u> to present a statement of changes in equity or a statement of income and retained earnings <u>in order to give a true and fair view, when the small entity has changes in equity other than **profit or loss**</u>.

77 In paragraph 6.2, the term 'profit or loss' is no longer shown in bold type.

78 Paragraph 6.3B is inserted as follows:

<u>6.3B When an entity has more than one class of share capital, it shall disclose dividends paid (in aggregate and per share) separately for each class of share capital.</u>

79 Paragraph 6.5(b) is preceded by a ^ in the left-hand margin.

Amendments to Section 7 *Statement of Cash Flows*

80 The following paragraphs set out the amendments to Section 7 *Statement of Cash Flows* (deleted text is struck through, inserted text is underlined).

81 Paragraph 7.4 is amended as follows:

7.4 Operating activities are the principal revenue-producing activities of the entity. Therefore, cash flows from operating activities generally result from the transactions and other events and conditions that enter into the determination of **profit or loss**. Examples of cash flows from operating activities are:

(a) cash receipts from the sale of goods and the rendering of services;

(b) cash receipts from royalties, fees, commissions and other **revenue**;

(c) cash payments to suppliers for goods and services;

(d) cash payments to and on behalf of employees;

(e) cash payments or refunds of **income tax**, unless they can be specifically identified with financing and investing activities;

(f) cash receipts and payments from investments, loans and other ~~contracts~~ **contracts** held for dealing or trading purposes, which are similar to **inventory** acquired specifically for resale;~~ and~~

(g) cash advances and loans made to other parties by **financial institutions**; and

(h) payments for **short-term leases**, payments for **leases** of low-value assets and variable **lease payments** not included in the **measurement** of the lease **liability** as required by Section 20 *Leases*.

Some transactions, such as the sale of an item of plant by a manufacturing entity, may give rise to a gain or loss that is included in profit or loss. However, the cash flows relating to such transactions are cash flows from investing activities.

82 Paragraph 7.6 is amended as follows:

7.6 Financing activities are activities that result in changes in the size and composition of the contributed **equity** and borrowings of an entity. Examples of cash flows arising from financing activities are:

(a) cash proceeds from issuing shares or other equity instruments;

(b) cash payments to **owners** to acquire or redeem the entity's shares;

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

(d) cash repayments of amounts borrowed; and

(e) cash payments by a lessee for the~~ reduction of the outstanding **liability** relating to a **finance lease**~~ principal portion of the lease liability.

83 In paragraph 7.10A the term 'customers' is now shown in bold type.

84 Paragraph 7.15 is amended as follows:

7.15 An entity may classify interest paid and interest and dividends received as operating cash flows because they are included in profit or loss. Alternatively, the entity may classify interest paid and interest and dividends received as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments. Interest paid includes cash payments made by a lessee for the interest portion of a lease liability measured in accordance with Section 20.

85 Paragraph 7.19 is amended as follows:

7.19 Many investing and financing activities do not have a direct impact on current cash flows even though they affect the capital and asset structure of an entity. The exclusion of non-cash transactions from the statement of cash flows is consistent with the objective of a statement of cash flows because these items do not involve cash flows in the current period. Examples of non-cash transactions are:

(a) the acquisition of assets either by assuming directly related liabilities or by means of a ~~finance~~ lease;

(b) the acquisition of an entity by means of an equity issue; and

(c) the conversion of debt to equity.

86 A heading (underlined) and paragraphs 7.20B and 7.20C are inserted as follows:

Supplier finance arrangements

7.20B Supplier finance arrangements are characterised by one or more finance providers offering to pay amounts an entity owes its suppliers and the entity agreeing to pay according to the terms and conditions of the arrangements at the same date as, or a date later than, suppliers are paid. These arrangements provide the entity with extended payment terms, or the entity's suppliers with early payment terms, compared to the related invoice payment due date. Supplier finance arrangements are often referred to as supply chain finance, payables finance or reverse factoring arrangements. Arrangements that are solely credit enhancements for the entity (eg **financial guarantee contracts**) or instruments used to settle directly with a supplier the amounts owed (eg credit cards) are not supplier finance arrangements.

7.20C An entity shall disclose in aggregate for its supplier finance arrangements:

(a) the key terms and conditions of the arrangements (eg extended payment terms, interest charges, and security or guarantees provided). However, an entity shall disclose separately the key terms and conditions of arrangements that have dissimilar key terms and conditions.

(b) as at the end of the reporting period:

(i) the **carrying amounts** and associated line items presented in the entity's statement of financial position of the **financial liabilities** that are part of a supplier finance arrangement; and

(ii) the range of payment due dates (eg 30–40 days after the invoice date) for both the financial liabilities disclosed under sub-paragraph (i) and comparable trade payables that are not part of a supplier finance arrangement. Comparable trade payables are, for example, trade payables within the same line of business or jurisdiction as the financial liabilities disclosed under sub-paragraph (i). If ranges of payment due dates are wide, an entity shall disclose explanatory information about those ranges or disclose additional ranges (eg stratified ranges).

(c) the type and effect of non-cash changes in the carrying amounts of the financial liabilities disclosed under sub-paragraph (b)(i). Examples of non-cash changes include the effect of **business combinations**, exchange differences or other transactions that do not require the use of cash or cash equivalents (see paragraph 7.18).

87 Paragraph 7.22 is amended as follows

7.22 An entity shall disclose an analysis of changes in **net debt** from the beginning to the end of the reporting period showing changes resulting from:

(a) the cash flows of the entity;

(b) the acquisition and disposal of subsidiaries;

(c) new ~~finance~~ leases entered into;

(d) other non-cash changes; and

(e) the recognition of changes in market value and exchange rate movements.

When several balances (or parts thereof) from the statement of financial position have been combined to form the components of opening and closing net debt, sufficient detail shall be shown to enable users to identify these balances.

This analysis need not be presented for prior periods.

Amendments to Section 8
Notes to the Financial Statements

88 The following paragraphs set out the amendments to Section 8 *Notes to the Financial Statements* (deleted text is struck through, inserted text is underlined).

89 Paragraph 8.4 is amended as follows (the sequentially numbered footnote in this paragraph is not presented here and is unchanged by this amendment):

* 8.4 An entity normally[38] presents the notes in the following order:

(a) a statement that the financial statements have been prepared in compliance with this FRS (see paragraph 3.3);

(b) a summary of ~~significant accounting policies applied~~ **material accounting policy** information (see paragraph 8.5);

(c) supporting information for items presented in the financial statements, in the sequence in which each statement and each line item is presented; and

(d) any other disclosures.

90 Paragraph 8.5 is amended as follows:

* 8.5 An entity shall disclose ~~its significant~~ material accounting ~~policies comprising:~~ policy information (see paragraph 3.17). Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the users of **general purpose financial statements** make on the basis of those financial statements. The disclosure shall include the **measurement** basis (or bases) used in preparing the financial statements.

~~(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.~~

91 Paragraphs 8.5A to 8.5D and a sequentially numbered footnote are inserted (subsequent footnotes are renumbered sequentially) as follows:

* 8.5A Accounting policy information that relates to immaterial transactions, other events or conditions is generally immaterial and need not be disclosed[*footnote], subject to the requirements of the **Regulations** and the **LLP Regulations**. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

[*footnote] Certain accounting policy disclosures required by the Regulations or the LLP Regulations must be given regardless of materiality, such as in relation to development costs.

8.5B Accounting policy information is expected to be material if users of an entity's financial statements would need it to understand other material information in the financial statements. For example, an entity is likely to consider accounting policy information material to its financial statements if that information relates to material transactions, other events or conditions and:

(a) the entity changed its accounting policy during the reporting period and this change resulted in a material change to the information in the financial statements;

(b) the entity chose the accounting policy from one or more options permitted by this FRS;

(c) the accounting policy was developed in accordance with Section 10 *Accounting Policies, Estimates and Errors* in the absence of a Section of this FRS that specifically applies;

(d) the accounting policy relates to an area for which an entity is required to make significant judgements or assumptions in applying an accounting policy, and the entity discloses those judgements or assumptions in accordance with paragraphs 8.6 and 8.7; or

(e) the accounting required for them is complex and users of the entity's financial statements would otherwise not understand those material transactions, other events or conditions – such a situation could arise if an entity applies more than one Section of this FRS to a class of material transactions.

8.5C Accounting policy information that focuses on how an entity has applied the requirements of this FRS to its own circumstances provides entity-specific information that is more useful to users of financial statements than standardised information, or information that only duplicates or summarises the requirements of this FRS.

8.5D An entity's conclusion that accounting policy information is immaterial does not affect the related disclosure requirements set out in other sections of this FRS.

92 Paragraph 8.6 is amended as follows:

* 8.6 An entity shall disclose, along with ~~its significant~~ material accounting ~~policies~~ policy information or other notes, the judgements, apart from those involving estimations (see paragraph 8.7), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

93 In paragraph 8.7 the term 'material' is no longer shown in bold type.

Amendments to Section 9
Consolidated and Separate Financial Statements

94 The following paragraphs set out the amendments to Section 9 *Consolidated and Separate Financial Statements* (deleted text is struck through, inserted text is underlined).

95 Paragraph 9.2 is amended as follows:

9.2 Except as permitted or required by paragraph 9.3, a parent entity shall present consolidated financial statements in which it consolidates all its ~~investments in~~ **subsidiaries** in accordance with this FRS. A parent entity need only prepare consolidated accounts under the Act if it is a parent at the reporting date.

96 Paragraph 9.3 is amended as follows (the sequentially numbered footnotes in this paragraph are not presented here and are unchanged by this amendment):

9.3 ~~A~~ An intermediate parent entity is exempt from the requirement to prepare consolidated financial statements ~~on any~~ if one or more of the following ~~grounds~~ cases applies:

For an entity reporting under the Act, when its immediate parent is established under the law of any part of the UK[39] or for an entity reporting under the *Companies Act 2014*, when its immediate parent is established under the law of an EEA State[40], and provided, in each case, that the entity complies with further conditions set out in company law:

(a) The ~~parent~~ entity is a wholly-owned subsidiary. ~~Exemption is conditional on compliance with certain further conditions set out in company law.~~

(b) The immediate parent holds 90% or more of the allotted shares in the entity and the remaining shareholders have approved the exemption. ~~Exemption is conditional on compliance with certain further conditions set out in company law.~~

(bA) The immediate parent holds more than 50% (but less than 90%) of the allotted shares in the entity, and notice requesting the preparation of consolidated financial statements has not been served on the entity by shareholders holding in aggregate at least 5% of the allotted shares in the entity. ~~Exemption is conditional on compliance with certain further conditions set out in company law.~~

For an entity reporting under the Act, when its parent is not established under the law of any part of the UK[41] or for an entity reporting under the *Companies Act 2014*, when its parent is not established under the law of an EEA state[42], and provided, in each case, that the entity complies with further conditions set out in company law:

(c) The ~~parent~~ entity is a wholly-owned subsidiary. ~~Exemption is conditional on compliance with certain further conditions set out in company law.~~

(d) The parent holds 90% or more of the allotted shares in the entity and the remaining shareholders have approved the exemption. ~~Exemption is conditional on compliance with certain further conditions set out in company law.~~

(dA) The parent holds more than 50% (but less than 90%) of the allotted shares in the entity, and notice requesting the preparation of consolidated financial statements has not been served on the entity by shareholders holding in aggregate at least 5% of the allotted shares in the entity. ~~Exemption is conditional on compliance with certain further conditions set out in company law.~~

In sub-paragraphs (a) to (dA), for an entity reporting under the Act the entity is not exempt if any of its transferable securities are admitted to trading on a UK regulated market and for an entity reporting under the *Companies Act 2014*, the entity is not exempt if any of its transferable securities are admitted to trading on a regulated market of any EEA State within the meaning of Directive 2004/39/EC.

Other situations

(e) The ~~parent~~ entity, and the group headed by it, qualify as small[43] and the ~~parent~~ entity and the group are considered eligible for the exemption[44].

(f) All ~~of~~ the ~~parent's~~ entity's subsidiaries are either required to be excluded from consolidation by paragraph 9.9[45] or permitted to be excluded from consolidation by paragraph 9.9A.

(g) For ~~a parent~~ an entity not reporting under the Act, if its statutory framework does not require the preparation of consolidated financial statements.

~~In sub-paragraphs (a) to (dA), for an entity reporting under the Act the parent is not exempt if any of its transferable securities are admitted to trading on a UK regulated market and for an entity reporting under the *Companies Act 2014*, the parent is not exempt if any of its transferable securities are admitted to trading on a regulated market of any EEA State within the meaning of Directive 2004/39/EC.~~

97 Paragraph 9.8A is amended as follows:

9.8A A subsidiary is not excluded from consolidation because the information necessary for the preparation of consolidated financial statements cannot be obtained without disproportionate expense or undue delay~~, unless its inclusion is not **material** (individually or collectively for more than one subsidiary) for the purposes of giving a true and fair view in the context of the group~~.

98 In paragraph 9.9A the term 'material' is now shown in bold type.

99 Paragraph 9.13 is amended as follows:

9.13 The consolidated financial statements present financial information about the group as a single ~~economic~~ reporting entity. In preparing consolidated financial statements, an entity shall:

(a) combine the **financial statements** of the parent and its subsidiaries line by line by adding together like items of assets, **liabilities**, **equity**, **income** and **expenses**;

(b) eliminate the **carrying amount** of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary;

(c) measure and present **non-controlling interest** in the profit or loss of consolidated subsidiaries for the **reporting period** separately from the interest of the **owners** of the parent; and

(d) measure and present non-controlling interest in the net assets of consolidated subsidiaries separately from the parent shareholders' equity in them. Non-controlling interest in the net assets consists of:

(i) the non-controlling interest's share in the identifiable net assets (consisting of the identifiable assets, liabilities and **contingent liabilities** as recognised and measured in accordance with Section 19 *Business Combinations and Goodwill*, if any) at the date of the original combination; and

(ii) the non-controlling interest's share of changes in equity since the date of the combination or other acquisition.

100 In paragraph 9.18 the term 'government' is now shown in bold type.

101 Paragraph 9.19A is amended as follows:

9.19A Where a parent reduces its holding in a subsidiary and control is retained, it shall be accounted for as a transaction between equity holders and the resulting change in non-controlling interest shall be accounted for in accordance with paragraph ~~22.19~~ 9.20A. No gain or loss shall be recognised at the date of disposal.

102 Paragraph 9.19D is amended as follows:

9.19D The transaction shall be accounted for as a transaction between equity holders and the resulting change in non-controlling interest shall be accounted for in accordance with paragraph ~~22.19~~ 9.20A.

103 Paragraph 9.20 is amended as follows:

9.20 An entity shall present non-controlling interest in the net assets of subsidiaries in the consolidated **statement of financial position** within equity, separately from the equity of the owners of the parent.

104 Paragraph 9.20A is inserted as follows:

9.20A An entity shall treat changes in a parent's controlling interest in a subsidiary that do not result in a loss of control as transactions with equity holders in their capacity as equity holders. Accordingly, the carrying amount of the non-controlling interest shall be adjusted to reflect the change in the parent's interest in the subsidiary's net assets. Any difference between the amount by which the non-controlling interest is so adjusted and the fair value of the consideration paid or received, if any, shall be recognised directly in equity and attributed to equity holders of the parent. An entity shall not recognise a gain or loss on these changes. Also, an entity shall not recognise any change in the carrying amounts of assets (including goodwill) or liabilities as a result of such transactions.

105 Paragraph 9.26 is amended as follows:

9.26 When a parent prepares separate financial statements, it shall select and adopt a policy of accounting for its investments in subsidiaries, associates and jointly controlled entities in those separate financial statements either:

(a) at cost less impairment;

(b) at fair value with changes in fair value recognised in other comprehensive income (or profit or loss) in accordance with paragraphs 17.15E and 17.15F; or

(c) at fair value with changes in fair value recognised in profit or loss.

~~The Appendix to Section 2 *Concepts and Pervasive Principles*~~ Section 2A *Fair Value Measurement* provides guidance on determining fair value.

An entity shall apply the same accounting policy for all investments in a single class (for example investments in subsidiaries that are held as part of an investment portfolio, those that are not so held, associates or jointly controlled entities), but it can elect different policies for different classes.

This also applies to entities preparing individual financial statements.

Amendments to Section 10
Accounting Policies, Estimates and Errors

106 The following paragraphs set out the amendments to Section 10 *Accounting Policies, Estimates and Errors* (deleted text is struck through, inserted text is underlined).

107 The term ‘changes in accounting estimates’ in paragraph 10.1(b) is no longer shown in bold type. The term ‘accounting estimates’ is instead shown in bold type.

108 Paragraph 10.10B is inserted as follows:

10.10B If the measurement of a class of **biological assets** and its related **agricultural produce** is changed from the cost model to the fair value model in accordance with Section 34 *Specialised Activities*, this change in accounting policy is to be dealt with as a change in fair value less costs to sell in accordance with that section, rather than in accordance with paragraphs 10.11 and 10.12.

109 The heading (underlined) preceding paragraph 10.15 is amended as follows:

~~Changes in accounting~~ Accounting estimates

110 Paragraphs 10.14A to 10.14D, including a new sub-heading, are inserted before paragraph 10.15 as follows:

10.14A An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty – that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information. Examples of accounting estimates include:

(a) The fair value of an asset or liability, applying Section 2A *Fair Value Measurement*.

(b) The estimated selling price less costs to sell of an item of **inventory**, applying Section 13 *Inventories*.

(c) The **depreciation** expense for an item of **property, plant and equipment**, applying Section 17 *Property, Plant and Equipment*.

(d) A **provision** for warranty obligations, applying Section 21 *Provisions and Contingencies*.

(e) The **recoverable amount** of an item of property, plant and equipment, applying Section 27 *Impairment of Assets*.

10.14B An entity uses measurement techniques and inputs to develop an accounting estimate. Measurement techniques include estimation techniques and valuation techniques.

10.14C The term ‘estimate’ in FRS 102 sometimes refers to an estimate that is not an accounting estimate as defined in this FRS. For example, it sometimes refers to an input used in developing accounting estimates.

Changes in accounting estimates

10.14D An entity may need to change an accounting estimate if changes occur in the circumstances on which the accounting estimate was based or as a result of new information, new developments or more experience.

111 Paragraph 10.15 is amended as follows:

10.15 ~~A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption 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.~~ The effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates unless they result from the correction of prior period errors. Except as provided in paragraph 10.9(c), a change in the measurement basis applied is a change in an accounting policy, and is not a change in an accounting estimate. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.

Amendments to Section 11
Basic Financial Instruments

112 The following paragraphs set out the amendments to Section 11 *Basic Financial Instruments* (deleted text is struck through, inserted text is underlined).

113 Paragraph PBE 11.1A is amended as follows:

PBE11.1A **Public benefit entities** and other members of a **public benefit entity group** that make or receive **public benefit entity concessionary loans** shall refer to the relevant paragraphs of Section 34 *Specialised Activities* for the accounting requirements for such loans, irrespective of the **accounting policy** choice made in accordance with paragraph 11.2.

114 Paragraph 11.2 and its sequentially numbered footnote are amended as follows:

11.2 An entity shall choose to apply either:

(a) the provisions of both Section 11 and Section 12 in full; or

(b) the recognition and measurement provisions of IAS 39 *Financial Instruments: Recognition and Measurement* (as adopted in the relevant jurisdiction)[*footnote], the disclosure requirements of Sections 11 and 12 and the presentation requirements of paragraphs 11.38A and 12.25W; or

(c) the recognition and measurement provisions of IFRS 9 *Financial Instruments* (as adopted in the relevant jurisdiction) and IAS 39 (as amended following the publication of IFRS 9), the disclosure requirements of Sections 11 and 12 and the presentation requirements of paragraphs 11.38A and 12.25W;

to account for all of its financial instruments. Where an entity chooses (b) or (c) it applies the scope of the relevant standard to its financial instruments. An entity's choice of (a), (b) or (c) is an ~~**accounting policy**~~ accounting policy choice. Paragraphs 10.8 to 10.14 contain requirements for determining when a change in accounting policy is appropriate, how such a change should be accounted for and what information should be disclosed about the change. An entity shall not change its accounting policy from (a) to (b) or from (c) to (b), except to make the entity's accounting policies consistent with those adopted in the **consolidated financial statements** in which the entity is included.

[*footnote] ~~Until IAS 39 *Financial Instruments: Recognition and Measurement* is fully superseded by IFRS 9 *Financial Instruments* (ie for all entities, including insurers), an entity shall apply the version of IAS 39 that is in effect at the entity's reporting date. When IAS 39 is fully superseded by IFRS 9, an~~ An entity shall apply the version of IAS 39 *Financial Instruments: Recognition and Measurement* that applied immediately prior to IFRS 9 *Financial Instruments* ~~fully~~ superseding IAS 39. ~~A copy of that version will be retained for reference on the FRC website. Entities shall apply the so-called 'EU carve-out' of IAS 39', which amended paragraph 81A and related Application Guidance in IAS 39.~~

115 In paragraph 11.3 the term 'contract' is now shown in bold type.

116 Paragraph 11.7 is amended as follows:

11.7 This section applies to all financial instruments meeting the conditions of paragraph 11.8 except for:

(a) Investments in **subsidiaries**, **associates** and **joint ventures** (see Sections 9 *Consolidated and Separate Financial Statements*, 14 *Investments in Associates* and 15 *Investments in Joint Ventures*).

(b) Financial instruments that meet the definition of an entity's own equity and the equity component of **compound financial instruments** issued by the reporting entity that contain both a **liability** and an equity component (see Section 22 *Liabilities and Equity*).

(c) **Leases** (see Section 20 *Leases*). However, the derecognition requirements in paragraphs 11.33 to 11.35 and impairment accounting requirements in paragraphs 11.21 to 11.26 apply to derecognition and impairment of receivables recognised by a lessor and the derecognition requirements in paragraphs 11.36 to 11.38 apply to ~~payables recognised by a lessee arising under a **finance lease**~~ lease liabilities. Section 12 applies to leases with characteristics specified in paragraph 12.3(f).

(d) Employers' rights and obligations under employee benefit plans (see Section 28 *Employee Benefits*), although ~~the Appendix to Section 2 Concepts and Pervasive Principles~~ Section 2A *Fair Value Measurement* does apply in determining the **fair value** of **plan assets**.

(e) Financial instruments, contracts and obligations to which Section 26 *Share-based Payment* applies, and contracts within the scope of paragraph 12.5.

(f) **Insurance contracts** (including **reinsurance contracts**) that the entity issues and reinsurance contracts that the entity holds (see **FRS 103**).

(g) Financial instruments issued by an entity with a **discretionary participation feature** (see FRS 103).

(h) Reimbursement assets (see Section 21 *Provisions and Contingencies*).

(i) **Financial guarantee contracts** (see Section 21).

(j) Rights and obligations within the scope of Section 23 *Revenue from Contracts with Customers* that are financial instruments, except for receivables and those that Section 23 specifies are accounted for in accordance with this section.

117 Paragraph 11.9 is amended as follows (the sequentially numbered footnote in this paragraph is not presented here and is unchanged by this amendment):

11.9 A debt instrument that satisfies the following conditions shall be considered a basic financial instrument:

(a) The contractual return to the holder (the lender), assessed in the currency in which the debt instrument is denominated, is:

(i) a fixed amount;

(ii) a positive fixed rate or a positive variable rate[48]; or

(iii) [Deleted]

(iv) a combination of a positive variable rate and a positive or a negative fixed rate ~~and a positive variable rate~~ (eg ~~LIBOR~~ SONIA plus 200 basis points or ~~LIBOR~~ SONIA less 50 basis points, but not 500 basis points less ~~LIBOR~~ SONIA).

(aA) The contract may provide for repayments of the principal or the return to the holder (but not both) to be linked to a single relevant observable index of general price inflation of the currency in which the debt instrument is denominated, provided such links are not leveraged.

(aB) The contract may provide for a determinable variation of the return to the holder during the life of the instrument, provided that:

(i) the new rate satisfies condition (a) and the variation is not contingent on future events other than:

(1) a change of a contractual variable rate;

(2) to protect the holder against credit deterioration of the issuer; or

(3) changes in levies applied by a central bank or arising from changes in relevant taxation or law; or

(ii) the new rate is a market rate of interest and satisfies condition (a).

Contractual terms that give the lender the unilateral option to change the terms of the contract are not determinable for this purpose.

(b) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods. The fact that a debt instrument is subordinated to other debt instruments is not an example of such a contractual provision.

(c) Contractual provisions that permit the issuer (the borrower) to prepay a debt instrument or permit the holder (the lender) to put it back to the issuer before maturity are not contingent on future events other than to protect:

(i) the holder against the credit deterioration of the issuer (eg defaults, credit downgrades or loan covenant violations), or a change in control of the issuer; or

(ii) the holder or issuer against changes in levies applied by a central bank or arising from changes in relevant taxation or law.

The inclusion of contractual terms that, as a result of the early termination, require reasonable compensation for the early termination to be paid by either the holder or the issuer does not, in itself, constitute a breach of the conditions in paragraph 11.9.

(d) [Deleted]

(e) Contractual provisions may permit the extension of the term of the debt instrument, provided that the return to the holder and any other contractual provisions applicable during the extended term satisfy the conditions of paragraphs (a) to (c).

118 Example 6 following paragraph 11.9A is amended as follows:

11.9A ...

Examples – Debt instruments

...

6 **Interest on a loan is charged at 10 per cent less 6-month ~~LIBOR~~ <u>interbank offered rate (IBOR)</u> over the life of the loan**

The effect of deducting a variable rate from a positive fixed rate is that the interest on the loan increases as and when the variable rate decreases and vice versa (so called inverse floating interest).

In accordance with paragraph 11.9(a)(iv) the combination of positive or negative fixed rate and positive variable rate is a permitted return. The variable rate (6-month ~~LIBOR~~ IBOR) meets the definition of a variable rate, as the rate is a quoted interest rate. However, since the variable rate is negative (minus 6-month ~~LIBOR~~ IBOR), the rate is in breach of the condition in paragraph 11.9(a)(iv).

The inverse floating interest rate is also inconsistent with the description in paragraph 11.9A because the interest charged increases when reasonable compensation for the time value of money, credit risk or other basic lending risks and costs would decrease, and vice versa. The instrument is measured at fair value in accordance with Section 12.

...

119 Paragraph 11.13A is amended as follows (the sequentially numbered footnotes in this paragraph are not presented here and are unchanged by this amendment):

11.13A As an exception to paragraph 11.13, the following financing transactions may be measured initially at transaction price:

(a) a basic financial liability of a **small entity** that is a loan from a person who is within a director's group of close family members[49], when that group contains at least one shareholder[50] in the entity; ~~and~~

(b) a public benefit entity concessionary loan (see paragraph PBE11.1A)~~.~~; and

(c) a trade receivable or **contract asset** when, at contract inception, payment is expected within 12 months or less from when the entity transfers the good or service (see paragraph 23.60).

120 Paragraph 11.14 is amended as follows:

11.14 At the end of each **reporting period**, an entity shall measure financial instruments as follows, without any deduction for transaction costs the entity may incur on sale or other disposal:

(a) Debt instruments that meet the conditions in paragraph 11.8(b) or paragraph 11.8(bA) shall be measured at **amortised cost** using the **effective interest method**. Paragraphs 11.15 to 11.20 provide guidance on determining amortised cost using the effective interest method.

(i) For a financing transaction measured initially at transaction price in accordance with paragraph 11.13A, the **effective interest rate** is the interest rate implicit in the contract, which may be zero.

(ii) For a non-interest bearing debt instrument that is payable or receivable within one year on normal business terms, amortised cost shall be measured at the undiscounted amount of the cash or other consideration expected to be paid or received (ie net of impairment – see paragraphs 11.21 to 11.26).

(iii) For a financing transaction (see paragraph 11.13) that is not accounted for in accordance with paragraph 11.13A the effective interest rate is the market rate of interest for a similar debt instrument used to determine initial measurement adjusted to amortise directly attributable transaction costs.

(b) Debt instruments that meet the conditions in paragraph 11.8(b) or paragraph 11.8(bA) and commitments to receive a loan and to make a loan to another entity that meet the conditions in paragraph 11.8(c) may upon their initial recognition be designated by the entity as at fair value through profit or loss (~~the Appendix to Section 2~~ Section 2A provides guidance on determining fair value) provided doing so results in more relevant information, because either:

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

(ii) a group of debt instruments or financial assets and debt instruments is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's **key management personnel** (as defined in Section *33 Related Party Disclosures*, paragraph 33.6), for example members of the entity's board of directors and its chief executive officer.

(c) Commitments to receive a loan and to make a loan to another entity that meet the conditions in paragraph 11.8(c) shall be measured at cost (which sometimes is nil) less impairment.

(d) Investments in non-derivative financial instruments that are equity of the issuer shall be measured as follows (~~the Appendix to Section 2~~ Section 2A provides guidance on determining fair value):

For investments in another **group** entity that are within the scope of this section, the following accounting policy choice shall apply to all investments in a single class, either:

(i) at cost less impairment;

(ii) at fair value with changes in fair value recognised in **other comprehensive income** (or profit or loss) in accordance with paragraphs ~~17.5E~~ 17.15E and 17.15F; or

(iii) at fair value with changes in fair value recognised in profit or loss.

For all other investments:

(iv) if the instruments are **publicly traded** or their fair value can otherwise be measured reliably (see paragraph ~~2A.4~~ 2A.19), the investment shall be measured at fair value with changes in fair value recognised in profit or loss; and

(v) all other such investments shall be measured at cost less impairment.

Impairment or uncollectability must be assessed for financial assets in (a), (c), (d)(i) and (d)(v) above. Paragraphs 11.21 to 11.26 provide guidance.

121 Paragraph 11.14A is inserted as follows:

11.14A Dividend income from investments in non-derivative financial instruments that are equity of the issuer is recognised in profit or loss only when:

(a) the entity's right to receive payment is established;

(b) it is **probable** that the economic benefits associated with the dividend will flow to the entity; and

(c) the amount of the dividend can be measured reliably.

122 In paragraph 11.22 the term 'probable' is no longer shown in bold type.

123 Paragraph 11.25 is amended as follows:

11.25 An entity shall measure an impairment loss on the following instruments measured at cost or amortised cost as follows:

(a) For an instrument measured at amortised cost in accordance with paragraph 11.14(a), the impairment loss is the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If such a financial instrument has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

(b) For an instrument measured at cost less impairment in accordance with paragraphs 11.14(c) ~~and (d)(ii)~~, (d)(i) or (d)(v) the impairment loss is the difference between the asset's carrying amount and the best estimate (which will necessarily be an approximation) of the amount (which might be zero) that the entity would receive for the asset if it were to be sold at the reporting date.

124 Paragraphs 11.27 to 11.32 are amended as follows:

11.27-11.32 ~~[Moved to paragraphs 2A.1 to 2A.6]~~[Deleted]

125 Paragraph 11.39A is inserted as follows:

11.39A As described in paragraph 12.26, the following disclosure requirements apply to financial instruments that are within the scope of Section 12 as well as those within the scope of this section.

126 Paragraph 11.40 is amended as follows:

11.40 In accordance with paragraph 8.5, an entity shall disclose ~~in its significant accounting policies, the measurement basis (or bases) used for financial instruments and the other accounting policies used for financial instruments that are relevant to an understanding of the **financial statements**.~~ **material** accounting policy information, including the measurement basis (or bases) for financial instruments used in preparing the **financial statements** (including the accounting policy choice made in accordance with paragraph 11.2).

127 The sub-heading above paragraph 11.45 is amended as follows:

~~Derecognition~~Transferred financial assets that do not qualify for derecognition

128 The sub-heading and paragraphs 11.48ZA and 11.48ZB are inserted immediately after paragraph 11.48 as follows:

Quantitative and qualitative information about amounts arising from expected credit losses

11.48ZA When an entity has made the accounting policy choice in paragraphs 11.2(c) and 12.2(c) to apply the recognition and measurement provisions of IFRS 9, the entity shall explain the inputs, assumptions and estimation techniques used to determine expected credit losses. For this purpose the entity shall disclose:

(a) the basis of inputs and assumptions and the estimation techniques used to measure the expected credit losses;

(b) how forward-looking information has been incorporated into the determination of expected credit losses, including the use of macroeconomic information; and

(c) changes in the estimation techniques or significant assumptions made during the reporting period and the reasons for those changes.

11.48ZB To explain the changes in the allowance for expected credit losses and the reasons for those changes, an entity that has made the accounting policy choice in paragraphs 11.2(c) and 12.2(c) to apply the recognition and measurement provisions of IFRS 9 shall provide a reconciliation from the opening balance to the closing balance of the allowance, in a table. Paragraph 34.21A(b) sets out a similar requirement for financial institutions.

129 Paragraph 11.48A is amended as follows (the sequentially numbered footnote in this paragraph is not presented here and is unchanged by this amendment):

* 11.48A An entity in the UK, including an entity that is not a company, shall provide the following disclosures ~~only~~ for financial instruments measured at fair value through profit or loss in accordance with paragraph 36(4) of Schedule 1 to the **Regulations**[51]. This does not include financial liabilities held as part of a trading portfolio nor financial liabilities that are derivatives. ~~The required disclosures are:~~

An entity in the Republic of Ireland shall provide the following disclosures for financial instruments measured at fair value through profit or loss.

The required disclosures are:

(a) For a financial liability designated as at fair value through profit or loss, the amount of change, during the period and cumulatively, in the fair value of the financial instrument that is attributable to changes in the credit risk of that instrument, determined either:

(i) as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to **market risk**; or

(ii) using an alternative method the entity believes more faithfully represents the amount of change in its fair value that is attributable to changes in the credit risk of the instrument.

(b) The method used to establish the amount of change attributable to changes in own credit risk, or, if the change cannot be measured reliably or is not ~~**material**~~ material, that fact.

(c) For a financial liability, the difference between the financial liability's carrying amount and the amount the entity would be contractually required to pay at maturity to the holder of the obligation.

(d) If an instrument contains both a liability and an equity feature, and the instrument has multiple features that substantially modify the cash flows and the values of those features are interdependent (such as a callable convertible debt instrument), the existence of those features.

(e) If there is a difference between the fair value of a financial instrument at initial recognition and the amount determined at that date using a valuation technique, the aggregate difference yet to be recognised in profit or loss at the beginning and end of the period and a reconciliation of the changes in the balance of this difference.

(f) Information that enables users of the entity's financial statements to evaluate the nature and extent of relevant risks arising from financial instruments to which the entity is exposed at the end of the reporting period. These risks typically include, but are not limited to, credit risk, liquidity risk and market risk. The disclosure should include both the entity's exposure to each type of risk and how it manages those risks.

Amendments to Section 12
Other Financial Instruments Issues

130 The following paragraphs set out the amendments to Section 12 *Other Financial Instruments Issues* (deleted text is struck through, inserted text is underlined).

131 Paragraph PBE12.1A is amended as follows:

PBE12.1A **Public benefit entities** and other members of a **public benefit entity group** that make or receive **public benefit entity concessionary loans** shall refer to the relevant paragraphs of Section 34 *Specialised Activities* for the accounting requirements for such loans, irrespective of the **accounting policy** choice made in accordance with paragraph 12.2.

132 Paragraph 12.2 and its sequentially numbered footnote are amended as follows:

12.2 An entity shall choose to apply either:

(a) the provisions of both Section 11 and Section 12 in full; or

(b) the recognition and measurement provisions of IAS 39 *Financial Instruments: Recognition and Measurement* (as adopted in the relevant jurisdiction)[*footnote], the disclosure requirements of Sections 11 and 12 and the presentation requirements of paragraphs 11.38A and 12.25W; or

(c) the recognition and measurement provisions of IFRS 9 *Financial Instruments* (as adopted in the relevant jurisdiction) and IAS 39 (as amended following the publication of IFRS 9), the disclosure requirements of Sections 11 and 12 and the presentation requirements of paragraph 11.38A and 12.25W;

to account for all of its financial instruments. Where an entity chooses (b) or (c) it applies the scope of the relevant standard to its financial instruments. An entity's choice of (a), (b) or (c) is an ~~**accounting policy**~~ accounting policy choice. Paragraphs 10.8 to 10.14 contain requirements for determining when a change in accounting policy is appropriate, how such a change should be accounted for and what information should be disclosed about the change in accounting policy. An entity shall not change its accounting policy from (a) to (b) or from (c) to (b), except to make the entity's accounting policies consistent with those adopted in the **consolidated financial statements** in which the entity is included.

[*footnote] ~~Until IAS 39 *Financial Instruments: Recognition and Measurement* is fully superseded by IFRS 9 *Financial Instruments* (ie for all entities, including insurers), an entity shall apply the version of IAS 39 that is in effect at the entity's reporting date. When IAS 39 is fully superseded by IFRS 9, an~~ An entity shall apply the version of IAS 39 *Financial Instruments: Recognition and Measurement* that applied immediately prior to IFRS 9 *Financial Instruments* ~~fully~~ superseding IAS 39.~~ A copy of that version will be retained for reference on the FRC website. Entities shall apply the so-called 'EU carve-out' of IAS 39', which amended paragraph 81A and related Application Guidance in IAS 39.~~

133 Paragraph 12.3 is amended as follows:

12.3 This section applies to all financial instruments except for:

(a) Those covered by Section 11.

(b) Investments in **subsidiaries** (see Section 9 *Consolidated and Separate Financial Statements*), **associates** (see Section 14 *Investments in Associates*) and **joint ventures** (see Section 15 *Investments in Joint Ventures*).

(c) Employers' rights and obligations under employee benefit plans (see Section 28 *Employee Benefits*).

(d) **Insurance contracts** (including **reinsurance contracts**) that the entity issues and reinsurance contracts that the entity holds (see **FRS 103**).

(e) Financial instruments that meet the definition of an entity's own **equity** and the equity component of **compound financial instruments** issued by the reporting entity that contain both a **liability** and an equity component (see Section 22 *Liabilities and Equity*).

(f) **Leases** (see Section 20 *Leases*) unless the lease could, as a result of non-typical contractual terms, result in a loss to the lessor or the lessee.

(g) ~~Contracts~~ **Contracts** for contingent consideration in a **business combination** (see Section 19 *Business Combinations and Goodwill*). This exemption applies only to the acquirer.

(h) Any forward contract between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination at a future **acquisition date**. The term of the forward contract should not exceed a reasonable period normally necessary to obtain any required approvals and to complete the transaction.

(i) Financial instruments, contracts and obligations to which Section 26 *Share-based Payment* applies, except for contracts within the scope of paragraph 12.5.

(j) Financial instruments issued by an entity with a **discretionary participation feature** (see FRS 103).

(k) Reimbursement assets (see Section 21 *Provisions and Contingencies*).

(l) **Financial guarantee contracts** (see Section 21).

(m) Rights and obligations within the scope of Section 23 *Revenue from Contracts with Customers* that are financial instruments, except for receivables.

134 Paragraph 12.9A is inserted as follows:

12.9A Dividend income from investments in non-derivative financial instruments that are equity of the issuer is recognised in profit or loss only when:

(a) the entity's right to receive payment is established;

(b) it is **probable** that the economic benefits associated with the dividend will flow to the entity; and

(c) the amount of the dividend can be measured reliably.

135 Paragraph 12.10 is amended as follows:

12.10 An entity shall apply the guidance on determining fair value in ~~the Appendix to Section 2 *Concepts and Pervasive Principles*~~ Section 2A *Fair Value Measurement* to fair value measurements in accordance with this section as well as for fair value measurements in accordance with Section 11.

136 Paragraph 12.11 is amended as follows:

12.11 ~~The fair value of a financial liability that is due on demand is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.~~[Moved to paragraph 2A.14]

137 In paragraph 26.16A the term 'consolidated financial statements' is no longer shown in bold type.

138 Paragraph 12.16C is amended as follows:

12.16C A component of an item comprises less than the entire fair value change or **cash flow** variability of an item. The following components of an item (including combinations thereof) may be a hedged item:

(a) changes in the cash flows or fair value attributable to a separately identifiable and reliably ~~measureable~~ measurable specific risk or risks, including cash flow and fair value changes above or below a specified price or other variable;

(b) one or more selected contractual cash flows; or

(c) a specified part of the nominal amount of an item.

139 Paragraph 12.26 is amended as follows:

12.26 An entity applying this section shall make all of the disclosures required ~~in~~ by Section 11 including, when relevant, those required by paragraph 11.48A. It shall incorporate ~~incorporating~~ in those disclosures~~,~~ financial instruments ~~that are~~ within the scope of this section as well as those within the scope of Section 11. ~~For financial instruments in the scope of this section that are not held as part of a trading portfolio and are not derivative instruments, an entity shall provide additional disclosures as set out in paragraph 11.48A.~~ In addition, if the entity uses hedge accounting, it shall make the additional disclosures in paragraphs 12.27 to ~~12.29A~~ 12.30.

140 The following sub-heading is inserted above paragraph 12.27 as follows:

Hedge accounting

Appendix *Examples of hedge accounting* to Section 12

141 Paragraph 12A.3 is amended as follows:

12A.3 On 1 January 20X5, an entity borrows CU10,000,000 from a bank at a floating rate of 3-month ~~LIBOR~~ interbank offered rate (IBOR) plus 2.5 per cent. The interest is payable annually in arrears on 31 December. The loan is repayable on 31 December 20X7.

On 1 January 20X5 the entity also enters into an interest rate swap with a third party, under which it receives 6-month ~~LIBOR~~ IBOR and pays a fixed rate of interest of 4.5 per cent. The notional amount of the swap is CU10,000,000. The swap is settled annually in arrears on 31 December and expires on 31 December 20X7.

The ~~LIBOR~~ IBOR rates on the loan and the interest rate swap are reset and fixed annually in advance on 31 December based on the expected ~~LIBOR~~ IBOR rates applicable at that time. Note that in practice the loan and swap interest rates would be reset more frequently than assumed for the purpose of simplification in this example.

The entity hedges the variability of the interest rate payments on the bank loan based on 3-month ~~LIBOR~~ IBOR. It should be noted that because the entity receives interest based on 6-month ~~LIBOR~~ IBOR under the interest rate swap, ineffectiveness will arise because the expected cash flows of the hedged item and the hedging instrument differ. The fair value of the interest rate swap may be affected by other factors that cause ineffectiveness, for example counter party credit risk, but these have been disregarded in this example.

There are no transaction costs.

The entity's financial year ends on 31 December.

This example assumes that the qualifying conditions for hedge accounting in paragraph 12.18 are met from 1 January 20X5.

The table in paragraph 12A.5 summarises the impact of hedge accounting on the interest rate swap, profit or loss and other comprehensive income.

The table below sets out the applicable ~~LIBOR~~ IBOR rates, interest payments and swap settlements. The fair values of the interest rate swap and the hedged item shown in the table are shown for illustrative purposes only.

Note that in practice, when forecasted variable interest rate payments are the hedged item, the fair value of a hypothetical swap, that would be expected to perfectly offset the hedged cash flows, is used as a proxy of the fair value of the hedged item. The hypothetical derivative in this scenario is a fixed to floating interest rate swap with terms that match those of the loan and a fixed rate of 4.3 per cent, which for the purpose of this example, is the interest rate where the fair value of the hypothetical swap is nil at the inception of the hedging relationship.

	1 Jan 20X5	**31 Dec 20X5**	**31 Dec 20X6**	**31 Dec 20X7**
Actual 3-month ~~LIBOR~~ IBOR	4.3%	5%	3%	n/a
Actual 6-month ~~LIBOR~~ IBOR	4.5%	4.9%	3.2%	n/a
Interest payments based on 3-month ~~LIBOR~~ IBOR	n/a	CU10m x (4.3% + 2.5%) = CU680,000	CU10m x (5% + 2.5%) = CU750,000	CU10m x (3% + 2.5%) = CU550,000
Interest rate swap (hedging instrument)				
Fair value	nil	CU78,000	(CU89,000)†	(CU130,000)‡
Fair value change	nil	CU78,000 – 0 = CU78,000	(CU89,000) – CU78,000 = (CU167,000)	(CU130,000) – (CU40,000)§ – (CU89,000) = (CU1,000)
Swap settlement receipts/ (payments) based on 6-month ~~LIBOR~~ IBOR	n/a	CU10m x (4.5% – 4.5%) = nil	CU10m x (4.9% – 4.5%) = CU40,000	CU10m x (3.2% – 4.5%) = (CU130,000)
Hedged item				
Fair value	nil	(CU137,000)	CU59,000	CU130,000

Key to table:

† This valuation is determined before the receipt of the cash settlement of CU40,000 due on 31 December 20X6.

‡ This valuation is determined before the payment of the cash settlement of CU130,000 due on 31 December 20X7.

§ CU40,000 is the settlement of the interest rate swap as at 31 December 20X6 which affects the fair value of the swap, but is not included in the fair value of the swap at 31 December 20X6 of CU89,000.

142 Paragraph 12A.4 is amended as follows:

12A.4 Hedge accounting:

31 December 20X5

(1) In accordance with paragraph 12.23(a), the cash flow hedge reserve is adjusted to the lower of (in absolute amounts) the cumulative gain on the hedging instrument (ie the interest rate swap), which equals its fair value, of CU78,000 and the cumulative change in fair value of the hedged item, which equals its fair value of (CU137,000).

In accordance with paragraph 12.23(b), the gain of CU78,000 on the interest rate swap is recognised in other comprehensive income.

(2) The fixed interest element on the hypothetical swap is CU430,000, the same amount as the variable rate component. The variability of the 3-month ~~LIBOR~~ IBOR did therefore not affect profit or loss during the period. The reclassification adjustment in accordance with paragraph 12.23(d)(ii) is nil. (Note that no accounting entry is shown below.)

Note A: For illustrative purposes the accounting entry for interest payments is shown below. Note that in practice the accrual and payment of interest may be recorded in separate accounting entries.

Accounting entries:

Note that the accounting entries shown are only those relevant to demonstrate the effects of hedge accounting. In practice other accounting entries would be required, eg an entry to recognise the loan liability.

Ref		Debit	Credit
(1)	Interest rate swap	CU78,000	
	Other comprehensive income		CU78,000
(A)	Profit or loss	CU680,000	
	Cash		CU680,000

31 December 20X6

(1) In accordance with paragraph 12.23(a), the cash flow hedge reserve is adjusted to the lower of (in absolute amounts) the cumulative loss on the hedging instrument (ie the interest rate swap) which equals its fair value of (CU89,000) and the cumulative change in fair value of the hedged item, which equals its fair value of CU59,000. The cash flow hedge reserve moves from CU78,000 to (CU59,000), a change of (CU137,000).

In accordance with paragraph 12.23(b), a loss of CU137,000 on the interest rate swap is recognised in other comprehensive income, as this part of the loss is fully off-set by the change in the cash flow hedge reserve. The remainder of the loss on the interest rate swap of CU30,000 is recognised in profit or loss, as required by paragraph 12.23(c).

(2) The fixed interest element on the hypothetical swap is CU430,000, whilst the variable rate component is CU500,000. The variability of the 3-month ~~LIBOR~~ IBOR affects profit or loss during the period by CU70,000. Accordingly, the reclassification adjustment in accordance with paragraph 12.23(d)(ii) is CU70,000.

Note A: For illustrative purposes the accounting entry for interest payments is shown below. Note that in practice the accrual and payment of interest may be recorded in separate accounting entries.

Note B: For illustrative purposes the accounting entry for the settlement of the swap is shown below.

Accounting entries:

Ref		Debit	Credit
(1)	Other comprehensive income	CU137,000	
	Profit or loss	CU30,000	
	Interest rate swap		CU167,000
(2)	Other comprehensive income	CU70,000	
	Profit or loss		CU70,000
(A)	Profit or loss	CU750,000	
	Cash		CU750,000
(B)	Cash	CU40,000	
	Interest rate swap		CU40,000

31 December 20X7

(1) In accordance with paragraph 12.23(a), the cash flow hedge reserve is adjusted to the lower of (in absolute amounts) the cumulative loss on the hedging instrument (ie the interest rate swap) which equals the fair value of (CU130,000) and the cumulative change in fair value of the hedged item, which equals its fair value of CU130,000.

The cash flow hedge reserve moves from (CU129,000) to (CU130,000), a change of (CU1,000). In accordance with paragraph 12.23(b), the loss of CU1,000 on the interest rate swap is recognised in other comprehensive income.

(2) The fixed interest element on the hypothetical swap is CU430,000, whilst the variable rate component is CU300,000. The variability of the 3-month ~~LIBOR~~ IBOR affects profit or loss during the period by (CU130,000). Accordingly, the reclassification adjustment in accordance with paragraph 12.23(d)(ii) is (CU130,000).

Note A: For illustrative purposes the accounting entry for interest payments is shown below. Note that in practice the accrual and payment of interest may be recorded in separate accounting entries.

Note B: For illustrative purposes the accounting entry for the settlement of the swap is shown below.

Accounting entries:

Ref		Debit	Credit
(1)	Other comprehensive income	CU1,000	
	Interest rate swap		CU1,000
(2)	Profit or loss	CU130,000	
	Other comprehensive income		CU130,000
(A)	Profit or loss	CU550,000	
	Cash		CU550,000
(B)	Interest rate swap	CU130,000	
	Cash		CU130,000

Amendments to Section 13 *Inventories*

143 The following paragraphs set out the amendments to Section 13 *Inventories* (deleted text is struck through, inserted text is underlined).

144 Paragraph 13.2 is amended as follows:

13.2 This section applies to **inventories**, except:

(a) ~~work in progress arising under **construction contracts**, including directly related service contracts (see Section 23 Revenue);~~[Deleted]

(b) **financial instruments** (see Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instruments Issues*); and

(c) **biological assets** related to **agricultural activity** and **agricultural produce** at the point of harvest (see Section 34 *Specialised Activities*).

145 Paragraph 13.2A is inserted as follows:

13.2A This section applies to the presentation and disclosure of refund assets held in inventory representing expected product returns. An entity shall recognise and measure refund assets in accordance with paragraphs 23.51 to 23.57.

146 In paragraph 13.3 the term 'fair value less costs to sell' is no longer shown in bold type, and the term 'fair value' is shown in bold type.

147 Paragraph 13.8 is amended as follows:

13.8 The costs of conversion of inventories include costs directly related to the units of production, such as direct labour. They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. Fixed production overheads are those indirect costs of production that remain relatively constant regardless of the volume of production, such as **depreciation** and maintenance of factory buildings, ~~and~~ equipment and **right-of-use assets** used in the production process, and the cost of factory management and administration. Variable production overheads are those indirect costs of production that vary directly, or nearly directly, with the volume of production, such as indirect materials and indirect labour.

148 Paragraph 13.15 is amended as follows:

13.15 Section 34 requires that inventories comprising agricultural produce that an entity has harvested from its biological assets should be measured on initial **recognition**, at the point of harvest, at either their fair value less ~~estimated~~ costs to sell or the lower of cost and estimated selling price less costs to complete and sell. This becomes the cost of the inventories at that date for application of this section.

Amendments to Section 14 *Investments in Associates*

149 The following paragraphs set out the amendments to Section 14 *Investments in Associates* (deleted text is struck through, inserted text is underlined).

150 Paragraph 14.3A is inserted as follows:

14.3A 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 associate;

(b) participation in policy-making processes, including participation in decisions about dividends or other distributions;

(c) material transactions between the investor and its associate;

(d) interchange of managerial personnel; or

(e) provision of essential technical information.

The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other investors, are also considered when assessing whether an investor has significant influence. Potential voting rights are not currently exercisable or convertible when, for example, they cannot be exercised or converted until a future date or until the occurrence of a future event.

151 Paragraph 14.4 is amended as follows:

14.4 An investor that is not a parent but that has an investment in one or more associates shall, in its individual financial statements, account for all of its investments in associates using either:

(a) the cost model in accordance with paragraphs 14.5 to 14.6;

(b) [Deleted]

(c) at **fair value** in accordance with paragraphs 14.9 to 14.10A; or

(d) at fair value with changes in fair value recognised in **profit or loss**.

~~The Appendix to Section 2 *Concepts and Pervasive Principles*~~ Section 2A *Fair Value Measurement* provides guidance on determining fair value.

152 Paragraph 14.8 is amended as follows:

14.8 Under the equity method of accounting, an equity investment is initially recognised at the transaction price (including **transaction costs**) and is subsequently adjusted to reflect the investor's share of the profit or loss, **other comprehensive income** and **equity** of the associate.

(a) *Distributions and other adjustments to carrying amount.* Distributions received from the associate reduce the **carrying amount** of the investment. Adjustments to the carrying amount may also be required as a consequence of changes in the associate's equity arising from items of other comprehensive income.

(b) *Potential voting rights.* Although potential voting rights are considered in deciding whether significant influence exists, an investor shall measure its share of profit or loss and other comprehensive income of the associate and its share of changes in the associate's equity on the basis of present ownership interests. Those measurements shall not reflect the possible exercise or conversion of potential voting rights.

(c) *Implicit goodwill and fair value adjustments*. On acquisition of the investment in an associate, an investor shall account for any difference (whether positive or negative) between the cost of acquisition and the investor's share of the fair values of the net identifiable assets of the associate in accordance with paragraphs 19.22 to 19.24. An investor shall adjust its share of the associate's profits or losses after acquisition to account for additional **depreciation** or **amortisation** of the associate's depreciable or amortisable assets (including **goodwill**) on the basis of the excess of their fair values over their carrying amounts at the time the investment was acquired.

(d) ~~*Impairment.* If there is an indication that an investment in an associate may be impaired, an investor shall test the entire carrying amount of the investment impairment in accordance with Section 27 as a single **asset**. Any goodwill included as part of the carrying amount of the investment in the associate is not tested separately for impairment but, rather, as part of the test for impairment of the investment as a whole.~~[Moved to paragraph 14.8A and amended]

(e) *Investor's transactions with associates.* The investor shall eliminate unrealised profits and losses resulting from upstream (associate to investor) and downstream (investor to associate) transactions to the extent of the investor's existing ownership interest in the associate. Unrealised losses on such transactions may provide evidence of an impairment of the ~~asset~~ **asset** transferred.

(f) *Date of associate's financial statements*. In applying the equity method, the investor shall use the financial statements of the associate as of the same date as the **financial statements** of the investor unless it is **impracticable** to do so. If it is impracticable, the investor shall use the most recent available financial statements of the associate, with adjustments made for the effects of any significant transactions or events occurring between the accounting period ends.

(g) *Associate's accounting policies*. If the associate uses **accounting policies** that differ from those of the investor, the investor shall adjust the associate's financial statements to reflect the investor's accounting policies for the purpose of applying the equity method unless it is impracticable to do so.

(h) *Losses in excess of investment.* If an investor's share of losses of an associate equals or exceeds the carrying amount of its ~~investment~~ interest in the associate, the investor shall discontinue recognising its share of further losses. The interest in an associate is the carrying amount of the investment determined using the equity method together with any financial instruments that in substance form part of the investor's net investment in the associate (see paragraph 14.8A). Losses recognised using the equity method in excess of the entity's investment in ordinary shares are applied to the other components of the entity's interest in an associate in the reverse order of their seniority (ie priority in liquidation). After the investor's interest is reduced to zero, the investor shall recognise additional losses by a **provision** (see Section 21 *Provisions and Contingencies*) only to the extent that the investor has incurred legal or **constructive obligations** or has made payments on behalf of the associate. If the associate subsequently reports profits, the investor shall resume recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

(i) *Discontinuing the equity method.* An investor shall cease using the equity method from the date that significant influence ceases and, provided the associate does not become a subsidiary in accordance with Section 19 *Business Combinations and Goodwill* or a joint venture in accordance with Section 15 *Investments in Joint Ventures*, shall account for the investment as follows:

(i) If the investor loses significant influence over an associate as a result of a full or partial disposal, it shall derecognise that associate and recognise in profit or loss the difference between the proceeds from the disposal and the carrying amount of the investment in the associate relating to the proportion disposed of or lost at the date significant influence is lost. The investor shall account for any retained interest using Section 11 *Basic Financial Instruments* or Section 12 *Other Financial Instruments Issues*, as appropriate. The carrying amount of the investment at the date that it ceases to be an associate shall be regarded as its cost on initial **measurement** as a **financial asset**; and

(ii) If an investor loses significant influence for reasons other than a partial disposal of its investment, the investor shall regard the carrying amount of the investment at that date as a new cost basis and shall account for the investment using Sections 11 or 12, as appropriate.

The gain or loss arising on the disposal shall also include those amounts that have been recognised in other comprehensive income in relation to that associate, where those amounts are required to be reclassified to profit or loss upon disposal in accordance with other sections of this FRS. Amounts that are not required to be reclassified to profit or loss upon disposal of the related assets or **liabilities** in accordance with other sections of this FRS shall be transferred directly to retained earnings.

153 Paragraph 14.8A is inserted as follows:

14.8A If there is an indication that an interest in an associate may be impaired, an investor shall test the entire carrying amount of the interest, including financial instruments that in substance form part of the investor's net investment in the associate, for impairment in accordance with Section 27 as a single asset. Any goodwill included as part of the carrying amount of the investment in the associate is not tested separately for impairment but, rather, as part of the test for impairment of the investment as a whole. A financial instrument for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, part of the investor's net investment (eg this may include preference shares or long-term receivables or loans, but does not include trade receivables, trade payables or any long-term receivables for which adequate collateral exists, such as secured loans). An investor shall apply Section 11 or Section 12, as applicable, to any such financial instrument before it applies this paragraph or paragraph 14.8(h). In applying Section 11 or 12, the entity does not take account of any adjustments to the carrying amount of an interest in an associate that arise from applying this Section.

154 Paragraph 14.10 is amended as follows:

14.10 At each **reporting date**, investments in associates shall be measured at fair value using the fair value guidance in ~~the Appendix to Section 2~~ Section 2A. Changes in fair value shall be recognised in other comprehensive income (or profit or loss) in accordance with paragraphs 17.15E and 17.15F.

155 Paragraph 14.12 is amended as follows:

14.12 The financial statements shall disclose:

(a) the accounting policy for investments in associates;

(b) the carrying amount of investments in associates; and

(c) the fair value of ~~investments~~ each investment in ~~associates accounted~~ an associate, if a market price for the investment is quoted and the entity accounts for the associate using the equity method ~~for which there are published price quotations~~.

156 Paragraph 14.13 is amended as follows:

14.13 For investments in associates accounted for ~~in accordance with~~ using the cost model, an investor shall disclose the amount of dividends and other distributions recognised as income.

157 Paragraph 14.14 is amended as follows:

14.14 For investments in associates accounted for ~~in accordance with~~ using the equity method, an investor shall disclose separately its share of the profit or loss of such associates and its share of any **discontinued operations** of such associates.

Amendments to Section 15
Investments in Joint Ventures

158 The following paragraphs set out the amendments to Section 15 *Investments in Joint Ventures* (deleted text is struck through, inserted text is underlined).

159 Paragraph 15.5 is amended as follows:

15.5 In respect of its interests in jointly controlled operations, a venturer shall recognise in its **financial statements**:

(a) the assets that it controls and the liabilities that it incurs; and

(b) the expenses that it incurs and its share of the ~~**income**~~ revenue that it earns from the sale of goods or services by the joint venture.

160 Paragraph 15.7 is amended as follows:

15.7 In respect of its interest in a jointly controlled asset, a venturer shall recognise in its financial statements:

(a) its share of the jointly controlled assets, classified according to the nature of the assets;

(b) any liabilities that it has incurred;

(c) its share of any liabilities incurred jointly with the other venturers in relation to the joint venture;

(d) any ~~income~~ revenue from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture; and

(e) any expenses that it has incurred in respect of its interest in the joint venture.

161 Paragraph 15.9 is amended as follows:

15.9 A venturer that is not a parent but has one or more interests in jointly controlled entities shall, in its individual financial statements, account for all of its interests in jointly controlled entities using either:

(a) the cost model in accordance with paragraphs 15.10 to 15.11;

(b) [Deleted]

(c) at **fair value** in accordance with paragraphs 15.14 to 15.15A; or

(d) at fair value with changes in fair value recognised in **profit or loss**.

~~The Appendix to Section 2 *Concepts and Pervasive Principles*~~ Section 2A *Fair Value Measurement* provides guidance on determining fair value.

162 In paragraph 15.11 the term 'income' is now shown in bold type.

163 Paragraph 15.13 is amended as follows:

15.13 A venturer shall measure its investments in jointly controlled entities ~~by~~ using the equity method ~~using~~ following the procedures in accordance with paragraph 14.8 (substituting 'joint control' where that paragraph refers to '**significant influence**', and 'jointly controlled entity' where that paragraph refers to '**associate**').

164 Paragraph 15.15 is amended as follows:

15.15 At each **reporting date**, investments in jointly controlled entities shall be measured at fair value using the fair value guidance in ~~Appendix to Section 2~~ Section 2A. Changes in fair value shall be recognised in **other comprehensive income** (or profit or loss) in accordance with paragraphs 17.15E and 17.15F.

165 Paragraph 15.19 is amended as follows:

15.19 The financial statements of the venturer shall disclose ~~the following~~:

(a) the accounting policy for ~~recognising~~ investments in jointly controlled entities;

(b) the carrying amount of investments in jointly controlled entities;

(c) the fair value of ~~investments~~ each investment in ~~jointly controlled entities accounted~~ a jointly controlled entity, if a market price for the investment is quoted and the venturer accounts for the jointly controlled entity using the equity method ~~for which there are published price quotations~~; and

* (d) the aggregate amount of its commitments relating to joint ventures, including its share in the ~~capital~~ commitments that have been incurred jointly with other venturers~~, as well as its share of the capital commitments of the joint ventures themselves~~.

166 Paragraph 15.20 is amended as follows:

15.20 For jointly controlled entities accounted for ~~in accordance with~~ using the equity method, the venturer shall disclose separately its share of the profit or loss of such investments and its share of any **discontinued operations** of such jointly controlled entities.

Amendments to Section 16
Investment Property

167 The following paragraphs set out the amendments to Section 16 *Investment Property* (deleted text is struck through, inserted text is underlined).

168 Paragraph 16.1 is amended as follows:

16.1 This section applies to **investment property**~~ and property interests held by a lessee under an operating lease that are classified as investment property (see paragraph 16.3)~~.

169 Paragraph 16.1A is amended as follows:

16.1A This section does not apply to investment property rented to another **group** entity and~~ transferred to **property, plant and equipment** (see paragraph 16.4A)~~ accounted for in accordance with paragraph 16.4A(b).

170 Paragraph 16.2A is inserted as follows:

16.2A An entity shall use its judgement to determine whether the acquisition of investment property is the acquisition of an asset or a group of assets, or a **business combination** within the scope of Section *19 Business Combinations and Goodwill*. Determining whether a specific transaction meets the definition of a business combination as defined in Section 19 and includes an investment property as defined in this section requires the separate application of both sections.

171 Paragraph 16.3 is deleted as follows:

16.3 ~~A property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property using this section if, and only if, the property would otherwise meet the definition of an investment property and the lessee can measure the fair value of the property interest on an on-going basis. The Appendix to Section 2 *Concepts and Pervasive Principles* provides guidance on determining fair value. This classification alternative is available on a property-by-property basis.~~[Deleted]

172 In paragraph 16.3A the term 'property, plant and equipment' is shown in bold type.

173 Paragraph 16.4 is amended as follows:

16.4 Mixed use property shall be separated between investment property and other property~~, plant and equipment~~ if the resulting portions could be sold separately or leased out separately under a **finance lease**. However, if the ~~fair value~~ **fair value** of the investment property component cannot be measured reliably, the entire property shall be accounted for, in the case of property held by the owner, as property, plant and equipment in accordance with Section 17 or, in the case of property held by the lessee, as a **right-of-use asset** in accordance with Section 20 *Leases*. ~~The Appendix to Section 2~~ Section 2A *Fair Value Measurement* provides guidance on determining fair value.

174 Paragraph 16.4A is amended as follows:

16.4A An entity that rents investment property to another group entity shall choose to account for those properties either:

(a) at fair value with changes in fair value recognised in **profit or loss** in accordance with this section (~~the Appendix to Section 2~~ Section 2A provides guidance on determining fair value); or

(b) by transferring them ~~to property, plant and equipment and applying the cost model in accordance with Section 17~~, in the case of an investment property held by the entity as:

(i) the owner, to property, plant and equipment and applying the cost model in accordance with Section 17; or

(ii) the lessee, to right-of-use assets and applying the cost model in accordance with Section 20.

An entity choosing to apply (b) above shall provide all the disclosures required by ~~Section 17~~ the relevant section, other than those related to fair value measurement.

175 Paragraph 16.6 is amended as follows:

16.6 ~~The initial cost of a property interest held under a **lease** and classified as an investment property shall be as prescribed for a finance lease by paragraphs 20.9 and 20.10, even if the lease would otherwise be classified as an operating lease if it was in the scope of Section 20 *Leases*. In other words, the **asset** is recognised at the lower of the fair value of the property and the present value of the **minimum lease payments**. An equivalent amount is recognised as a **liability** in accordance with paragraphs 20.9 and 20.10. Any premium paid for a lease is treated as part of the minimum lease payments for this purpose, and is therefore included in the cost of the asset, but is excluded from the liability.~~An investment property held by a lessee as a right-of-use asset shall be measured initially at its cost in accordance with Section 20.

176 Paragraph 16.7 is amended as follows:

16.7 An investment property shall be measured at fair value at each **reporting date** with changes in fair value recognised in profit or loss. When a lessee uses the fair value model to measure an investment property that is held as a right-of-use asset, it shall measure the right-of-use asset, and not the underlying property, at fair value. ~~If a property interest held under a lease is classified as an investment property, the item accounted for at fair value is that interest and not the underlying property. The Appendix to Section 2~~ Section 2A provides guidance on determining fair value.

177 Paragraph 16.9 is amended as follows:

16.9 Unless otherwise required by this FRS, an entity shall transfer a property to, or from, investment property only when the property ~~first~~ meets, or ceases to meet, the definition of investment property and there is evidence of that change.

178 Paragraph 16.9A is amended as follows:

16.9A When a property ceases to meet the definition of an investment property (for example it becomes owner-occupied or **inventory**), the **deemed cost** for subsequent accounting as property, plant and equipment (in accordance with Section 17), a right-of-use asset (in accordance with Section 20), or inventory (in accordance with Section 13 *Inventories*) shall be its fair value at the date of change in use.

179 Paragraph 16.9B is amended as follows:

16.9B If an owner-occupied property becomes an investment property, an entity shall apply Section 17 (for owned property) or Section 20 (for property held by a lessee as a right-of-use asset) up to the date of change in use. The entity shall treat any difference at that date between the carrying amount of the property in accordance with Section 17 or Section 20 (as applicable) and its fair value in the same way as a revaluation in accordance with Section 17 or Section 20 (as applicable).

Amendments to Section 17 *Property, Plant and Equipment*

180 The following paragraphs set out the amendments to Section 17 *Property, Plant and Equipment* (deleted text is struck through, inserted text is underlined).

181 Paragraph 17.3A is inserted as follows:

17.3A An entity shall use its judgement to determine whether the acquisition of property, plant and equipment is the acquisition of an asset or a group of assets, or a **business combination** within the scope of Section 19 *Business Combinations and Goodwill*. Determining whether a specific transaction meets the definition of a business combination as defined in Section 19 and includes property, plant and equipment as defined in this section requires the separate application of both sections.

182 Paragraph 17.4 is amended as follows:

17.4 An ~~entity shall apply the **recognition** criteria in paragraph 2.27 in determining whether to recognise an item of property, plant or equipment. Therefore, the~~ entity shall recognise the cost of an item of property, plant and equipment as an **asset** if, and only if:

(a) it is **probable** that future economic benefits associated with the item will flow to the entity; and

(b) the cost of the item can be measured reliably.

183 Paragraph 17.6 is amended as follows:

17.6 Parts of some items of property, plant and equipment may require replacement at regular intervals (eg the roof of a building). An entity shall add to the **carrying amount** of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the replacement part is expected to provide incremental future economic benefits to the entity. The carrying amount of those parts that are replaced is derecognised in accordance with paragraphs 17.27 to 17.30 regardless of whether the replaced parts had been depreciated separately. If it is **impracticable** for an entity to identify the carrying amount of the replaced part, it may be estimated using the current cost of the replacement part as a proxy for the original cost of the replaced part and adjusting it for **depreciation** and impairment. Paragraph 17.16 provides that if the major components of an item of property, plant and equipment have significantly different patterns of consumption of economic benefits, an entity shall allocate the initial cost of the asset to its major components and depreciate each such component separately over its **useful life**.

184 In paragraph 17.7 the term 'recognition' is now shown in bold type.

185 In paragraph 17.11 the term 'customer' is now shown in bold type.

186 Paragraph 17.15C is amended as follows:

17.15C The fair value of land and buildings is usually determined from market-based evidence by appraisal that is normally undertaken by professionally qualified valuers. The fair value of items of plant and equipment is usually their market value determined by appraisal. ~~The Appendix to Section 2 *Concepts and Pervasive Principles*~~ Section 2A *Fair Value Measurement* provides further guidance on determining fair value.

187 Paragraph 17.19 is amended as follows:

17.19 Factors such as a change in how an asset is used, significant unexpected wear and tear, technological advancement, and changes in market prices may indicate that the **residual value** or useful life of an asset has changed since the most recent annual **reporting date**. If such indicators are present, an entity shall review its previous estimates and, if current expectations differ, amend the residual value, depreciation method or useful life. The entity shall account for the change in residual value, depreciation method or useful life as a change in an ~~accounting estimate~~ **accounting estimate** in accordance with paragraphs ~~10.15~~ 10.14D to 10.18.

188 Paragraph 17.21 is amended as follows:

17.21 An entity shall consider all the following factors in determining the useful life of an asset:

(a) The expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output.

(b) Expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance programme, and the care and maintenance of the asset while idle.

(c) Technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset. Expected future reductions in the selling price of an item produced using an asset could indicate the expectation of technical or commercial obsolescence of the asset.

(d) Legal or similar limits on the use of the asset, such as the expiry dates of related **leases**.

189 Paragraph 17.23 is amended as follows:

17.23 If there is an indication that there has been a significant change since the last annual reporting date in the pattern by which an entity expects to consume an asset's future economic benefits, the entity shall review its present depreciation method and, if current expectations differ, change the depreciation method to reflect the new pattern. The entity shall account for the change as a change in an accounting estimate in accordance with paragraphs ~~10.15~~ 10.14D to 10.18.

190 Paragraph 17.24 is amended as follows:

17.24 ~~At each reporting date, an~~ An entity shall apply Section 27 *Impairment of Assets* to determine whether an item or group of items of property, plant and equipment is impaired and, if so, how to recognise and measure the impairment loss. That section explains when and how an entity reviews the carrying amount of its assets, how it determines the **recoverable amount** of an asset, and when it recognises or reverses an impairment loss.

191 Paragraph 17.29 is amended as follows:

17.29 ~~In determining the~~ The date of disposal of an item is the date the recipient obtains control of that item in accordance with the requirements in paragraphs 23.85 to 23.89 for determining when a **performance obligation** is satisfied~~, an entity shall apply the criteria in Section 23 *Revenue* for recognising revenue from the sale of goods~~. Section 20 applies to disposal by a sale and leaseback.

Amendments to Section 18
Intangible Assets other than Goodwill

192 The following paragraphs set out the amendments to Section 18 *Intangible Assets other than Goodwill* (deleted text is struck through, inserted text is underlined).

193 Paragraph 18.1 is amended as follows:

18.1 This section applies to **intangible assets** except for **goodwill** (see Section 19 *Business Combinations and Goodwill*), ~~and~~ intangible assets held by an entity for sale in the ordinary course of **business** (see Section 13 *Inventories* ~~and Section 23~~ ~~*Revenue*~~), and **assets** arising from **contracts** with **customers** that are recognised in accordance with Section 23 *Revenue from Contracts with Customers*.

194 Paragraph 18.3A is inserted as follows:

18.3A An entity shall use its judgement to determine whether the acquisition of an intangible asset is the acquisition of an asset or a group of assets, or a **business combination** within the scope of Section 19. Determining whether a specific transaction meets the definition of a business combination as defined in Section 19 and includes an intangible asset as defined in this section requires the separate application of both sections.

195 Paragraph 18.3B is inserted as follows:

18.3B Some intangible assets may be contained in or on a physical substance. In determining whether an asset that incorporates both intangible and tangible elements should be within the scope of Section 17 *Property, Plant and Equipment* or this section, an entity uses judgement to assess which element is more significant. For example, software without which a machine could not operate is an integral part of the related hardware and it is treated as **property, plant and equipment**. The same applies to the operating system of a computer or mobile device. When the software is not an integral part of the related hardware, the software is treated as an intangible asset.

196 Paragraph 18.4 is amended as follows:

18.4 An ~~entity shall apply the **recognition** criteria in paragraph 2.27 in determining whether to recognise an intangible asset. Therefore, the~~ entity shall recognise an intangible asset as an ~~**asset**~~ asset if, and only if:

(a) it is **probable** that the expected future economic benefits that are attributable to the asset will flow to the entity; and

(b) the cost or value of the asset can be measured reliably.

197 Paragraph 18.4A is inserted as follows:

18.4A This section uses the term ‘asset’ in a way that differs in some respects from the definition of an asset in paragraph 2.33 and Appendix I *Glossary*. For the purposes of this section, 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.

198 In paragraph 18.6 the term ‘recognition’ is now shown in bold type.

199 Paragraph 18.8C is amended as follows:

18.8C In some cases, expenditure is incurred that does not meet the criteria for recognition as part of an internally generated intangible asset, for example because there is no intangible asset that can be recognised in accordance with the criteria set out in paragraph 18.8H, or because the costs cannot be distinguished from the cost of developing the business as a whole. An entity shall recognise expenditure on the following items as an **expense** and shall not recognise such expenditure as intangible assets:

(a) Internally generated brands, logos, publishing titles, customer lists and items similar in substance.

(b) Start-up activities (ie start-up costs), which include establishment costs such as legal and secretarial costs incurred in establishing a legal entity, expenditure to open a new facility or business (ie pre-opening costs) and expenditure for starting new operations or launching new products or processes (ie pre-operating costs).

(c) Training activities.

(d) Advertising and promotional activities (unless it meets the definition of **inventories held for distribution at no or nominal consideration** (see paragraph 13.4A)).

(e) Relocating or reorganising part or all of an entity.

(f) Internally generated goodwill.

200 In paragraph 18.21 the term ‘property, plant and equipment’ is no longer shown in bold type.

201 Paragraph 18.24 is amended as follows:

18.24 Factors such as a change in how an intangible asset is used, technological advancement, and changes in market prices may indicate that the residual value or useful life of an intangible asset has changed since the most recent annual **reporting date**. If such indicators are present, an entity shall review its previous estimates and, if current expectations differ, amend the residual value, amortisation method or useful life. The entity shall account for the change in residual value, amortisation method or useful life as a change in an ~~accounting estimate~~ **accounting estimate** in accordance with paragraphs ~~10.15~~ 10.14D to 10.18.

202 Paragraph 18.27 is amended as follows:

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

* (a) the useful lives or the amortisation rates used and the reasons for choosing those periods;

(b) the amortisation methods used;

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

(d) the line item(s) in the **statement of comprehensive income** (or in the **income statement**, if presented) in which any amortisation of intangible assets is included; and

* (e) a reconciliation of the carrying amount at the beginning and end of the reporting period showing separately:

(i) additions, indicating separately those from internal development and those acquired separately;

(ii) disposals;

(iii) acquisitions through business combinations;

(iv) revaluations;

(v) amortisation;

(vi) impairment losses recognised or reversed in profit or loss in accordance with Section 27 *Impairment of Assets*; and

(vii) other changes.

This reconciliation need not be presented for prior periods.

Amendments to Section 19
Business Combinations and Goodwill

203 The following paragraphs set out the amendments to Section 19 *Business Combinations and Goodwill* (deleted text is struck through, inserted text is underlined).

204 Paragraph 19.2 is amended as follows:

19.2 This section does not apply to:

(a) the formation of a **joint venture**, in the **financial statements** of the joint venture itself; ~~and~~ or

(b) the acquisition of an **asset** or a group of ~~**assets**~~ assets that does not constitute a **business**.

205 Paragraph 19.10 is amended as follows:

19.10 ~~Although it may sometimes be difficult to identify an acquirer, there are usually indications that one exists. For example:~~

~~(a) If the **fair value** of one of the combining entities is significantly greater than that of the other combining entity, the entity with the greater fair value is likely to be the acquirer.~~

~~(b) If the business combination is effected through an exchange of voting ordinary equity instruments for cash or other assets, the entity giving up cash or other assets is likely to be the acquirer.~~

~~(c) If the business combination results in the management of one of the combining entities being able to dominate the selection of the management team of the resulting combined entity, the entity whose management is able so to dominate is likely to be the acquirer.~~

If a business combination has occurred but applying the requirements of paragraphs 9.5 to 9.6A does not clearly indicate which of the combining entities is the acquirer, the factors in paragraphs 19A.1 to 19A.6 shall be considered in making that determination.

206 In paragraph 19.11(a) the term 'fair value' is now shown in bold type.

207 Paragraph 19.11B is inserted as follows:

19.11B The cost of a transaction that remunerates employees or former owners of the acquiree for future services is not part of the cost of a business combination. Whether arrangements for contingent payments to employees or selling shareholders are contingent consideration in the business combination or are separate transactions (eg remuneration for future services) depends on the nature of the arrangements. Understanding the reasons why the acquisition agreement includes a provision for contingent payments, who initiated the arrangement and when the parties entered into the arrangement may be helpful in assessing the nature of the arrangement. An entity shall carefully consider the substance of the arrangement in order to determine what is part of the cost of the business combination.

208 Paragraph 19.12 is amended as follows:

19.12 When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events (ie contingent consideration), the acquirer shall include the estimated amount of that adjustment (reflecting the time value of money, if **material**) in the cost of the combination at the acquisition date if the adjustment is **probable** and can be measured reliably.

209 Paragraph 19.14 is amended as follows:

19.14 The acquirer shall, at the acquisition date, allocate the cost of a business combination by recognising the acquiree's identifiable assets and liabilities and ~~a~~ provisions for ~~those~~ its contingent liabilities ~~(that satisfy the **recognition** criteria in paragraph 19.20)~~ (subject to paragraphs 19.15D to 19.15G) at their fair values at that date, except for the items specified in paragraphs 19.15A to 19.15C. Any difference between the cost of the business combination and the acquirer's interest in the net amount of the identifiable assets, liabilities and provisions for contingent liabilities so recognised shall be accounted for in accordance with paragraphs 19.22 to 19.24.

210 Paragraph 19.15 is amended as follows:

19.15 Except ~~for the items~~ as specified in paragraphs 19.15A to ~~19.15C~~ 19.15F, the acquirer shall recognise separately the acquiree's identifiable assets acquired and~~,~~ liabilities ~~and contingent liabilities~~ assumed ~~at the acquisition date~~ only if they ~~satisfy the following criteria at that~~ meet the definitions of assets and liabilities in Section 2 *Concepts and Pervasive Principles* at the acquisition date, their fair value can be measured reliably, and they are part of what the acquirer and the acquiree (or its former owners) exchanged in the business combination transaction rather than the result of separate transactions. The acquirer shall not recognise any **contingent asset** at the acquisition date.~~:~~

~~(a) In the case of an asset, it is probable that any associated future economic benefits will flow to the acquirer, and its fair value can be measured reliably.~~

~~(b) In the case of a liability other than a contingent liability, it is probable that an outflow of resources will be required to settle the obligation, and its fair value can be measured reliably.~~

~~(c) In the case of a contingent liability, its fair value can be measured reliably.~~

211 Paragraphs 19.15D to 19.15G are inserted as follows:

19.15D For liabilities and contingent liabilities that would be within the scope of Section 21 *Provisions and Contingencies* if they were incurred separately rather than assumed in a business combination, an acquirer shall apply paragraph 21.6 to determine whether at the acquisition date a present obligation exists as a result of past events for a provision or contingent liability. For example:

(a) the acquirer shall recognise liabilities for terminating or reducing the activities of the acquiree as part of allocating the cost of the combination only to the extent that the acquiree has, at the acquisition date, an existing liability for restructuring recognised in accordance with Section 21; and

(b) the acquirer, when allocating the cost of the combination, shall not recognise liabilities for future losses or other costs expected to be incurred as a result of the business combination.

19.15E Paragraph 19.15F applies to a present obligation identified in accordance with paragraph 19.15D that meets the definition of a contingent liability as set out in paragraph 21.12 (ie when it is a present obligation that exists but would not be recognised in accordance with Section 21 because it fails to meet one or both of the conditions (b) and (c) in paragraph 21.4).

19.15F At the acquisition date, the acquirer shall recognise a contingent liability assumed in a business combination if it is a present obligation that arises from past events and its fair value can be measured reliably. Therefore, the acquirer recognises a contingent liability assumed in a business combination at the acquisition date even if it is not probable that the acquirer will be required to transfer economic benefits in settlement. Paragraph 19.24A sets out the requirements for subsequent measurement of a contingent liability recognised in a business combination.

19.15G The acquirer shall apply paragraph 18.8 to determine whether to recognise, separately from goodwill, an intangible asset acquired in a business combination.

212 Paragraph 19.18 is moved to paragraph 19.15D and amended as follows:

19.18 ~~In accordance with paragraph 19.14, the acquirer recognises separately only the identifiable assets, liabilities and contingent liabilities of the acquiree that existed at the acquisition date and satisfy the recognition criteria in paragraph 19.15 (except for the items specified in paragraphs 19.15A to 19.15C). Therefore:~~

~~(a) the acquirer shall recognise liabilities for terminating or reducing the activities of the acquiree as part of allocating the cost of the combination only to the extent that the acquiree has, at the acquisition date, an existing liability for restructuring recognised in accordance with Section 21~~ ~~*Provisions and Contingencies*~~~~; and~~

~~(b) the acquirer, when allocating the cost of the combination, shall not recognise liabilities for future losses or other costs expected to be incurred as a result of the business combination.~~[Moved to paragraph 19.15D and amended]

213 Paragraph 19.19 is amended as follows:

19.19 If the initial accounting for a business combination (the allocation of the cost of a business combination to the assets acquired and liabilities and contingent liabilities assumed) is incomplete by the end of the **reporting period** in which the combination occurs, the acquirer shall recognise in its ~~**financial statements**~~ financial statements provisional amounts for the items for which the accounting is incomplete. Within 12 months after the acquisition date, the acquirer shall retrospectively adjust the provisional amounts recognised as assets and liabilities at the acquisition date (ie account for them as if they were made at the acquisition date) to reflect new information obtained about any relevant facts and circumstances that existed at the acquisition date. Any adjustments made will have an impact upon the goodwill (or negative goodwill) recognised. Beyond 12 months after the acquisition date, adjustments to reflect new information obtained about any relevant facts and circumstances that existed at the acquisition date shall be made prospectively (and therefore will not have an impact upon the goodwill (or negative goodwill) recognised), except that adjustments to the initial accounting for a business combination shall be recognised ~~only~~ to correct a material **error** in accordance with Section 10 *Accounting Policies, Estimates and Errors*.

214 A sub-heading and paragraph 19.19A are inserted as follows:

Leases in which the acquiree is the lessee

19.19A The acquirer shall recognise **right-of-use assets** and lease liabilities for leases identified in accordance with Section 20 *Leases* in which the acquiree is the lessee. The acquirer is not required to recognise right-of-use assets and lease liabilities for:

(a) leases for which the **lease term** ends within 12 months of the acquisition date; or

(b) leases for which the **underlying asset** is of low value (as described in Section 20).

The acquirer shall measure the lease liability at the **present value** of the remaining **lease payments** as if the acquired lease were a new lease at the acquisition date. The acquirer shall measure the right-of-use asset at the same amount as the lease liability, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

215 The sub-heading and paragraph 19.20 are deleted as follows:

~~**Contingent liabilities**~~

19.20 ~~Paragraph 19.15(c) specifies that the acquirer recognises separately a provision for a contingent liability of the acquiree only if its fair value can be measured reliably. If its fair value cannot be measured reliably:~~

~~(a) there is a resulting effect on the amount recognised as goodwill or the amount accounted for in accordance with paragraph 19.24; and~~

~~(b) the acquirer shall disclose the information about that contingent liability as required by Section 21.~~[Deleted]

216 Paragraph 19.21 is moved to paragraph 19.24A and amended as follows:

19.21 ~~After their initial recognition, the acquirer shall measure contingent liabilities that are recognised separately in accordance with paragraph 19.15(c) at the higher of:~~

~~(a) the amount that would be recognised in accordance with Section 21; and~~

~~(b) the amount initially recognised less amounts previously recognised as **revenue** in accordance with Section 23 *Revenue*.~~[Moved to paragraph 19.24A and amended]

217 In paragraph 19.23 the term ‘recognition’ is now shown in bold type.

218 A sub-heading and paragraph 19.24A are inserted as follows:

Subsequent measurement of contingent liabilities

19.24A After initial recognition and until it is settled, cancelled or expires, the acquirer shall measure a contingent liability recognised in a business combination at the higher of:

(a) the amount that would be recognised in accordance with Section 21; and

(b) the amount initially recognised less, if appropriate, the cumulative amount of **income** recognised in accordance with the principles of Section 23 *Revenue from Contracts with Customers*.

This requirement does not apply to contracts accounted for in accordance with the recognition and measurement provisions of IAS 39 (in accordance with paragraphs 11.2(b) and 12.2(b)) or of IFRS 9 (in accordance with paragraphs 11.2(c) and 12.2(c)).

219 Paragraph 19.25 is amended as follows:

19.25 For each business combination, excluding any group reconstructions, that was effected during the period, the acquirer shall disclose the following:

(a) the names and descriptions of the combining entities or businesses;

(aA) the primary reasons for the business combination and a description of how the acquirer obtained control of the acquiree;

(b) the acquisition date;

(c) the percentage of voting equity instruments acquired;

(cA) the amount of any non-controlling interest in the acquiree recognised at the acquisition date;

(d) the cost of the combination and a description of the components of that cost (such as cash, equity instruments and debt instruments);

(dA) for contingent consideration arrangements:

(i) the amount recognised as of the acquisition date;

(ii) a description of the arrangement and the basis for determining the amount of the payment; and

(iii) an estimate of the range of outcomes (undiscounted) or, if a range cannot be estimated, that fact and the reasons why a range cannot be estimated. If the maximum amount of the payment is unlimited, the acquirer shall disclose that fact.

(e) the amounts recognised at the acquisition date for each class of the acquiree's assets, liabilities and contingent liabilities, including goodwill;

(f) [Deleted]

(fA) a qualitative description of the nature of **intangible assets** included in goodwill;

* (g) the useful life of goodwill, and if this cannot be reliably estimated, supporting reasons for the period chosen;~~ and~~

(h) the periods in which the excess recognised in accordance with paragraph 19.24 will be recognised in profit or loss~~.~~; and

(i) for each contingent liability that is not recognised in accordance with paragraph 19.15F because its fair value cannot be measured reliably, the acquirer shall disclose the information required by paragraph 21.15.

220 In paragraph 19.25A the term 'revenue' is now shown in bold type.

221 Paragraph 19.25B is inserted as follows:

19.25B If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, and the acquirer has recognised in its financial statements provisional amounts for the items for which the accounting is incomplete in line with paragraph 19.19, the acquirer shall disclose that fact and the line items for which provisional amounts have been recognised.

222 Paragraph 19.26 is amended as follows:

* 19.26 An acquirer shall disclose a reconciliation of the **carrying amount** of goodwill at the beginning and end of the reporting period, showing separately:

(a) ~~changes~~ additional goodwill recognised during the reporting period arising from new business combinations;

(b) amortisation;

(c) impairment losses recognised during the reporting period in accordance with Section 27;

(d) ~~disposals of~~ goodwill derecognised during the reporting period in relation to previously acquired businesses; and

(e) other changes.

This reconciliation need not be presented for prior periods.

223 Paragraph 19.26B is inserted as follows:

19.26B If, in exceptional cases, an entity was unable to make a reliable estimate of the useful life of goodwill arising on a business combination in a previous reporting period, it shall disclose for each such business combination the period over which the goodwill is being amortised, and supporting reasons for the period chosen.

224 Paragraph 19.30 is amended as follows:

19.30 Subject to the requirements of paragraphs 9.9 and 9.9A, the ~~The~~ results and **cash flows** of all the combining entities shall be brought into the financial statements of the combined entity from the beginning of the financial year in which the combination occurred, adjusted so as to achieve uniformity of accounting policies. The comparative information shall be restated by including, for all the combining entities, the **total comprehensive income** ~~for all the combining entities~~ for the previous reporting period and their statement of financial position for the previous **reporting date**, adjusted as necessary to achieve uniformity of accounting policies.

Appendix *Guidance on identifying the acquirer* to Section 19

225 The title, introductory text and paragraphs 19A.1 to 19A.6 are inserted as follows:

Appendix to Section 19
Guidance on identifying the acquirer

This appendix is an integral part of Section 19 and provides guidance on the application of paragraphs 19.8 to 19.10.

19A.1 In a **business combination** effected primarily by transferring **cash** or other **assets** or by assuming or incurring **liabilities**, the acquirer is usually the entity that transfers the cash or other assets or assumes or incurs the liabilities.

19A.2 In a business combination effected primarily by exchanging **equity** instruments, the acquirer is usually the entity that issues its equity instruments. Other pertinent facts and circumstances shall also be considered in identifying the acquirer. For example, the acquirer is usually the combining entity:

(a) whose **owners** as a group retain or receive the largest portion of the voting rights in the combined entity after the business combination.

(b) whose single owner or organised group of owners holds the largest minority voting interest in the combined entity, if no other owner or organised group of owners has a significant voting interest.

(c) whose owners have the ability to elect or appoint or to remove a majority of the members of the governing body of the combined entity.

(d) whose (former) management dominates the senior management of the combined entity.

(e) that pays a premium over the pre-combination **fair value** of the equity instruments of the other combining entity or entities.

19A.3 The acquirer is usually the combining entity whose relative size (measured in, for example, assets, **revenues** or profit) is significantly greater than that of the other combining entity or entities.

19A.4 In a business combination involving more than two entities, determining the acquirer shall include a consideration of, among other things, which of the combining entities initiated the combination, as well as the relative size of the combining entities.

19A.5 A new entity formed to effect a business combination is not necessarily the acquirer. If a new entity is formed to issue equity instruments to effect a business combination, it is likely that the acquirer is one of the combining entities that existed before the business combination. In contrast, a new entity that transfers cash, **cash equivalents** or other assets or assumes or incurs liabilities as consideration may be the acquirer.

19A.6 Application of the guidance in paragraphs 19A.1 to 19A.5 may result in the entity whose equity instruments are acquired (the legal acquiree) being identified as the acquirer for accounting purposes.

Amendments to Section 20 *Leases*

226 The following paragraphs set out the amendments to Section 20 *Leases*. For ease of reading, revised text is not underlined.

227 Paragraphs 20.1 to 20.35 and all sub-headings are deleted and replaced with the following:

Scope of this section

20.1 This section applies to all **leases**, including leases of **right-of-use assets** in a sublease, except for:

(a) leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources;

(b) leases of **biological assets** within the scope of Section 34 *Specialised Activities* held by a lessee;

(c) **service concession arrangements** within the scope of Section 34;

(d) licences of intellectual property granted by a lessor within the scope of Section 23 *Revenue from Contracts with Customers*;

(e) rights held by a lessee under licensing agreements within the scope of Section 18 *Intangible Assets other than Goodwill* for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights; and

(f) leases that could lead to a loss to the lessor or the lessee as a result of non-typical contractual terms (see paragraph 12.3(f)).

20.2 This section may, but is not required to, be applied by lessees to leases of **intangible assets** other than those described in paragraph 20.1(e).

20.3 An entity shall apply paragraphs 34.49 to 34.56 to a **heritage asset** held under a lease.

20.4 Except in the scope of references to Section 16 *Investment Property*, this section uses the term 'fair value' in a way that differs in some respects from the definition of **fair value** in Appendix I *Glossary.* For the purposes of applying the lessor accounting requirements in this section, fair value is the amount for which an **asset** could be exchanged, or a **liability** settled, between knowledgeable, willing parties in an arm's length transaction.

Recognition exemptions

20.5 A lessee may choose not to apply the requirements in paragraphs 20.45 to 20.73 to:

(a) **short-term leases**; and

(b) leases for which the **underlying asset** is of low value (as set out in paragraphs 20.9 to 20.12).

20.6 If a lessee chooses not to apply the requirements in paragraphs 20.45 to 20.73 to either short-term leases or leases for which the underlying asset is of low value, the lessee shall recognise the lease payments associated with those leases as an expense on either a straight-line basis over the **lease term**, or another systematic basis that is more representative of the pattern of the lessee's benefit.

20.7 The election for short-term leases shall be made by **class of underlying asset** to which the right of use relates. The election for leases for which the underlying asset is of low value can be made on a lease-by-lease basis.

Short-term leases

20.8 If a lessee accounts for short-term leases applying paragraph 20.6, the lessee shall consider the lease to be a new lease for the purposes of this section if:

(a) there is a **lease modification**; or

(b) there is any change in the lease term (eg the lessee exercises an option not previously included in its determination of the lease term).

Leases for which the underlying asset is of low value

20.9 The assessment of the value of an underlying asset for the purposes of applying paragraph 20.5(b) is performed on an absolute basis: leases of low-value assets qualify for this accounting treatment regardless of whether those leases are **material** to the lessee. The value of **lease payments** has no bearing on the assessment of whether an underlying asset is of low value.

20.10 An underlying asset can be of low value for the purposes of paragraph 20.5(b) only if:

(a) the lessee can benefit from use of the underlying asset on its own or together with other resources that are readily available to the lessee; and

(b) the underlying asset is not highly dependent on, or highly interrelated with, other assets.

20.11 Examples of underlying assets that would not be of low value include:

(a) cars, vans, buses, coaches, trams, trucks and lorries;

(b) cranes, excavators, loaders and bulldozers;

(c) telehandlers and forklifts;

(d) tractors, harvesters and related attachments;

(e) boats and ships;

(f) railway rolling stock;

(g) aircraft and aero engines;

(h) land and buildings; and

(i) production line equipment.

20.12 If a lessee subleases an asset, or expects to sublease an asset, the head lease does not qualify as a lease of a low-value asset.

Portfolio application

20.13 This section specifies the accounting for an individual lease. However, as a practical expedient, an entity may apply this section to a portfolio of leases with similar characteristics (eg a similar lease term for a similar class of underlying asset in a similar economic environment). If accounting for a portfolio, an entity shall use estimates and assumptions that reflect the size and composition of the portfolio.

Combination of contracts

20.14 In applying this section, an entity shall combine two or more **contracts** entered into at or near the same time with the same counterparty (or **related parties** of the counterparty), and account for the contracts as a single contract if one or more of the following criteria are met:

(a) the contracts are negotiated as a package with an overall commercial objective that cannot be understood without considering the contracts together;

(b) the amount of consideration to be paid in one contract depends on the price or performance of the other contract; or

(c) the rights to use underlying assets conveyed in the contracts (or some rights to use underlying assets conveyed in each of the contracts) form a single lease component as described in paragraph 20.29.

Identifying a lease

20.15 At the **inception date**, an entity shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

20.16 A contract conveys the right to control the use of an identified asset when, throughout the **period of use**, the customer has both the right to direct the use of the identified asset, and the right to obtain substantially all the economic benefits from that use. If the customer has the right to control the use of the identified asset for only a portion of the term of the contract, the contract contains a lease for that portion of the term.

20.17 An entity shall assess whether a contract contains a lease for each potential separate lease component, as described in paragraph 20.27.

20.18 An entity shall reassess whether a contract is, or contains, a lease only if the terms and conditions of the contract are changed.

Assessing whether a contract is, or contains, a lease

Identified asset

20.19 An identified asset may be specified explicitly in a contract or implicitly at the time it is made available for use by the customer.

20.20 Even if an asset is specified, there is no identified asset if the supplier has a substantive right to substitute the asset throughout the period of use. A supplier's right to substitute the asset is substantive only if it both:

(a) has the practical ability to substitute alternative assets throughout the period of use; and

(b) would benefit economically from doing so.

20.21 Evaluation of substitution rights is based on facts and circumstances at the inception date and shall exclude consideration of future events that, at that date, are not considered likely to occur. If the customer cannot readily determine whether the supplier has a substantive substitution right, the customer shall presume that it does not.

20.22 A portion of an asset can be an identified asset if it is physically distinct (eg a floor of a building). A portion of an asset that is not physically distinct (eg a capacity portion of a fibre optic cable) cannot be an identified asset, unless it represents substantially all of the capacity of the asset and thereby provides the customer with the right to obtain substantially all of the economic benefits from use of the asset.

Right to obtain economic benefits from use

20.23 To control the use of an identified asset, a customer is required to have the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use. A customer can obtain economic benefits from the use of an asset directly or indirectly in many ways, such as by using, holding or subleasing the asset. The economic benefits from use of an asset include its primary output and by-products (including potential **cash flows** derived from these items), and other economic benefits from using the asset that could be realised from a commercial transaction with a third party.

20.24 When assessing the right to obtain substantially all of the economic benefits from use of an asset, an entity shall consider the economic benefits that result from use of the asset within the defined scope of a customer's right to use the asset.

Right to direct the use

20.25 A customer has the right to direct the use of an identified asset throughout the period of use only if either:

(a) the customer has the right to direct how and for what purpose the asset is used throughout the period of use, in a manner that affects the economic benefits derived from its use; or

(b) the relevant decisions about how and for what purpose the asset is used are predetermined and:

  (i) the customer has the right to operate the asset (or to direct others to operate the asset in a manner that it determines) throughout the period of use, without the supplier having the right to change those operating instructions; or

  (ii) the customer designed the asset (or specific aspects of the asset) in a way that predetermines how and for what purpose the asset will be used throughout the period of use.

Period of time

20.26 A period of time may be described in terms of the amount of use of an identified asset (eg the number of production units that an item of equipment will be used to produce).

Separating components of a contract

20.27 A contract may contain multiple components, of which some may relate to the lease of an asset and some may relate to non-lease elements such as services.

20.28 For a contract that is, or contains, a lease, an entity shall account for each lease component within the contract as a lease separately from non-lease components of the contract, unless the entity applies the practical expedient in paragraph 20.33.

20.29 The right to use an underlying asset is a separate lease component if the lessee can benefit from use of the underlying asset on its own or together with other readily available resources, and the underlying asset is neither highly dependent on nor highly interrelated with the other underlying assets in the contract.

20.30 Amounts payable by the lessee under a contract for activities or costs that do not transfer a good or service to the lessee do not give rise to a separate component but form part of the total consideration to be allocated to the components of the contract.

Lessee

20.31 For a contract that contains one or more lease components and one or more non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

20.32 The relative stand-alone price of lease and non-lease components shall be determined on the basis of the price the lessor, or a similar supplier, would charge an entity for that component, or a similar component, separately. If an observable stand-alone price is not readily available, the lessee shall estimate the stand-alone price, maximising the use of observable information.

20.33 As a practical expedient, a lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

20.34 Unless the practical expedient in paragraph 20.33 is applied, a lessee shall account for non-lease components by applying other sections of this FRS.

20.35 A lessor may provide a lessee with incoming resources from a **government grant** or, for a **public benefit entity**, a **non-exchange transaction** if, for example, the lease payments are significantly below market rents. At the **commencement date**, or when the lease is modified as set out in paragraphs 20.71 to 20.73, a lessee shall use the information readily available to it to determine whether it is in receipt of such incoming resources. If so, the lessee shall recognise those incoming resources as part of the cost of the right-of-use asset. The incoming resources shall be recognised and measured in accordance with, as applicable, Section 24 *Government Grants* or (for a public benefit entity only) paragraphs PBE34.64 to PBE34.74 *Incoming Resources from Non-Exchange Transactions* of Section 34 *Specialised Activities*. If the contractual payments are so low that they are not substantive (eg peppercorn or nominal consideration), the arrangement may not meet the definition of a lease.

Lessor

20.36 For a contract that contains a lease component and one or more additional lease or non-lease components, a lessor shall allocate the consideration in the contract applying paragraphs 23.65 to 23.77.

Lease term

20.37 The lease term begins at the commencement date and includes any rent-free periods provided to the lessee by the lessor.

20.38 An entity shall determine the lease term as the aggregate of:

(a) the non-cancellable period of a lease;

(b) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and

(c) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. If only the lessor has the right to terminate the lease, the non-cancellable period of the lease includes the period covered by the lessor's option to terminate the lease.

20.39 In assessing the length of the non-cancellable period of a lease, an entity shall determine the period for which the contract is enforceable. A lease is no longer enforceable when the lessee and the lessor each has the right to terminate the lease without permission from the other party with no more than an insignificant penalty.

20.40 At the commencement date, an entity (whether the lessee or the lessor) assesses whether the lessee is reasonably certain to exercise an option to extend the lease or to purchase the underlying asset, or not to exercise an option to terminate the lease. As a result of paragraph 20.38, when a lessee is able to choose between a shorter or a longer period, the lease term shall be the shorter period unless the lessee is reasonably certain to choose the longer period.

20.41 Factors to consider in the assessment of whether an option in a lease is reasonably certain to be exercised include:

(a) the contractual terms and conditions compared with market rates;

(b) significant leasehold improvements expected to have significant economic benefit when the option becomes exercisable;

(c) the costs relating to the termination of the lease;

(d) the importance of the underlying asset to the lessee's operations; and

(e) conditionality associated with exercising the option.

20.42 An entity's past practice regarding the period for which it has typically used similar assets may provide information that is helpful in assessing whether the lessee is reasonably certain to exercise, or not to exercise, an option.

20.43 A lessee shall reassess whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that:

(a) is within the control of the lessee; and

(b) affects whether the lessee is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term.

20.44 An entity shall revise the lease term if there is a change in the non-cancellable period of a lease. Such a change could arise from, for example, the lessee exercising an option not previously included in the determination of the lease term or not exercising an option previously included in the determination of the lease term.

Lessee

Recognition

20.45 At the commencement date, a lessee shall recognise a right-of-use asset and a lease liability.

Initial measurement

Initial measurement of the right-of-use asset

20.46 At the commencement date, a lessee shall measure the right-of-use asset at cost.

20.47 The cost of the right-of-use asset shall comprise:

(a) the amount of the initial **measurement** of the lease liability, as described in paragraph 20.49;

(b) any lease payments made at or before the commencement date, less any **lease incentives** received;

(c) any **initial direct costs** incurred by the lessee;

(d) any amount recognised in accordance with Section 21 *Provisions and Contingencies* at the commencement date as an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period; and

(e) any amount recognised at the commencement date in accordance with Section 24 or, for a public benefit entity, paragraphs PBE34.64 to PBE34.74, when a lease component contains a government grant or non-exchange transaction as described in paragraph 20.35.

20.48 A lessee shall recognise the costs described in paragraph 20.47(d) as part of the cost of the right-of-use asset when it incurs an obligation for those costs. This may occur at the commencement date or subsequently. A lessee applies Section 13 *Inventories* to costs that are incurred during a particular period as a consequence of having used the right-of-use asset to produce **inventories** during that period. The obligations for such costs accounted for applying this section or Section 13 are recognised and measured applying Section 21.

Initial measurement of the lease liability

20.49 At the commencement date, a lessee shall measure the lease liability at the **present value** of the lease payments that are not paid at that date. The lease payments shall be discounted using the **interest rate implicit in the lease**, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall choose, on a lease-by-lease basis, to apply either the **lessee's incremental borrowing rate** or the **lessee's obtainable borrowing rate**.

PBE20.50 A public benefit entity that is unable readily to determine either the interest rate implicit in the lease, or the lessee's incremental or obtainable borrowing rate for a lease, shall use the rate of interest otherwise obtainable by the public benefit entity on deposits held with **financial institutions**.

20.51 At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

(a) fixed payments (including in-substance fixed lease payments as described in paragraph 20.52), less any lease incentives receivable;

(b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date (as described in paragraphs 20.53 and 20.54);

(c) amounts expected to be payable by the lessee under **residual value guarantees**;

(d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option (assessed considering the factors described in paragraphs 20.41 to 20.44); and

(e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

20.52 In-substance fixed lease payments are payments that may, in form, contain variability, but that, in substance, are unavoidable. Such payments exist, for example, if:

(a) there is no genuine variability, for example

  (i) payments that must be made only if an asset is proven to be capable of operating during the lease, or only if an event occurs that has no genuine possibility of not occurring; or

  (ii) payments that are initially structured as variable lease payments linked to the use of the underlying asset but for which the variability will be resolved at some point after the commencement date so that the payments become fixed for the remainder of the lease term. Those payments become in-substance fixed payments when the variability is resolved;

(b) there is more than one set of payments that could be made, but only one of these sets is realistic; or

(c) there is more than one realistic set of payments that could be made, but one of these sets must be paid. In this case, the set of payments with the lowest discounted amount shall be selected.

20.53 Variable lease payments that depend on an index or a rate described in paragraph 20.51 include, for example, payments linked to a consumer price index, payments linked to a benchmark interest rate or payments that vary to reflect changes in market rents.

20.54 The index or rate at the commencement date is that assessed under the terms of the contract at that date. It shall not reflect, and shall not contain any assumptions about, changes to the index or rate after the commencement date.

Subsequent measurement

Subsequent measurement of the right-of-use asset

20.55 After the commencement date, a lessee shall measure the right-of-use asset applying the cost model, unless it applies the fair value model for **investment property** as described in paragraph 20.60 or the revaluation model for **property, plant and equipment** as described in paragraph 20.61.

Cost model

20.56 To apply the cost model, a lessee shall measure the right-of-use asset at cost:

(a) less any accumulated **depreciation** and any accumulated **impairment losses**; and

(b) adjusted for any remeasurement of the lease liability specified in paragraph 20.62(c).

20.57 A lessee shall apply the depreciation requirements in Section 17 *Property, Plant and Equipment* in depreciating the right-of-use asset, subject to the requirements in paragraph 20.58.

20.58 If the lease transfers ownership of the underlying asset to the lessee by the end of the lease term or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, the lessee shall depreciate the right-of-use asset from the commencement date to the end of the **useful life** of the underlying asset. Otherwise, the lessee shall depreciate the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

20.59 A lessee shall apply Section 27 *Impairment of Assets* to determine whether the right-of-use asset is impaired and to account for any impairment loss identified.

Other measurement models

20.60 A lessee shall apply the fair value model in Section 16 to right-of-use assets that meet the definition of investment property, unless applying the exemption in paragraph 16.4A(b)(ii).

20.61 If right-of-use assets relate to a class of property, plant and equipment to which the lessee applies the revaluation model in Section 17, a lessee may elect to apply that revaluation model to all of the right-of use assets that relate to that class of property, plant and equipment.

Subsequent measurement of the lease liability

20.62 After the commencement date, a lessee shall measure the lease liability by:

(a) increasing the **carrying amount** to reflect interest on the lease liability;

(b) reducing the carrying amount to reflect the lease payments made; and

(c) remeasuring the carrying amount to reflect any reassessment (as set out in paragraphs 20.65 to 20.69) or lease modifications (as set out in paragraphs 20.70 to 20.73), or to reflect revised in-substance fixed lease payments (see paragraph 20.52).

20.63 Interest on the lease liability in each period during the lease term shall be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. The periodic rate of interest is the discount rate described in paragraphs 20.49 and PBE20.50, or if applicable the revised discount rate described in paragraphs 20.67, 20.69 or 20.71(c).

20.64 After the commencement date, a lessee shall recognise in profit or loss, unless the costs are included in the carrying amount of another asset applying other applicable sections of this FRS, both:

(a) interest on the lease liability; and

(b) variable lease payments not included in the measurement of the lease liability in the period in which the event or condition that triggers those payments occurs.

Reassessment of the lease liability

20.65 After the commencement date, a lessee shall apply paragraphs 20.66 to 20.69 to remeasure the lease liability to reflect changes to the lease payments. A lessee shall recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, a lessee shall recognise any remaining amount of the remeasurement in profit or loss.

20.66 A lessee shall remeasure the lease liability by discounting the revised lease payments using a revised discount rate, if either:

(a) there is a change in the lease term, as described in paragraphs 20.43 to 20.44. A lessee shall determine the revised lease payments on the basis of the revised lease term; or

(b) there is a change in the assessment of an option to purchase the underlying asset, assessed considering the events and circumstances described in paragraphs 20.43 to 20.44 in the context of a purchase option. A lessee shall determine the revised lease payments to reflect the change in amounts payable under the purchase option.

20.67 In applying paragraph 20.66, a lessee shall determine the revised discount rate as the interest rate implicit in the lease for the remainder of the lease term. If that rate cannot be readily determined, the lessee shall use either the lessee's incremental borrowing rate or the lessee's obtainable borrowing rate at the date of reassessment. When applicable, a public benefit entity shall apply paragraph PBE20.50.

20.68 A lessee shall remeasure the lease liability by discounting the revised lease payments, if either

(a) there is a change in the amounts expected to be payable under a residual value guarantee. A lessee shall determine the revised lease payments to reflect the change in amounts expected to be payable under the residual value guarantee; or

(b) there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, including for example a change to reflect changes in market rental rates following a market rent review. The lessee shall remeasure the lease liability to reflect those revised lease payments only when there is a change in the cash flows (ie when the adjustment to the lease payments takes effect). A lessee shall determine the revised lease payments for the remainder of the lease term based on the revised contractual payments.

20.69 In applying paragraph 20.68, a lessee shall use an unchanged discount rate, unless the change in lease payments results from a change in floating interest rates. In that case, the lessee shall use a revised discount rate that reflects changes in the interest rate.

Lease modifications

20.70 A lessee shall account for a lease modification as a separate lease if both:

(a) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

(b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

20.71 For a lease modification that is not accounted for as a separate lease, at the **effective date of the lease modification** a lessee shall:

(a) allocate the consideration in the modified contract applying paragraphs 20.31 to 20.35;

(b) determine the lease term of the modified lease applying paragraphs 20.38 to 20.42; and

(c) remeasure the lease liability by discounting the revised lease payments using a revised discount rate determined according to paragraph 20.49 at the effective date of the modification, except that a lessee may use an unchanged discount rate in the situations described in paragraph 20.72. When applicable, a public benefit entity shall apply paragraph PBE20.50.

20.72 In applying paragraph 20.71, the lessee may use an unchanged discount rate when either:

(a) the additional consideration from the lease modification is insignificant to the total consideration of the original lease;

(b) the lease modification decreases the scope of the lease by removing the right to use one or more underlying assets, and the consideration for the lease decreases by an amount commensurate with the stand-alone price for the decrease in scope; or

(c) the lease modification decreases the consideration payable for the remaining term of the lease, but does not decrease the scope of the lease by removing the right to use one or more underlying assets.

20.73 For a lease modification that is not accounted for as a separate lease, having remeasured the lease liability in accordance with paragraph 20.71, a lessee shall:

(a) for lease modifications that decrease the scope of the lease, recognise a proportionate reduction in the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, account for any incoming resources from a government grant or non-exchange transaction (as described in paragraph 20.35) in the modified lease, and recognise any resulting gain or loss in profit or loss.

(b) for all other lease modifications, make a corresponding adjustment to the right-of-use asset, net of any adjustment for incoming resources from a government grant or non-exchange transaction (as described in paragraph 20.35) in the modified lease.

Presentation

20.74 A lessee shall either present in the statement of financial position, or disclose in the notes:

(a) right-of-use assets separately from other assets. If a lessee does not present right-of-use assets separately in the statement of financial position, the lessee shall:

(i) include right-of-use assets within the same line item as that within which the corresponding underlying assets would be presented if they were owned; and

(ii) disclose which line items in the statement of financial position include those right-of-use assets.

(b) lease liabilities separately from other liabilities. If the lessee does not present lease liabilities separately in the statement of financial position, the lessee shall disclose which line items in the statement of financial position include those liabilities.

20.75 The requirement in paragraph 20.74(a) does not apply to right-of-use assets that meet the definition of investment property, which shall be presented in the statement of financial position as investment property.

Disclosure

^ 20.76 A lessee shall provide a general description of its significant leasing arrangements.

^ 20.77 If necessary to enable users to understand its significant leasing arrangements, a lessee shall provide additional qualitative and quantitative information. As a minimum, when relevant, a lessee shall disclose:

(a) information about future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities, including variable lease payments, extension options and termination options, residual value guarantees and leases not yet commenced to which the lessee is committed;

(b) information about restrictions or covenants imposed by leases;

(c) the types of discount rate (interest rate implicit in the lease, lessee's incremental borrowing rate or lessee's obtainable borrowing rate) used in calculating lease liabilities and the proportion of the total lease liability calculated using each of those types of discount rate; and

(d) information about sale and leaseback transactions, including:

(i) the lessee's reasons for sale and leaseback transactions and the prevalence of those transactions;

(ii) key terms and conditions of individual sale and leaseback transactions;

(iii) payments not included in the measurement of lease liabilities;

(iv) the cash flow effect of sale and leaseback transactions in the **reporting period**; and

(v) when relevant, the entity having made the accounting policy choice to apply paragraph 20.123(a)(ii) in respect of sale and leaseback transactions when the transfer of the asset is a sale.

20.78 An entity that has applied either or both of the practical expedients in paragraphs 20.13 and 20.33 shall disclose that fact.

20.79 When an entity has remeasured a lease liability as a result of a lease modification (applying paragraph 20.71) and has used an unchanged discount rate (applying paragraph 20.72), it shall disclose:

(a) that fact; and

(b) the carrying amount at the end of the reporting period of lease liabilities which have been remeasured in that manner.

20.80 A lessee shall disclose the following amounts for the reporting period:

(a) interest expense on lease liabilities;

^ (b) the expense relating to short-term leases accounted for applying paragraph 20.6. This expense need not include the expense relating to leases with a lease term of one month or less;

^ (c) the expense relating to leases of low-value assets accounted for applying paragraph 20.6. This expense shall not include the expense relating to short-term leases of low-value assets included in paragraph 20.80(b);

^ (d) the expense relating to variable lease payments not included in the measurement of lease liabilities;

(e) **income** from subleasing right-of-use assets;

(f) total cash outflow for leases; and

(g) **gains** or losses arising from sale and leaseback transactions.

20.81 A lessee shall disclose the following amounts for the reporting period for right-of-use assets, by class of underlying asset:

* (a) the gross carrying amount and the accumulated depreciation at the beginning and end of the reporting period; and

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

  (i) additions;

  (ii) disposals;

  (iii) acquisitions through business combinations;

  (iv) revaluations;

  (v) impairment losses recognised or reversed in profit or loss in accordance with Section 27;

  (vi) depreciation; and

  (vii) other changes.

This reconciliation need not be presented for prior periods.

* 20.82 A lessee that accounts for short-term leases or leases of low-value assets applying paragraph 20.6 shall disclose that fact and shall disclose separately the amount of its lease commitments for short-term leases and for leases of low-value assets at the end of the reporting period, for each of the following periods:

(a) not later than one year;

(b) later than one year and not later than five years; and

(c) later than five years.

20.83 For right-of-use assets meeting the definition of investment property, a lessee shall apply the disclosure requirements in Section 16. In that case, a lessee is not required to provide the disclosures in paragraphs 20.80(e) and 20.81 for those right-of-use assets.

20.84 For right-of-use assets meeting the definition of heritage assets, a lessee shall apply the disclosure requirements in paragraphs 34.55 to 34.56. In that case, a lessee is not required to provide the disclosures required by paragraphs 20.80(e) and 20.81 for those right-of-use assets.

* 20.85 If a lessee measures right-of-use assets at revalued amounts applying Section 17, the lessee shall provide the disclosures required by paragraphs 17.31(a) and 17.32A for those right-of-use assets.

Classification of leases

20.86 A lessor shall classify each of its leases as either an **operating lease** or a **finance lease**.

20.87 A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

20.88 Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

(a) the lease transfers ownership of the underlying asset to the lessee by the end of the lease term;

(b) the lessee has the option to purchase the underlying asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception date, that the option will be exercised;

(c) the lease term is for the major part of the economic life of the underlying asset even if title is not transferred;

(d) at the inception date, the present value of the lease payments amounts to at least substantially all of the fair value of the underlying asset; and

(e) the underlying asset is of such a specialised nature that only the lessee can use it without major modifications.

20.89 Indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease are:

(a) if the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;

(b) gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (eg in the form of a rent rebate equalling most of the sales proceeds at the end of the lease); and

(c) the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

20.90 The examples and indicators in paragraphs 20.88 and 20.89 are not always conclusive. If it is clear from other features that the lease does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset, the lease is classified as an operating lease. For example, this may be the case if ownership of the underlying asset transfers at the end of the lease for a variable payment equal to its then fair value, or if there are variable lease payments, as a result of which the lessor does not transfer substantially all such risks and rewards.

20.91 Lease classification is made at the inception date and is reassessed only if there is a lease modification. Changes in estimates (eg changes in estimates of the economic life or of the **residual value** of the underlying asset), or changes in circumstances (eg default by the lessee), do not give rise to a new classification of a lease for accounting purposes.

20.92 In classifying a sublease, an intermediate lessor shall classify the sublease as a finance lease or an operating lease as follows:

(a) If the head lease is a short-term lease that the entity, as a lessee, has accounted for applying paragraph 20.6, the sublease shall be classified as an operating lease.

(b) Otherwise, the sublease shall be classified by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset (eg the item of property, plant or equipment that is the subject of the lease).

Finance leases

Recognition and measurement

20.93 At the commencement date, a lessor shall recognise assets held under a finance lease in its statement of financial position and present them as a receivable at an amount equal to the **net investment in the lease**.

Initial measurement

20.94 The lessor shall use the interest rate implicit in the lease to measure the net investment in the lease. In the case of a sublease, if the interest rate implicit in the sublease cannot be readily determined, an intermediate lessor may use the discount rate used for the head lease (adjusted for any initial direct costs associated with the sublease) to measure the net investment in the sublease.

20.95 Initial direct costs, other than those incurred by manufacturer or dealer lessors, are included in the initial measurement of the net investment in the lease and reduce the amount of income recognised over the lease term. The interest rate implicit in the lease is defined in such a way that the initial direct costs are included automatically in the net investment in the lease; there is no need to add them separately.

Initial measurement of the lease payments included in the net investment in the lease

20.96 At the commencement date, the lease payments included in the measurement of the net investment in the lease comprise the following payments for the right to use the underlying asset during the lease term that are not received at the commencement date:

(a) fixed payments (including in-substance fixed lease payments as described in paragraph 20.52), less any lease incentives payable;

(b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date (as described in paragraph 20.53);

(c) any residual value guarantees provided to the lessor by the lessee, a party related to the lessee or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee;

(d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option (assessed considering the factors described in paragraphs 20.40 to 20.42); and

(e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Manufacturer or dealer lessors

20.97 At the commencement date, a manufacturer or dealer lessor shall recognise the following for each of its finance leases:

(a) **revenue** being the fair value of the underlying asset, or, if lower, the present value of the lease payments accruing to the lessor, discounted using a market rate of interest;

(b) the cost of sale being the cost, or carrying amount if different, of the underlying asset less the present value of the **unguaranteed residual value**; and

(c) selling profit or loss (being the difference between revenue and the cost of sale) in accordance with its policy for outright sales to which Section 23 applies. A manufacturer or dealer lessor shall recognise selling profit or loss on a finance lease at the commencement date, regardless of whether the lessor transfers the underlying asset as described in Section 23.

20.98 Manufacturers or dealers often offer to customers the choice of either buying or leasing an asset. A finance lease of an asset by a manufacturer or dealer lessor gives rise to profit or loss equivalent to the profit or loss resulting from an outright sale of the underlying asset, at normal selling prices, reflecting any applicable volume or trade discounts.

20.99 If artificially low rates of interest are quoted, a manufacturer or dealer lessor shall restrict selling profit to that which would apply if a market rate of interest were charged.

20.100 Costs incurred by manufacturer or dealer lessors in connection with obtaining a finance lease are excluded from the definition of initial direct costs and, thus, are excluded from the net investment in the lease.

Subsequent measurement

20.101 A lessor shall recognise finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease.

20.102 A lessor aims to allocate finance income over the lease term on a systematic and rational basis. A lessor shall apply the lease payments relating to the period against the **gross investment in the lease** to reduce both the principal and the **unearned finance income**.

20.103 A lessor shall apply the relevant **derecognition** and impairment requirements, depending on the accounting policy choice made under paragraphs 11.2 and 12.2, to the net investment in the lease. A lessor shall review regularly estimated unguaranteed residual values used in computing the gross investment in the lease. If there has been a reduction in the estimated unguaranteed residual value, the lessor shall revise the income allocation over the lease term and recognise immediately any reduction in respect of amounts accrued.

Lease modifications

20.104 A lessor shall account for a modification to a finance lease as a separate lease if both:

(a) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

(b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

20.105 For a modification to a finance lease that is not accounted for as a separate lease, a lessor shall account for the modification as follows:

(a) if the lease would have been classified as an operating lease had the modification been in effect at the inception date, the lessor shall:

(i) account for the lease modification as a new lease from the effective date of the modification; and

(ii) measure the carrying amount of the underlying asset as the net investment in the lease immediately before the effective date of the lease modification.

(b) otherwise, the lessor shall apply the relevant requirements depending on the accounting policy choice made under paragraphs 11.2 and 12.2.

Operating leases

Recognition and measurement

20.106 A lessor shall recognise lease payments from operating leases as **income** on a straight-line basis, unless either:

(a) another systematic basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished; or

(b) the lease payments are structured to increase in line with expected general inflation (based on published indices or statistics) to compensate for the lessor's expected inflationary cost increases. If the lease payments vary according to factors other than general inflation, then this condition is not met.

20.107 A lessor shall recognise as an expense, costs, including depreciation, incurred in earning the lease income.

20.108 A lessor shall add initial direct costs incurred in obtaining an operating lease to the carrying amount of the underlying asset and recognise those costs as an expense over the lease term on the same basis as the lease income.

20.109 The depreciation policy for depreciable underlying assets subject to operating leases shall be consistent with the lessor's normal depreciation policy for similar assets. A lessor shall calculate depreciation in accordance with Section 17 or Section 18, as applicable.

20.110 A lessor shall apply Section 27 to determine whether an underlying asset subject to an operating lease is impaired and to account for any impairment loss identified.

20.111 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.

Lease modifications

20.112 A lessor shall account for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Presentation

20.113 A lessor shall present underlying assets subject to operating leases in its statement of financial position according to the nature of the underlying asset.

Disclosure

20.114 A lessor shall disclose a general description of its significant leasing arrangements, including, if necessary to enable users to understand those arrangements, information about variable lease payments, renewal or purchase options and escalation clauses, subleases, and restrictions imposed by lease arrangements.

20.115 If necessary to enable users to understand its significant leasing arrangements, a lessor shall disclose additional qualitative and quantitative information.

20.116 A lessor shall disclose the following amounts for the reporting period:

(a) for finance leases:

  (i) selling profit or loss;

  (ii) finance income on the net investment in the lease; and

  (iii) income relating to variable lease payments not included in the measurement of the net investment in the lease.

(b) for operating leases, lease income, separately disclosing income relating to variable lease payments that do not depend on an index or a rate.

Finance leases

20.117 A lessor shall provide a qualitative and quantitative explanation of the significant changes during the reporting period in the carrying amount of the net investment in finance leases.

20.118 A lessor shall disclose a maturity analysis of the lease payments receivable, showing the undiscounted lease payments to be received on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years. A lessor shall reconcile the undiscounted lease payments to the net investment in the lease. The reconciliation shall identify the unearned finance income relating to the lease payments receivable and any discounted unguaranteed residual value. A lessor shall disclose the accumulated allowance for uncollectible **lease payments** receivable.

Operating leases

20.119 For items of property, plant and equipment subject to an operating lease, a lessor shall apply the disclosure requirements of Section 17.

In applying the disclosure requirements in Section 17, a lessor shall disaggregate each class of property, plant and equipment into assets subject to operating leases and assets not subject to operating leases.

Accordingly, a lessor shall provide the disclosures required by Section 17 for assets subject to an operating lease (by class of underlying asset) separately from owned assets held and used by the lessor.

20.120 A lessor shall apply the disclosure requirements in Section 16, Section 18, Section 27 and Section 34 for assets subject to operating leases.

20.121 A lessor shall disclose a maturity analysis of the lease payments receivable, showing the undiscounted lease payments to be received on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years.

Sale and leaseback transactions

20.122 If an entity (the seller-lessee) transfers an asset to another entity (the buyer-lessor) and leases that asset back from the buyer-lessor, both the seller-lessee and the buyer-lessor shall account for the transfer contract and the lease applying paragraphs 20.123 to 20.126.

Transfer of the asset is a sale

20.123 If the transfer of an asset by the seller-lessee satisfies the requirements of Section 23 to be accounted for as a sale of the asset:

(a) The seller-lessee shall make an accounting policy choice, which it shall apply consistently, to either:

(i) measure the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee. Accordingly, the seller-lessee shall recognise only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor; or

(ii) measure the right-of-use asset arising from the leaseback in accordance with paragraph 20.46, with any excess of the sale proceeds over the previous carrying amount of the asset deferred, and amortised over the lease term, and any shortfall of the sales proceeds under the carrying amount recognised immediately in profit or loss.

(b) The buyer-lessor shall account for the purchase of the asset applying other sections of this FRS, and for the lease applying the lessor accounting requirements in this section.

20.124 If the fair value of the consideration for the sale of an asset does not equal the fair value of the asset, or if the payments for the lease are not at market rates, an entity shall make the following adjustments to measure the sale proceeds at fair value:

(a) any below-market terms shall be accounted for as a prepayment of lease payments; and

(b) any above-market terms shall be accounted for as additional financing provided by the buyer-lessor to the seller-lessee.

20.125 The entity shall measure any potential adjustment required by paragraph 20.124 on the basis of the more readily determinable of:

(a) the difference between the fair value of the consideration for the sale and the fair value of the asset; and

(b) the difference between the present value of the contractual payments for the lease and the present value of payments for the lease at market rates.

Transfer of the asset is not a sale

20.126 If the transfer of an asset by the seller-lessee does not satisfy the requirements of Section 23 to be accounted for as a sale of the asset:

(a) the seller-lessee shall continue to recognise the transferred asset and shall recognise a financial liability equal to the transfer proceeds. It shall account for the financial liability in accordance with the accounting policy choice made for its financial instruments under paragraphs 11.2 and 12.2.

(b) the buyer-lessor shall not recognise the transferred asset and shall recognise a financial asset equal to the transfer proceeds. It shall account for the financial asset in accordance with the accounting policy choice made for its financial instruments under paragraphs 11.2 and 12.2.

Amendments to Section 21 *Provisions and Contingencies*

228 The following paragraphs set out the amendments to Section 21 *Provisions and Contingencies* (deleted text is struck through, inserted text is underlined).

229 In paragraph 21.1 the term ‘liabilities’ is no longer shown in bold type.

230 In paragraph 21.1 the first instance of the term ‘contracts’ is now shown in bold type.

231 Paragraph 21.4A is inserted as follows:

21.4A This section uses the term ‘liability’ in a way that differs in some respects from the definition of a liability in paragraph 2.38 and Appendix I *Glossary*. For the purposes of this section, 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.

232 Paragraph 21.12 is amended as follows:

21.12 A contingent liability is either a possible but uncertain obligation or a present obligation that is not recognised because it fails to meet one or both of the conditions (b) and (c) in paragraph 21.4. An entity shall not recognise a contingent liability as a liability, except for ~~provisions for~~ certain contingent liabilities ~~of an acquiree~~ assumed in a **business combination** (see paragraphs ~~19.20~~ 19.15F and ~~19.21~~ 19.24A). Disclosure of a contingent liability is required by paragraph 21.15 unless the possibility of an outflow of resources is remote. When an entity is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability.

233 Paragraph 21.14 and paragraphs 21.16 to 21.17A are each preceded by a ^ in the left-hand margin.

Appendix *Examples of recognising and measuring provisions*

234 Paragraph 21A.2 is amended as follows:

21A.2 An onerous contract is one in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. ~~For example, an entity may be contractually required under an operating lease to make payments to lease an asset for which it no longer has any use.~~ The cost of fulfilling a contract comprises the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.

Present obligation as a result of a past obligating event: The entity is contractually required to pay out resources for which it will not receive commensurate benefits.

Conclusion: If an entity has a contract that is onerous, the entity recognises and measures the present obligation under the contract as a provision.

235 Paragraph 21A.4 is amended as follows:

21A.4 A manufacturer gives warranties at the time of sale to purchasers of its product. Under the terms of the contract for sale, the manufacturer undertakes to make good, by repair or replacement, manufacturing defects that become apparent within three years from the date of sale. On the basis of experience, it is probable (ie more likely than not) that there will be some claims under the warranties.

Present obligation as a result of a past obligating event: The obligating event is the sale of the product with a warranty, which gives rise to a legal obligation.

An outflow of resources embodying economic benefits in settlement: Probable for the warranties as a whole.

Conclusion: The entity recognises a provision for the best estimate of the costs of making good under the warranty products sold before the reporting date.

Illustration of calculations:

In 20X0, goods are sold for CU1,000,000. Experience indicates that 90 per cent of products sold require no warranty repairs; 6 per cent of products sold require minor repairs costing 30 per cent of the sale price; and 4 per cent of products sold require major repairs or replacement costing 70 per cent of sale price. Therefore estimated warranty costs are:

CU1,000,000 × 90% × 0 =	CU0
CU1,000,000 × 6% × 30% =	CU18,000
CU1,000,000 × 4% × 70% =	CU28,000
Total	CU46,000

The expenditures for warranty repairs and replacements for products sold in 20X0 are expected to be made 60 per cent in 20X1, 30 per cent in 20X2, and 10 per cent in 20X3, in each case at the end of the period. Because the estimated cash flows already reflect the probabilities of the cash outflows, and assuming there are no other risks or uncertainties that must be reflected, to determine the present value of those cash flows the entity uses a 'risk-free' discount rate based on national government bonds with the same term as the expected cash outflows (6 per cent for one-year bonds and 7 per cent for two-year and three-year bonds). Calculation of the present value, at the end of 20X0, of the estimated cash flows related to the warranties for products sold in 20X0 is as follows:

Year		**Expected cash payments (CU)**	**Discount rate**	**Discount factor**	**Present value (CU)**
1	60% × CU46,000	27,600	6%	0.9434 (at 6% for 1 year)	26,038
2	30% × CU46,000	13,800	7%	0.8734 (at 7% for 2 years)	12,053
3	10% × CU46,000	4,600	7%	0.8163 (at 7% for 3 years)	3,755
Total					41,846

The entity will recognise a warranty obligation of CU41,846 at the end of 20X0 for products sold in 20X0.

236 Paragraph 21A.5 is deleted as follows:

21A.5 ~~A retail store has a policy of refunding purchases by dissatisfied customers, even though it is under no legal obligation to do so. Its policy of making refunds is generally known.~~

~~Present obligation as a result of a past obligating event: The obligating event is the sale of the product, which gives rise to a constructive obligation because the conduct of the store has created a valid expectation on the part of its customers that the store will refund purchases.~~

~~An outflow of resources embodying economic benefits in settlement: Probable that a proportion of goods will be returned for refund.~~

~~Conclusion: The entity recognises a provision for the best estimate of the amount required to settle the refunds.~~[Deleted]

Amendments to Section 22 *Liabilities and Equity*

237 The following paragraphs set out the amendments to Section 22 *Liabilities and Equity* (deleted text is struck through, inserted text is underlined).

238 In paragraph 22.1 the term 'liabilities' is no longer shown in bold type.

239 In sub-paragraph 22.2(c) the term 'contracts' is now shown in bold type.

240 Paragraph 22.3 is amended as follows:

22.3 Equity is the residual interest in the **assets** of an entity after deducting all its liabilities. Equity includes investments by the owners of the entity, plus additions to those investments earned through profitable operations and retained for use in the entity's operations, minus reductions to owners' investments as a result of unprofitable operations and distributions to owners.

For the purposes of this section, 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.

A ~~**financial liability**~~ financial liability is any liability that is:

(a) a contractual obligation:

(i) to deliver **cash** or another **financial asset** to another entity; or

(ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or

(b) a contract that will or may be settled in the entity's own equity instruments and is:

(i) a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or

(ii) a **derivative** that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

241 In paragraph 22.5 the term 'government' is now shown in bold type.

242 Paragraph 22.8 is amended as follows (the sequentially numbered footnote in this paragraph is not presented here and is unchanged by this amendment):

22.8 An entity shall measure equity instruments, other than when merger relief or group reconstruction relief under sections 611 to 615 of the **Act** are applied[54] or those accounted for in accordance with ~~paragraphs~~ paragraph 22.8A, at the fair value of the cash or other resources received or receivable, net of **transaction costs**. If payment is deferred and the time value of money is **material**, the initial **measurement** shall be on a **present value** basis.

243 Paragraph 22.19 is deleted as follows:

22.19 ~~In the consolidated financial statements, a non-controlling interest in the net assets of a subsidiary is included in equity. An entity shall treat changes in a~~

~~**parent's** controlling interest in a subsidiary that do not result in a loss of **control** as transactions with equity holders in their capacity as equity holders. Accordingly, the **carrying amount** of the non-controlling interest shall be adjusted to reflect the change in the parent's interest in the subsidiary's net assets. Any difference between the amount by which the non-controlling interest is so adjusted and the fair value of the consideration paid or received, if any, shall be recognised directly in equity and attributed to equity holders of the parent. An entity shall not recognise a gain or loss on these changes. Also, an entity shall not recognise any change in the carrying amounts of assets (including **goodwill**) or liabilities as a result of such transactions.~~[Moved to paragraph 9.20A and amended]

Amendments to Section 23 *Revenue*

244 The following paragraphs set out the amendments to Section 23. For ease of reading, revised text is not underlined.

245 Section 23 is retitled from *Revenue* to *Revenue from Contracts with Customers.*

246 Paragraphs 23.1 to 23.35 and all sub-headings are deleted and replaced with the following:

Scope of this section

23.1 This section applies to all **contracts** with **customers**, except:

(a) lease contracts within the scope of Section 20 *Leases*;

(b) contracts within the scope of **FRS 103**;

(c) **financial instruments** and other contractual rights or obligations within the scope of Section 9 *Consolidated and Separate Financial Statements*, Section 11 *Basic Financial Instruments*, Section 12 *Other Financial Instruments Issues*, Section 14 *Investments in Associates* and Section 15 *Joint Arrangements*; and

(d) non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.

23.2 This section does not apply to incoming resources from **non-exchange transactions** for **public benefit entities** (see Section 34 *Specialised Activities*).

23.3 A contract with a customer may be partially within the scope of this section and partially within the scope of other sections (eg a lease contract that includes the provision of services). If the other section specifies how to separate or initially measure any parts of the contract, then an entity shall first apply the separation or **measurement** requirements in that section. Otherwise, the entity shall apply this section to separate or initially measure those parts of the contract.

Revenue recognition model

23.4 This section establishes a **revenue** recognition model for accounting for revenue from contracts with customers. The objective of the model is for an entity to recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To apply the model, an entity shall take the following steps:

(a) Step 1 – Identify the contract(s) with a customer (see paragraphs 23.7 to 23.16);

(b) Step 2 – Identify the **performance obligations** in the contract (see paragraphs 23.17 to 23.40);

(c) Step 3 – Determine the transaction price (see paragraphs 23.41 to 23.64);

(d) Step 4 – Allocate the transaction price to the performance obligations in the contract (see paragraphs 23.65 to 23.77); and

(e) Step 5 – Recognise revenue when (or as) the entity satisfies a performance obligation (see paragraphs 23.78 to 23.112).

23.5 An entity shall apply this section consistently to contracts with similar characteristics and in similar circumstances.

23.6 This section specifies the accounting for an individual contract with a customer. An entity may apply this section to a portfolio of similar contracts (or performance obligations) if the entity reasonably expects that the result of doing so would not differ materially from the result of applying this section to the individual contracts (or performance obligations) within that portfolio.

Step 1 – Identify the contract(s) with a customer

23.7 An entity shall apply the revenue recognition model to account for a contract with a customer that is within the scope of this section only when all of the following criteria are met:

(a) the parties to the contract have approved the contract and are committed to perform their respective obligations;

(b) the entity can identify each party's rights regarding the goods or services to be transferred;

(c) the entity can identify the payment terms for the goods or services to be transferred;

(d) the contract has commercial substance; and

(e) it is **probable** that the customer will have the ability and intention to pay the consideration to which the entity will be entitled when it is due.

23.8 If a contract with a customer meets the criteria in paragraph 23.7 at inception, reassessment is only required if there is an indication of a significant change in relevant facts and circumstances.

23.9 If a contract with a customer does not meet the criteria in paragraph 23.7, an entity shall continue to reassess the contract until the criteria are met. The entity shall recognise any consideration received from the customer as a **liability** until those criteria are met or until one of the events in paragraph 23.10 occurs.

23.10 When a contract with a customer does not meet the criteria in paragraph 23.7, an entity shall recognise any consideration received from the customer as revenue when either:

(a) the entity has no remaining obligations to transfer goods or services to the customer and all, or substantially all, of the consideration promised by the customer has been received and is non-refundable; or

(b) the contract is terminated and the consideration received is non-refundable.

23.11 Some contracts with customers may have no fixed duration or may automatically renew periodically. An entity shall apply this section to the duration of the contract (ie the contractual period) in which the parties to the contract have present enforceable rights and obligations.

Combination of contracts

23.12 An entity shall combine two or more contracts entered into at or near the same time with the same customer (or **related parties** of the customer) and account for the contracts as a single contract if one or more of the following criteria are met:

(a) the contracts are negotiated as a package with a single commercial objective;

(b) the amount of consideration to be paid in one contract depends on the price or performance of the other contract; or

(c) the goods or services promised in the contracts (or some goods or services promised in each of the contracts) are a single performance obligation in accordance with paragraphs 23.17 to 23.25.

Contract modifications

23.13 A contract modification is a change in the scope or price (or both) of a contract that is approved by the parties to the contract. A contract modification either creates new enforceable rights and obligations, or changes such rights and obligations that already exist.

23.14 If the parties to a contract have approved a change in the scope of the contract but have not yet determined the corresponding change in price, an entity shall estimate the change to the transaction price arising from the modification in accordance with the requirements for estimating variable consideration (see paragraphs 23.44 to 23.48).

23.15 An entity shall account for a contract modification as a separate contract if:

(a) the modification increases the scope of the existing contract because of additional goods or services promised that are distinct from those in the existing contract; and

(b) the modification increases the price of the existing contract by an amount of consideration that reflects the entity's stand-alone selling price of the additional goods or services and any appropriate adjustments to that price to reflect the circumstances of that contract.

23.16 If a contract modification is not accounted for as a separate contract, an entity shall account for the contract modification as follows:

(a) If the remaining goods or services are distinct from the goods or services transferred on or before the date of the contract modification, an entity shall account for the contract modification as if it were a termination of the existing contract and the creation of a new contract. The transaction price for the new contract is the sum of:

(i) the consideration included in the estimate of the transaction price for the existing contract that had not been recognised as revenue; and

(ii) the consideration promised as part of the contract modification.

(b) If the remaining goods or services are not distinct from the goods or services transferred on or before the date of the contract modification, an entity shall account for the contract modification as if it had always been part of the existing contract. The effect that the contract modification has on the transaction price, and on the entity's measure of progress towards complete satisfaction of the performance obligation, shall be recognised as an adjustment to revenue at the date of the contract modification (ie on a cumulative catch-up basis).

(c) If the remaining goods or services are a combination of items (a) and (b), then the entity shall account for the effects of the modification on the unsatisfied (including partially unsatisfied) performance obligations in the modified contract in a manner that is consistent with the objectives of this paragraph.

Step 2 – Identify the performance obligations in the contract

23.17 At contract inception, an entity shall assess the goods and services promised in a contract with a customer and shall identify as a performance obligation each promise to transfer to the customer either:

(a) a distinct good or service (or a distinct bundle of goods or services); or

(b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

23.18 A series of distinct goods or services has the same pattern of transfer to the customer if both of the following criteria are met:

(a) each distinct good or service in the series that the entity promises to transfer to the customer would meet the criteria in paragraph 23.81 to be a performance obligation satisfied over time; and

(b) in accordance with paragraphs 23.98 to 23.104, the same method would be used to measure the entity's progress towards complete satisfaction of the performance obligation to transfer each distinct good or service in the series to the customer.

23.19 A contract with a customer generally explicitly states the goods or services that an entity promises to transfer. However, promises may be implied by an entity's customary business practices, published policies or specific statements if these create a valid expectation of the customer that the entity will transfer a good or service to the customer.

23.20 Performance obligations do not include activities that an entity must undertake to fulfil a contract unless those activities transfer a good or service to the customer. For example, set-up activities and administrative tasks which do not transfer a good or service to the customer would be disregarded for the purposes of identifying performance obligations in a contract.

Distinct goods or services

23.21 A good or service that is promised by an entity to a customer is distinct if both of the following criteria are met:

(a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (ie the good or service is capable of being distinct); and

(b) the entity's promise to transfer the good or service is separate from other promises in the contract (see paragraph 23.24).

23.22 The criterion in paragraph 23.21(a) is satisfied for goods or services that are regularly sold separately.

23.23 For the purposes of applying the criterion in paragraph 23.21(a), readily available resources are:

(a) goods or services sold separately (by the entity or another entity); or

(b) goods or services that the customer has already obtained from the entity (including goods or services transferred to the customer under the contract) or from other transactions or events.

23.24 The purpose of the criterion in paragraph 23.21(b) is to determine whether the nature of the entity's promise, within the context of the contract, is to transfer the good or service individually, rather than to transfer a combined item or items to which the good or service is an input. Factors that indicate that two or more goods or services promised in a contract are inputs to a combined item or items and are therefore not distinct include, but are not limited to, the following:

(a) The entity provides a significant service of integrating the goods or services with other goods or services promised in the contract into a bundle of goods or services that represent the combined output or outputs for which the customer has contracted. In other words, the entity is using the goods or services as inputs to produce or deliver the combined output or outputs specified by the customer. A combined output or outputs might include more than one phase, element or unit. An example is a construction contract when an entity provides an integration (or contract management) service to manage and co-ordinate the various construction tasks necessary for the construction of an **asset**.

(b) One or more of the goods or services significantly modifies or customises, or is significantly modified or customised by, one or more of the other goods or services promised in the contract. An example is a software contract when an entity promises to provide existing software and to customise that software, if the customisation service significantly modifies the software.

(c) The goods or services are highly interdependent or highly interrelated. In other words, each of the goods or services is significantly affected by one or more of the other goods or services in the contract. For example, in some cases, two or more goods or services are significantly affected by each other because an entity would not be able to fulfil its promise by transferring each of the goods or services independently.

23.25 If a good or service promised to a customer is not distinct, an entity shall combine that good or service with other goods or services in the contract until it identifies a bundle of goods or services that is distinct. In some cases, this will result in the entity accounting for all the goods or services in a contract as a single performance obligation.

Warranties

23.26 An entity might provide a warranty in connection with the sale of a product (whether a good or service).

23.27 An entity shall account for the warranty in accordance with Section 21 *Provisions and Contingencies* unless the warranty, or part of the warranty, provides the customer with an additional service. An additional service is a service in addition to the assurance that the product complies with agreed-upon specifications. In assessing whether a warranty provides the customer with an additional service, an entity shall consider:

(a) Whether the warranty can be purchased separately – if the entity provides the customer with the option to purchase a warranty separately, the warranty provides the customer with an additional service.

(b) Whether the warranty is required by law – if the entity is required by law to provide a warranty, the warranty does not provide the customer with an additional service.

(c) The length of the warranty coverage – the longer the coverage period, the more likely it is that the warranty provides the customer with an additional service.

(d) The nature of the tasks that the entity promises to perform – if it is necessary for an entity to perform specified tasks to provide the assurance that a product complies with agreed-upon specifications (eg a return shipping service for a defective product), then those tasks are unlikely to provide the customer with an additional service.

23.28 If the warranty provides the customer with an additional service, that additional service is a separate performance obligation. If a warranty provides the customer with both an additional service and the assurance that the product complies with agreed-upon specifications, but an entity cannot reasonably account for these components separately, the entity shall account for both the components together as a single performance obligation.

Non-refundable upfront fees

23.29 In some contracts, an entity charges a customer a non-refundable upfront fee at or near contract inception. Examples include joining fees in health club membership contracts, set-up fees in some service contracts and initial fees in some supply contracts.

23.30 In many cases, even though a non-refundable upfront fee relates to an activity that the entity is required to undertake at or near contract inception to fulfil the contract, that activity does not result in the transfer of a promised good or service to the customer. Instead, the upfront fee is an advance payment for future goods or services and, therefore, would be recognised as revenue when those future goods or services are provided. The revenue recognition period would extend beyond the initial contractual period if the entity grants the customer a material right (see paragraphs 23.31 to 23.35). If a non-refundable upfront fee relates to the transfer of a good or service, an entity shall evaluate whether to account for the good or service as a separate performance obligation.

Customer options for additional goods or services

23.31 In some contracts, customers are granted the option to acquire additional goods or services for free or at a discount. If the option provides the customer with a material right that it would not receive without entering into that contract, the option gives rise to a separate performance obligation in addition to the other performance obligations in the contract. If customers are granted the option to acquire additional goods or services at a price that would reflect the stand-alone selling price for that good or service, the option does not provide the customer with a material right and does not give rise to a separate performance obligation.

23.32 Options that may provide a material right to customers include sales incentives, customer award credits (or points), contract renewal options or other discounts on future goods or services.

23.33 If an option provides a material right to a customer, the customer is in effect paying the entity in advance for future goods or services. As a consequence, the entity recognises revenue when those future goods or services are transferred or when the option expires.

23.34 If a customer is granted an option to renew a contract on similar terms (ie acquire future goods or services that are similar to the original goods or services in the contract) and the option provides the customer with a material right which the entity accounts for as a separate performance obligation, as a practical alternative to estimating the stand-alone selling price of the option in accordance with paragraphs 23.67 to 23.71, the entity may allocate the transaction price to the option by allocating the total expected consideration to the total goods or services expected to be transferred (ie including expected renewal periods in both cases).

23.35 As a result of paragraph 23.34, the amount of the transaction price allocated to the renewal option at contract inception is the difference between:

(a) the transaction price for the original contract; and

(b) the amount of the total expected consideration allocated, in accordance with paragraph 23.34, to the goods or services that the entity is required to transfer to the customer under the original contract.

Principal versus agent considerations

23.36 When another party is involved in providing goods or services to a customer, an entity shall determine whether the nature of its promise is to provide the specified goods or services itself (ie the entity is a principal) or to arrange for those goods or services to be provided by the other party (ie the entity is an agent). A specified good or service is a distinct good or service (or a distinct bundle of goods or services) to be provided to the customer (see paragraphs 23.21 to 23.25). An entity shall determine whether it is a principal or an agent for each performance obligation in a contract.

23.37 An entity is a principal if it controls the specified good or service before that good or service is transferred to a customer. A principal might obtain control of any one of the following:

(a) a good or another asset from the other party that it then transfers to the customer;

(b) a right to a service to be performed by the other party, which gives the entity the ability to direct that party to provide the service to the customer on the entity's behalf; or

(c) a good or service from the other party that it then combines with other goods or services in providing the specified good or service to the customer.

23.38 Indicators that an entity is a principal include, but are not limited to, the following:

(a) the entity is primarily responsible for fulfilling the promise to provide the specified good or service;

(b) the entity has **inventory** risk before the specified good or service has been transferred to a customer or after transfer of control to the customer (eg if the customer has a right of return); or

(c) the entity has discretion in establishing the price for the specified good or service.

23.39 An entity that is a principal shall recognise revenue in the gross amount of consideration to which the entity expects to be entitled in exchange for the specified good or service transferred as it satisfies its performance obligation.

23.40 An entity is an agent if the entity's performance obligation is to arrange for the provision of the specified good or service by another party. When (or as) an entity that is an agent satisfies a performance obligation, the entity recognises revenue in the amount of any fee or commission to which the entity expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Step 3 – Determine the transaction price

23.41 An entity shall consider the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which the entity expects to be entitled in exchange for transferring goods or services promised to a customer, excluding amounts collected on behalf of third parties (eg some sales taxes).

23.42 For the purposes of determining the transaction price, an entity shall assume that the goods or services will be transferred to the customer in accordance with the existing contract and that the contract will not be cancelled, modified or renewed.

Variable consideration

23.43 If the consideration promised in a contract includes a variable amount (eg because of some discounts, rebates, refunds, penalties or performance bonuses), an entity shall estimate the variable amount in the transaction price that reflects the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or services to a customer, determined in accordance with paragraphs 23.44 to 23.50.

23.44 An entity shall first estimate an amount of variable consideration by using either of the following methods, depending on which method the entity expects to better predict the amount of consideration to which it will be entitled:

(a) The expected value – the expected value is the sum of probability-weighted amounts in a range of possible consideration amounts. An expected value may be an appropriate estimate of the amount of variable consideration if an entity has a large number of contracts with similar characteristics.

(b) The most likely amount – the most likely amount is the single most likely amount in a range of possible consideration amounts (ie the single most likely outcome of the contract). The most likely amount may be an appropriate estimate of the amount of variable consideration if the contract has only two possible outcomes (eg an entity either achieves a performance bonus or does not).

23.45 An entity shall apply one method consistently throughout the contract when estimating the amount of variable consideration. The information that an entity uses to estimate the amount of variable consideration would typically be similar to the information that the entity's management uses during the bid-and-proposal process and in establishing prices for the goods or services promised to the customer.

23.46 An entity shall include in the transaction price an amount of variable consideration estimated in accordance with paragraph 23.44 only to the extent that it is **highly probable** that it will be entitled to the cumulative amount of revenue recognised when the uncertainty associated with the variable consideration is subsequently resolved.

23.47 At the end of each **reporting period**, an entity shall update the estimate of variable consideration included in the transaction price to reflect any relevant changes in circumstances. An entity shall account for changes in the estimate of the transaction price in accordance with paragraphs 23.75 to 23.77.

Sales-based or usage-based royalties

23.48 An entity shall not apply paragraphs 23.44 to 23.47 to a sales-based or usage-based royalty provided in exchange for a licence of intellectual property when the licence of intellectual property is the sole or predominant item to which the royalty relates. Instead, an entity shall recognise revenue for such royalties when (or as) the later of the following events occurs:

(a) the subsequent sale or usage takes place; and

(b) the performance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied).

Refund liabilities

23.49 An entity shall recognise a refund liability if it receives consideration from a customer and expects to refund some or all of that consideration to the customer. For example, the terms of a fixed-price service contract may require a customer to pay upfront and may provide the customer with a full refund of the amount paid if the customer is dissatisfied with the service at any time. A refund liability is measured at the amount of consideration received (or receivable) to which the entity does not expect to be entitled (ie amounts not included in the transaction price). At the end of each reporting period, an entity shall update the estimate of the refund liability (and transaction price) to reflect any relevant changes in circumstances. An entity shall account for changes in the estimate of the transaction price in accordance with paragraphs 23.75 to 23.77.

23.50 To account for a refund liability relating to a sale with a right of return, an entity shall apply paragraphs 23.51 to 23.56.

Sale with a right of return

23.51 In some contracts, an entity transfers control of a product to a customer and also grants the customer the right to return the product for various reasons (such as dissatisfaction with the product) and receive any combination of the following:

(a) a full or partial refund of any consideration paid;

(b) a credit that can be applied against amounts owed, or that will be owed, to the entity; and

(c) another product in exchange.

23.52 Exchanges by customers of one product for another of the same type, quality, condition and price (eg one colour or size for another) are not considered returns for the purposes of applying the requirements in paragraphs 23.53 to 23.56.

23.53 To account for revenue for the transfer of products with a right of return (and for some services that are provided subject to a refund), an entity shall recognise the following:

(a) revenue only for products expected not to be returned;

(b) a refund liability for consideration received (or receivable) for products expected to be returned; and

(c) a refund asset, classified as inventory, for products expected to be returned (and corresponding adjustment to cost of sales).

23.54 To determine the amount of consideration that should be recognised in accordance with paragraph 23.53(a), an entity shall apply paragraphs 23.41 to 23.47. The amount of consideration received (or receivable) that is not recognised as revenue shall be recognised as a refund liability in accordance with paragraph 23.53(b).

23.55 A refund asset recognised by an entity in accordance with paragraph 23.53(c) shall initially be measured at the former **carrying amount** of the product (eg inventory), less:

(a) any expected costs to recover those products; and

(b) allowances for potential decreases in the value to the entity of those products (eg because of damage, obsolescence or declining selling prices).

23.56 At the end of each reporting period, an entity shall update its assessment of products expected to be returned. The entity shall:

(a) recognise changes in the amount of revenue recognised as adjustments to the refund liability, and vice versa; and

(b) recognise adjustments to the asset recognised for products expected to be returned in cost of sales.

23.57 Contracts in which a customer may return a defective product in exchange for a functioning product shall be evaluated in accordance with the guidance on warranties in paragraphs 23.26 to 23.28.

Time value of money

23.58 If payment is deferred beyond normal business terms or is financed (by the entity) at a rate of interest that is not market rate, the arrangement constitutes a financing transaction (see paragraphs 11.13 and 12.7). An entity shall adjust the promised amount of consideration for the effects of the time value of money and recognise the interest revenue in accordance with Section 11 or Section 12. The entity shall present interest revenue separately from revenue from contracts with customers.

23.59 If payment is received in advance, an entity may adjust the promised amount of consideration for the effects of the time value of money and recognise the resulting interest expense in accordance with Section 11 or Section 12.

23.60 An entity need not adjust the promised amount of consideration for the effects of the time value of money if the entity expects, at contract inception, that the period between when the entity transfers the good or service promised to a customer and when the customer pays for that good or service will be 12 months or less (see paragraph 11.13A(c)).

Non-cash consideration

23.61 To determine the transaction price for contracts in which a customer promises consideration in a form other than **cash**, an entity shall measure the non-cash consideration (or promise of non-cash consideration) at **fair value**. If an entity cannot reasonably estimate the fair value of the non-cash consideration, the entity shall measure the consideration indirectly by reference to the stand-alone selling price of the goods or services promised to the customer (or class of customer) in exchange for the consideration.

Consideration payable to a customer

23.62 Consideration payable to a customer includes cash amounts that an entity pays, or expects to pay, to the customer (or to other parties that purchase the entity's goods or services from the customer). Consideration payable to a customer also includes credit or other items (eg a coupon or voucher) that can be applied against amounts owed to the entity (or to other parties that purchase the entity's goods or services from the customer).

23.63 An entity shall account for consideration payable to a customer as a reduction of the transaction price and, therefore, of revenue unless the payment to the customer is in exchange for a distinct good or service (as described in paragraphs 23.21 to 23.25) that the customer transfers to the entity.

23.64 If consideration payable to a customer is accounted for as a reduction of the transaction price, an entity shall recognise the reduction of revenue when (or as) the later of either of the following events occurs:

(a) the entity recognises revenue for the transfer of the related goods or services to the customer; and

(b) the entity pays or promises to pay the consideration (even if the payment is conditional on a future event).

Step 4 – Allocate the transaction price to the performance obligations in the contract

23.65 An entity shall allocate the transaction price to each performance obligation identified in the contract on a relative stand-alone selling price basis in accordance with paragraphs 23.67 to 23.71, unless allocating discounts or variable amounts on an alternative basis in accordance with paragraphs 23.72 to 23.74.

23.66 Paragraphs 23.67 to 23.74 do not apply if:

(a) a contract contains a single performance obligation; or

(b) all performance obligations in a contract are satisfied at the same point in time in accordance with paragraph 23.85.

However, paragraph 23.74 applies if an entity accounts for a series of distinct goods or services as a single performance obligation in accordance with paragraph 23.18 and the consideration promised in the contract includes a variable amount.

Allocation based on stand-alone selling prices

23.67 An entity shall determine the stand-alone selling price at contract inception of the distinct good or service underlying each performance obligation in the contract and allocate the transaction price in proportion to those stand-alone selling prices.

23.68 The stand-alone selling price is the price at which an entity would sell a good or service promised in a contract separately to a customer. The best evidence of a stand-alone selling price is the observable price of a good or service when the entity sells that good or service separately in similar circumstances and to similar customers.

23.69 If a stand-alone selling price is not directly observable, an entity shall estimate it. When estimating a stand-alone selling price, an entity shall take into account all information that is reasonably available to the entity, including market conditions, entity-specific factors and information about the customer or class of customer. An entity shall apply estimation methods consistently in similar circumstances.

23.70 Suitable estimation methods include, but are not limited to, the following:

(a) adjusted market assessment approach – an entity could evaluate the market in which it sells goods or services and estimate the price that a customer in that market would be willing to pay for those goods or services. That approach might also include referring to prices from the entity's competitors for similar goods or services and adjusting those prices as necessary to reflect the entity's costs and margins.

(b) expected cost plus a margin approach – an entity could forecast its expected costs of transferring the good or service promised to a customer and then add an appropriate margin for that good or service.

(c) residual approach – only if the stand-alone selling price of a good or service is highly variable or uncertain, then an entity may estimate the stand-alone selling price by reference to the total transaction price less the sum of the observable or estimated stand-alone selling prices of other goods or services promised in the contract.

23.71 When estimating the stand-alone selling price for a customer's option to acquire additional goods or services identified in accordance with paragraphs 23.31 to 23.35, an entity shall reflect the discount that the customer would obtain when exercising the option, adjusted for both:

(a) any discount that the customer could receive without exercising the option; and

(b) the likelihood that the option will be exercised.

Allocation of a discount or variable consideration

23.72 A customer receives a discount if the sum of the stand-alone selling prices of the goods or services promised in the contract exceeds the promised consideration.

23.73 A discount or amount of variable consideration (see paragraphs 23.43 to 23.57) may be attributable to the entire contract or to a specific part of the contract.

23.74 An entity shall allocate a discount or variable consideration to all the performance obligations in the contract on a relative stand-alone selling price basis, unless this basis does not depict the amount of consideration to which the entity expects to be entitled in exchange for satisfying each performance obligation in the contract. In that case, the entity shall allocate that discount or variable consideration using a method that reflects such an amount (eg a variable payment may be allocated entirely to one performance obligation in the contract if the terms of that variable payment relate specifically to the entity's efforts to satisfy that performance obligation).

Changes in the transaction price

23.75 After contract inception, an entity's estimate of the amount of consideration to which it expects to be entitled in exchange for transferring goods or services may change. For example, an entity updates its estimate of variable consideration included in the transaction price to reflect any relevant changes in circumstances.

23.76 To account for changes in the estimate of the transaction price, an entity shall allocate any changes to performance obligations in the contract on the same basis as at contract inception. Consequently, an entity shall not reallocate the transaction price to reflect changes in stand-alone selling prices after contract inception. Amounts allocated to a performance obligation that has been satisfied shall be recognised as revenue, or as a reduction of revenue, in the period in which the estimate of the transaction price changes.

23.77 A change in transaction price as a result of a contract modification arises from separate and subsequent negotiation between the parties to the contract that changes the enforceable rights and obligations of those parties. Such a change shall be accounted for in accordance with paragraphs 23.13 to 23.16. However, in subsequently applying paragraph 23.76 for a change in the transaction price that occurs after a contract modification:

(a) when the modification is accounted for as if it were a termination of the existing contract and the creation of a new contract, an entity shall allocate the change in the transaction price to the performance obligations identified in the contract before the modification to the extent that the change in the transaction price is attributable to an amount of variable consideration promised before the modification; and

(b) in all other cases in which the modification is not accounted for as a separate contract in accordance with paragraph 23.15, an entity shall allocate changes in transaction price to the performance obligations in the modified contract that were unsatisfied or partially unsatisfied immediately after the modification.

Step 5 – Recognise revenue when (or as) the entity satisfies a performance obligation

23.78 An entity shall recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (ie an asset) to a customer. A good or service is transferred when (or as) the customer obtains control of that good or service.

23.79 For each performance obligation identified, an entity shall determine at contract inception whether the performance obligation is satisfied over time (in accordance with paragraphs 23.81 to 23.84) or satisfied at a point in time (in accordance with paragraphs 23.85 to 23.89).

23.80 Goods and services are assets, even if only momentarily, when they are received and used (as in the case of many services). Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining economic benefits that may flow from, the asset.

Performance obligations satisfied over time

23.81 An entity transfers control of a good or service over time, and therefore satisfies a performance obligation over time, if one of the following criteria is met:

(a) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs (eg routine or recurring services such as a cleaning service). If an entity cannot readily identify whether this is the case, a performance obligation is satisfied over time if another entity would not need to substantially re-perform the work that the entity has completed to date if that other entity were to fulfil the remaining performance obligation (eg in a freight logistics contract);

(b) the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced (eg in the case of a construction contract in which the customer controls the work in progress); or

(c) the entity's performance does not create an asset with alternative use to the entity (see paragraphs 23.82 to 23.83) and the entity has an enforceable right to payment for performance completed to date (see paragraph 23.84).

23.82 An asset created by an entity's performance does not have alternative use if the entity is either:

(a) restricted contractually from readily directing the asset for another use during its creation or enhancement, because the customer could enforce its rights to that promised asset; or

(b) limited practically from readily directing the asset in its completed state for another use, because the entity would incur significant economic losses in doing so.

23.83 The assessment of whether an asset has an alternative use to the entity is made at contract inception and shall be reassessed only if there is a contract modification that substantially changes the performance obligation.

23.84 An enforceable right to payment for performance completed to date may arise from specific terms in the contract or laws that apply to that contract. At all times throughout the duration of the contract, the entity must be entitled to an amount that at least compensates the entity for performance completed to date if the contract is terminated for reasons other than the entity's failure to perform as promised. An amount that would compensate an entity for performance completed to date would be an amount that approximates the selling price of the goods or services transferred to date (eg recovery of the cost incurred by the entity in satisfying the performance obligation plus a reasonable profit margin).

Performance obligations satisfied at a point in time

23.85 If a performance obligation is not satisfied over time, an entity satisfies the performance obligation at a point in time. To determine the point in time at which a customer obtains control of a promised asset, an entity shall consider indicators of the transfer of control, which include but are not limited to the following:

(a) the entity has a present right to payment for the asset;

(b) the customer has legal title to the asset;

(c) the customer has physical possession of the asset;

(d) the customer has the significant risks and rewards of ownership of the asset; and

(e) the customer has accepted the asset (see paragraphs 23.88 to 23.89).

23.86 The existence or absence of an indicator in paragraph 23.85 does not determine whether control of a promised asset has transferred.

(a) For example, in some situations a customer may obtain control of an asset, and an entity shall recognise revenue, even though the entity retains legal title of the asset as protection against the customer's failure to pay, or retains physical possession of the asset under a bill and hold arrangement.

(b) Conversely, in a consignment arrangement, the other party (eg a dealer or distributor) has physical possession of a product that an entity controls. An entity shall not recognise revenue upon delivery of a product to another party if the delivered product is held on consignment.

23.87 Indicators that an arrangement is a consignment arrangement include, but are not limited to, the following:

(a) the product is controlled by the entity until a specified event occurs, such as the sale of the product to a customer of the distributor or until a specified period expires;

(b) the entity is able to require the return of the product or transfer the product to a third party (such as another distributor); and

(c) the distributor does not have an unconditional obligation to pay for the product (although it might be required to pay a deposit).

Customer acceptance

23.88 Customer acceptance clauses allow a customer to cancel a contract or require an entity to take remedial action if a good or service does not meet agreed-upon specifications. If a contract includes a customer acceptance clause, an entity shall consider the effect of the clause when evaluating when a customer obtains control of the asset.

23.89 If an entity can objectively determine (ie determine based on information available to the entity) that control of a good or service has been transferred to the customer in accordance with the agreed-upon specifications in the contract, then customer acceptance is a formality that would not affect the entity's determination of when the customer has obtained control of the good or service. However, if an entity cannot objectively determine that the good or service provided to the customer is in accordance with the agreed-upon specifications in the contract, then the entity would not be able to conclude that the customer has obtained control until the entity receives the customer's acceptance.

Repurchase agreements

23.90 A repurchase agreement is a contract in which an entity sells an asset and also promises or has the option (either in the same contract or in another contract) to repurchase the asset. The repurchased asset may be the asset that was originally sold to the customer, an asset that is substantially the same as that asset, or another asset of which the asset that was originally sold is a component. When evaluating whether a customer obtains control of an asset, an entity shall consider any repurchase agreements.

23.91 In applying paragraphs 23.92 to 23.97:

(a) when comparing the repurchase price with the selling price, an entity shall consider the time value of money; and

(b) if an option lapses unexercised, the entity shall **derecognise** the liability and recognise revenue.

A forward or a call option

23.92 If an entity has an obligation or a right to repurchase an asset (a forward or a call option), a customer does not obtain control of the asset and the entity shall not recognise revenue from a sale of a good or service. Consequently, the entity shall account for the contract as either:

(a) a lease in accordance with Section 20 if the entity can or must repurchase the asset for an amount that is less than the original selling price of the asset. As an exception, the entity shall account for the contract in accordance with paragraph 20.122 if the contract forms part of a sale and leaseback transaction; or

(b) a financing arrangement in accordance with paragraph 23.93 if the entity can or must repurchase the asset for an amount that is equal to or more than the original selling price of the asset.

23.93 If the repurchase agreement is a financing arrangement, the entity shall recognise a **financial liability** for any consideration received from the customer. The difference between the amounts of consideration received from, and to be paid to, the customer shall be recognised as interest using the **effective interest method** (see paragraphs 11.15 to 11.20).

A put option

23.94 If a customer has the unconditional right to require an entity to repurchase an asset (a put option), the customer obtains control of the asset unless the customer has a significant economic incentive to exercise that right. An entity shall assess at contract inception whether the customer has a significant incentive to exercise its right.

23.95 To determine whether a customer has a significant economic incentive to exercise its right, an entity shall consider various factors, including the relationship of the repurchase price to the expected market value of the asset at the date of the repurchase and the amount of time until the right expires.

23.96 If the customer does not have a significant economic incentive to exercise its right, the entity shall account for the agreement as if it were the sale of a product with a right of return (see paragraphs 23.51 to 23.57).

23.97 If the customer has a significant economic incentive to exercise its right, an entity shall account for the contract as either a lease or a financing arrangement depending on the relationship between the amount that the entity may be required to pay to repurchase the asset and its original selling price, as specified in paragraphs 23.92(a) or 23.92(b).

Measuring progress towards complete satisfaction of a performance obligation

23.98 For each performance obligation satisfied over time in accordance with paragraphs 23.81 to 23.84, an entity shall recognise revenue over time by measuring its progress towards complete satisfaction of that performance obligation.

23.99 An entity shall select a method of measuring progress that depicts the entity's performance in transferring control of goods or services promised to a customer (ie the satisfaction of the performance obligation). An entity shall apply a single method of measuring progress for each performance obligation satisfied over time and shall apply that method consistently to similar performance obligations and in similar circumstances.

23.100 At the end of each reporting period, an entity shall remeasure its progress towards complete satisfaction of a performance obligation satisfied over time and update its measure of progress. Such changes to an entity's measure of progress shall be accounted for as a change in **accounting estimate** in accordance with paragraphs 10.14D to 10.18.

23.101 In determining a method of measuring progress, an entity shall consider the nature of the good or service that the entity will transfer to the customer. Appropriate methods of measuring progress include methods that recognise revenue based on:

(a) measurements of the value to the customer of the goods or services transferred to date relative to the remaining goods or services to be transferred under the contract (referred to as output methods); and

(b) the entity's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to satisfy the performance obligation (referred to as input methods).

23.102 Common methods, and circumstances when they may be appropriate, include:

(a) an output method based on surveys of work completed, when the surveys provide an objective measure of an entity's performance to date;

(b) an output method based on units delivered, when each item transfers an equal amount of value to the customer on delivery and partly-completed items are not significant;

(c) an output method based on time elapsed, when control of the goods or services is transferred evenly over time;

(d) an input method based on time elapsed, when an entity's efforts or inputs are expended evenly throughout the performance period;

(e) an input method based on costs incurred, when the method includes costs that reflect an entity's performance to date and contribute to the entity's progress in transferring control of goods or services promised to a customer; and

(f) an input method based on labour hours expended, when there is a relationship between labour hours expended and the transfer of control of goods or services to a customer.

23.103 If an entity has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the entity's work to date (eg a service contract in which an entity bills a fixed amount for each hour of service provided), the entity may recognise revenue in the amount to which the entity has a right to invoice.

23.104 If an entity cannot reasonably measure its progress towards complete satisfaction of a performance obligation (eg in the early stages of a contract), but the entity expects to recover the costs incurred in satisfying that performance obligation, the entity shall recognise revenue only to the extent of the costs incurred.

Licensing

23.105 A licence establishes a customer's rights to the intellectual property of an entity (such as software, technology, trademarks, patents, franchises, music and motion picture films).

23.106 If a contract with a customer includes a promise to grant a licence (or licences) in addition to other goods or services, an entity shall apply paragraphs 23.17 to 23.25 to identify each of the performance obligations in the contract. If the promise to grant a licence is not distinct from the other goods or services in the contract, an entity shall apply paragraphs 23.78 to 23.89 to determine whether the performance obligation (which includes the licence) is satisfied over time or at a point in time. If the promise to grant a licence is distinct from the other goods or services in the contract, an entity shall apply paragraphs 23.107 to 23.112 to determine whether the performance obligation is satisfied over time or satisfied at a point in time.

23.107 To determine whether the licence transfers over time or at a point in time, an entity shall consider whether the nature of the entity's promise in granting the licence provides the customer with:

(a) a right to access the entity's intellectual property as it exists throughout the licence period; or

(b) a right to use the entity's intellectual property as it exists at the point in time at which the licence is granted.

23.108 A licence provides a customer with a right to access an entity's intellectual property if the entity expects to undertake activities that either:

(a) will significantly affect the benefit the customer obtains from the intellectual property by changing the substance of the intellectual property; or

(b) could significantly affect the benefit the customer obtains from the intellectual property by directly exposing the customer to any positive or negative effects of those activities.

23.109 An entity's expected activities may be included in the terms of a contract or arise from those activities that the customer reasonably expects the entity will undertake. The assessment of whether a licence provides a customer with a right to access an entity's intellectual property shall not include activities that result in the transfer of a good or service to the customer as those activities occur.

23.110 Activities that change the substance of the intellectual property include activities that change the intellectual property's design, content or ability to perform a function or task (eg development activities that change the content to which the customer has rights). Activities that expose the customer to positive or negative effects of those activities include activities that support or maintain the value of intellectual property (eg ongoing activities that maintain the value of the brand to which the customer has rights).

23.111 If either of the criteria in paragraph 23.108 are met, the licence transfers over time because a customer receives and consumes the benefits of an entity's performance of providing access to its intellectual property as the entity performs. An entity shall apply paragraphs 23.98 to 23.104 to select an appropriate method to measure its progress towards complete satisfaction of the performance obligation.

23.112 If neither of the criteria in paragraph 23.108 are met, the licence provides the customer with a right to use the entity's intellectual property as it exists at the point in time at which the licence is granted. An entity shall apply paragraphs 23.85 to 23.89 to determine the point in time at which the licence transfers to the customer. Revenue cannot be recognised for a licence that provides a right to use the entity's intellectual property before the beginning of the period during which the customer is able to use and benefit from the licence.

Contract costs

Costs to obtain a contract

23.113 An entity may incur costs in its effort to obtain a contract with a customer. An entity may recognise such costs as an asset if:

(a) the costs would not have been incurred by the entity if the contract had not been obtained (eg a sales commission payable on obtaining a contract); and

(b) the costs are expected to be recovered.

23.114 If an entity adopts a policy of recognising costs to obtain a contract that meet the criteria in paragraph 23.113 as an asset, that policy shall be applied consistently to all costs that meet the criteria of paragraph 23.113, except for costs that the entity would recognise as an asset with an **amortisation** period of one year or less, which may be expensed when incurred. Costs that do not meet the criteria in paragraph 23.113 are recognised as an **expense** when incurred.

23.115 Notwithstanding the requirements of paragraphs 23.113 and 23.114, costs to obtain a contract that would have been incurred regardless of whether the contract was obtained shall be recognised as an asset if those costs are explicitly chargeable to the customer regardless of whether the contract is obtained.

Costs of fulfilling a contract

23.116 An entity shall account for the costs incurred in fulfilling a contract with a customer in accordance with the relevant section of this FRS for those costs (eg Section 13 *Inventories*, Section 17 *Property, Plant and Equipment*, or Section 18 *Intangible Assets other than Goodwill*).

23.117 If the costs incurred in fulfilling a contract are not within the scope of another section of this FRS, an entity shall recognise those costs as an asset if:

(a) the costs relate directly to a contract or to an anticipated contract that the entity can specifically identify;

(b) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and

(c) the costs are expected to be recovered.

23.118 An asset recognised in accordance with paragraph 23.117 gives rise to resources that the entity will use to satisfy future performance obligations in the contract. Conversely, costs that relate to performance obligations that are satisfied (or partially satisfied) shall be recognised as expenses when incurred, as those costs relate to past performance.

Measurement after recognition

23.119 After initial **recognition**, an entity shall measure assets recognised in accordance with paragraph 23.113 or 23.117 at cost less accumulated amortisation and any accumulated **impairment losses**.

23.120 An asset recognised in accordance with paragraph 23.113 or 23.117 shall be amortised in accordance with the pattern of transfer to the customer of the goods or services to which the asset relates.

23.121 If an asset has been recognised in accordance with paragraph 23.113 or 23.117, an entity shall follow Section 27 *Impairment of Assets* for recognising and measuring the impairment of the asset. However, an entity shall apply paragraph 23.122 instead of paragraphs 27.11 to 27.20A to estimate the recoverable amount of such an asset.

23.122 The recoverable amount of an asset recognised in accordance with paragraph 23.113 or 23.117 is:

(a) the remaining amount of consideration that the entity expects to receive in exchange for the goods or services to which the asset relates; less

(b) the costs that relate directly to providing those goods or services and that have not been recognised as expenses.

23.123 In applying paragraph 23.122(a), an entity shall determine the amount of consideration that the entity expects to receive by using the principles for determining the transaction price (except for the requirements in paragraph 23.46 on constraining estimates of variable consideration) and adjusting that amount to reflect the effects of the customer's **credit risk**.

Contract balances

23.124 When either party to a contract has performed, an entity shall present the contract in the statement of financial position as a **contract asset** or a **contract liability**, depending on the relationship between:

(a) the entity’s performance in transferring goods or services to the customer; and

(b) the customer’s payment.

23.125 If an entity has received consideration (or consideration is due) from the customer before the entity transfers goods or services to the customer, the entity shall recognise a contract liability when the payment is made or the payment is due (whichever is earlier). A contract liability is an entity’s obligation to transfer goods or services to a customer for which the entity has received consideration (or the amount is due) from the customer. When (or as) the entity transfers those goods or services to the customer, the entity shall derecognise the contract liability (or part of a contract liability) and recognise revenue, in accordance with paragraphs 23.78 to 23.112.

23.126 If an entity transfers goods or services to a customer before the customer pays consideration (or before payment is due), the entity shall recognise a contract asset, excluding any amounts presented as a trade receivable. A contract asset is an entity’s right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditional on something other than the passage of time (eg the entity transferring other goods or services promised in the contract). When the customer pays the consideration (or the consideration becomes due), the entity shall derecognise the contract asset. An entity shall assess a contract asset for impairment, and recognise any impairment loss, in accordance with Section 11.

23.127 A trade receivable is an entity’s right to consideration that is unconditional. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due. For example, an entity would recognise a trade receivable if it has a present right to payment even though that amount may be subject to refund in the future.

23.128 Alternative descriptions of ‘contract liability’, ‘contract asset’ and ‘trade receivable’ may be used in the statement of financial position or in the **notes**. An entity that chooses to do so shall provide sufficient information for users of its **financial statements** to distinguish between trade receivables and contract assets.

Customers’ unexercised rights

23.129 When an entity receives an upfront non-refundable payment that gives the customer a right to receive a good or service in the future (eg a gift card), this gives rise to a contract liability. However, customers might not exercise all of their contractual rights. Those unexercised rights are often referred to as breakage.

23.130 To determine whether it expects to be entitled to a breakage amount in a contract liability, an entity shall consider the requirements in paragraph 23.46 on constraining estimates of variable consideration. If an entity expects to be entitled to a breakage amount in a contract liability, the entity shall recognise the expected breakage amount as revenue in proportion to the pattern of rights exercised by the customer. If an entity does not expect to be entitled to a breakage amount, the entity shall recognise the expected breakage amount as revenue when the likelihood of the customer exercising its remaining rights becomes remote.

Disclosures

23.131 An entity shall disaggregate revenue recognised from contracts with customers into categories that depict how its revenue and cash flows are affected by economic factors. Categories that might be appropriate include:

(a) type of good or service (eg major product lines);

(b) geographical market (eg country or region);

(c) market or type of customer (eg **government** and non-government customers);

(d) timing of transfer of goods or services (eg revenue from goods or services transferred to customers at a point in time and revenue from goods or services transferred over time); and

(e) revenue earned as an agent or as a principal.

23.132 If an entity applies IFRS 8 *Operating Segments*, the entity shall disclose sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated revenue (as required by paragraph 23.131) and revenue information that is disclosed for each reportable segment.

23.133 An entity shall disclose the following amounts for the reporting period unless those amounts are presented separately in the **statement of comprehensive income** (or **income statement**, if presented) by applying other sections of this FRS:

(a) revenue recognised from contracts with customers, which the entity shall disclose separately from its other sources of revenue; and

(b) any impairment losses recognised (by applying Section 11) on any receivables or contract assets arising from an entity's contracts with customers, which the entity shall disclose, in aggregate, separately from impairment losses from other contracts.

23.134 An entity shall disclose:

(a) the opening and closing balances of receivables, contract assets and contract liabilities from contracts with customers, if not otherwise separately presented or disclosed;

(b) revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period; and

(c) revenue recognised in the reporting period from performance obligations satisfied or partially satisfied in previous periods (eg changes in estimates of variable consideration).

23.135 An entity shall disclose information about its performance obligations in contracts with customers, including a description of:

^ (a) when the entity typically satisfies its performance obligations (eg upon shipment, upon delivery, as services are rendered or upon completion of service);

^ (b) the significant payment terms (eg when payment is typically due, whether the contract includes a financing transaction, and whether the consideration amount is variable);

^ (c) the nature of the goods or services that the entity has promised to transfer, highlighting any promises to arrange for another party to transfer goods or services (ie if the entity is acting as an agent);

(d) obligations for returns, refunds and other similar obligations; and

(e) types of warranties and related obligations.

23.136 For performance obligations that an entity satisfies over time, the entity shall disclose the methods it used to recognise revenue – for example, a description of the output methods or input methods used and how those methods are applied.

23.137 An entity shall provide a quantitative or qualitative explanation of the significance of unsatisfied performance obligations and when they are expected to be satisfied. However, an entity need not disclose such information for a performance obligation if either of the following conditions is met:

(a) the performance obligation is part of a contract that has an original expected duration of one year or less; or

(b) the entity recognises revenue from the satisfaction of the performance obligation in accordance with paragraph 23.103.

23.138 An entity shall disclose:

(a) the closing balances of assets recognised from the costs incurred to obtain or fulfil a contract with a customer (in accordance with paragraph 23.113 or 23.117), by main category of asset (eg costs to obtain contracts with customers, pre-contract costs and set-up costs); and

(b) the amount of amortisation and any impairment losses recognised in the reporting period.

23.139 An entity shall disclose if it chooses to use the options in paragraph 23.60 (making no adjustments for the time value of money), paragraph 23.113 (recognising costs incurred to obtain a contract as an asset), or paragraph 23.114 (recognising costs to obtain a contract as expenses when incurred for contracts in which the amortisation period for the asset that the entity would otherwise have recognised is one year or less).

Appendix *Example of revenue recognition under the principles of Section 23* to Section 23

247 The appendix *Example of revenue recognition under the principles of Section 23* to Section 23 is deleted.

Amendments to Section 24
Government Grants

248 The following paragraphs set out the amendments to Section 24 *Government Grants* (deleted text is struck through, inserted text is underlined).

249 In paragraph 24.2 the terms ‘government assistance’ and ‘government’ are now shown in bold type.

250 Paragraph 24.3 is amended as follows:

24.3 This section does not cover government assistance that is provided for an entity in the form of ~~benefits~~ reliefs and deductions that are available in determining **taxable profit (tax loss)**, or ~~are~~ government assistance that is determined or limited on the basis of **income tax** liability. Examples of such ~~benefits~~ government assistance are income tax holidays, investment tax credits, accelerated depreciation allowances and reduced income tax rates. Section 29 *Income Tax* covers accounting for taxes based on **income**.

251 Paragraph 24.3A is amended as follows:

24.3A Government grants, including non-monetary grants, shall not be recognised until there is reasonable assurance that:

(a) the entity will comply with the conditions attaching to them; and

(b) the grants will be received.

252 Paragraph 24.5B is amended as follows:

24.5B An entity applying the performance model shall recognise grants as follows:

(a) A grant that does not impose specified future **performance-related conditions** on the recipient is recognised in income when the grant proceeds are received or receivable.

(b) A grant that imposes specified future performance-related conditions on the recipient is recognised in income only when the performance-related conditions are ~~met~~ satisfied.

(c) Grants received before the ~~**revenue recognition** criteria~~ performance-related conditions are satisfied are recognised as a liability.

253 Paragraph 24.5C is amended as follows:

24.5C An entity applying the accrual model shall classify ~~grants~~ a grant, or each part of a grant, either as a grant relating to revenue or a grant relating to assets.

254 Paragraph 24.5F is amended as follows:

24.5F Grants relating to assets, including **right-of-use assets**, shall be recognised in income on a systematic basis over the expected **useful life** of the asset.

255 Paragraph 24.6 is amended as follows:

24.6 An entity shall disclose the following:

(a) the **accounting policy** adopted for grants in accordance with paragraph 24.4;

(b) the nature and ~~amounts~~ extent of grants recognised in the **financial statements**;

(c) unfulfilled conditions and other contingencies attaching to grants that have been recognised in income; and

(d) an indication of other forms of government assistance from which the entity has directly benefited. Examples include free technical or marketing advice and the provision of guarantees.

256 Paragraph 24.7 is deleted as follows:

24.7 ~~For the purpose of the disclosure required by paragraph 24.6(d), government assistance is action by government designed to provide an economic benefit specific to an entity or range of entities qualifying under specified criteria. Examples include free technical or marketing advice and the provision of guarantees.~~[Deleted]

Amendments to Section 25 *Borrowing Costs*

257 The following paragraphs set out the amendments to Section 25 *Borrowing Costs* (deleted text is struck through, inserted text is underlined).

258 Paragraph 25.1 is amended as follows:

25.1 This section applies to **borrowing costs**. Borrowing costs include:

(a) interest expense calculated using the **effective interest method** as set out in Section 11 *Basic Financial Instruments*;

(b) ~~finance charges in respect of **finance leases**~~ <u>interest expense on **lease liabilities**</u> as set out in Section 20 *Leases*; and

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

259 Paragraph 25.2C is amended as follows:

25.2C To the extent that funds applied to obtain a qualifying asset form part of the entity's general borrowings, the amount of borrowing costs eligible for capitalisation are determined by applying a capitalisation rate to the expenditure on that asset. For this purpose the expenditure on the asset is the average **carrying amount** of the asset during the period, including borrowing costs previously capitalised. The capitalisation rate used in an accounting period shall be the weighted average of rates applicable to the entity's general borrowings that are outstanding during the period. This excludes borrowings by the entity that are specifically for the purpose of obtaining other qualifying assets<u>, until substantially all the activities necessary to prepare that asset for its intended use or sale are complete</u>. The amount of borrowing costs that an entity capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.

Amendments to Section 26
Share-based Payment

260 The following paragraphs set out the amendments to Section 26 *Share-based Payment* (deleted text is struck through, inserted text is underlined).

261 Paragraphs 26.1B and 26.1C are inserted as follows:

26.1B Equity instruments issued in a **business combination** in exchange for **control** of the acquiree are not within the scope of this section. However, equity instruments granted to employees of the acquiree in their capacity as employees (eg in return for continued service) are within the scope of this section. Similarly, the cancellation, replacement or other modification of share-based payment arrangements because of a business combination or other equity restructuring shall be accounted for in accordance with this section.

26.1C This section uses the term 'fair value' in a way that differs in some respects from the definition of **fair value** in Appendix I *Glossary*. For the purposes of this section, fair value is the amount for which an asset could be exchanged, a liability settled or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm's length transaction. This section sets out specific guidance for measuring the fair value of certain share-based payment transactions.

262 The term 'fair value' in paragraph 26.7 is no longer shown in bold type.

263 Paragraph 26.9 is amended as follows:

26.9 A grant of equity instruments might be conditional upon satisfying specified **vesting conditions** related to service or performance. An example of a **service condition** is when a grant of shares or share options is conditional on the employee remaining in the entity's employ for a specified period of time. Examples of **performance conditions** are when a grant of shares or share options is conditional on the entity achieving a specified growth in profit (a non-market vesting condition) or a specified increase in the entity's share price (a **market vesting condition**). Vesting conditions and conditions that are not vesting conditions (such as a condition that an employee contributes to a savings plan) are accounted for as follows:

(a) Vesting conditions, other than market vesting conditions, shall not be taken into account when estimating the fair value of the shares or share options at the measurement date. Instead, such vesting conditions shall be taken into account in estimating the number of equity instruments expected to vest. Subsequently, the entity shall revise that estimate, if new information indicates that the number of equity instruments expected to vest differs from previous estimates. On the vesting date, the entity shall revise the estimate to equal the number of equity instruments that ultimately vested.

(b) All **market vesting conditions** and conditions that are not vesting conditions shall be taken into account when estimating the fair value of the equity instruments granted at the measurement date, with no subsequent adjustment to the estimated fair value, irrespective of the outcome of the market vesting condition or condition that is not a vesting condition, provided that all other vesting conditions are satisfied.

264 Paragraph 26.12 is amended as follows:

26.12 An entity might modify the terms and conditions on which equity instruments are granted in a manner that is beneficial to the employee, for example, by reducing the exercise price of an option or reducing the vesting period or by modifying or eliminating a performance condition. Alternatively, an entity might modify the terms and conditions in a manner that is not beneficial to the employee, for example, by increasing the vesting period or adding a performance condition. The entity shall take the modified vesting conditions into account in accounting for the share-based payment transaction, as follows:

(a) If the modification increases the fair value of the equity instruments granted (or increases the number of equity instruments granted) measured immediately before and after the modification, the entity shall include the incremental fair value granted in the measurement of the amount recognised for services received as consideration for the equity instruments granted. The incremental fair value granted is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification. If the modification occurs during the vesting period, the incremental fair value granted is included in the measurement of the amount recognised for services received over the period from the modification date until the date when the modified equity instruments vest, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognised over the remainder of the original vesting period.

(b) If the modification reduces the total fair value of the **share-based payment arrangement**, or apparently is not otherwise beneficial to the employee, the entity shall nevertheless continue to account for the services received as consideration for the equity instruments granted as if that modification had not occurred.

The requirements in this paragraph are expressed in the context of share-based payment transactions with employees. The requirements also apply to share-based payment transactions with parties other than employees if these transactions are measured by reference to ~~their~~ the fair value of the equity instruments granted, but reference to the grant date refers to the date that the entity obtains the goods or the counterparty renders service.

265 Paragraph 26.13A is inserted as follows:

26.13A Settlement of an equity settled share-based payment transaction may involve an entity transferring cash (or other assets) as an alternative, or part alternative, to the transfer of equity instruments. For example, if:

(a) the entity has a choice of settlement;

(b) the entity repurchases vested equity instruments; or

(c) the share-based payment arrangement has a **net settlement feature**.

The payment made shall be accounted for as a deduction from equity, except to the extent that the payment exceeds the fair value of the equity instruments that would otherwise have been issued, measured at the settlement or repurchase date. Any such excess shall be recognised as an expense.

266 The heading (underlined) before paragraph 26.14 is amended as follows:

~~Cash-settled~~ Measurement of cash-settled share-based payment transactions

267 Paragraphs 26.14A to 26.14C are inserted as follows:

26.14A The fair value of the liability shall be measured by reference to the fair value of the cash-settled share-based payment transaction. For example, share appreciation rights are measured by reference to the fair value of the underlying equity instruments measured in accordance with paragraphs 26.10 and 26.11.

26.14B A cash-settled share-based payment transaction might be conditional upon satisfying specified vesting conditions related to service or performance. Vesting conditions and conditions that are not vesting conditions are accounted for as follows:

(a) Vesting conditions, other than market vesting conditions, shall not be taken into account when estimating the fair value of the cash-settled share-based payment as at the measurement date. Instead, such vesting conditions shall be taken into account in estimating the number of awards expected to vest. The entity shall revise that estimate, if necessary, if subsequent information indicates that the number of awards that are expected to vest differs from previous estimates. On the vesting date, the entity shall revise the estimate to equal the number of awards that ultimately vested.

(b) All market vesting conditions and conditions that are not vesting conditions shall be taken into account when estimating the fair value of the cash-settled share-based payment at each reporting date and at the date of settlement.

26.14C As a result of applying paragraphs 26.14 to 26.14B, the cumulative amount ultimately recognised for goods or services received as consideration for the cash-settled share-based payment is equal to the cash that is paid.

268 Paragraphs 26.15A to 26.15C are amended as follows:

26.15A When the entity has a choice of settlement of the transaction in cash (or other assets) or by the transfer of equity instruments, the entity shall account for the transaction as a wholly equity-settled share-based payment transaction in accordance with paragraphs 26.7 to ~~26.13~~ 26.13A unless:

(a) the choice of settlement in equity instruments has no commercial substance (eg because the entity is legally prohibited from issuing shares); or

(b) the entity has a past practice or a stated policy of settling in cash, or generally settles in cash whenever the counterparty asks for cash settlement.

In circumstances (a) and (b) the entity shall account for the transaction as a wholly cash-settled transaction in accordance with paragraphs 26.14 to 26.14C.

26.15B ~~Except as set out in paragraph 26.15C, when~~ When the counterparty has a choice of settlement of the transaction in cash (or other assets) or by the transfer of equity instruments, the entity shall account for the transaction as a wholly cash-settled share-based payment transaction in accordance with paragraph 26.14 unless:

(a) the choice of settlement in cash (or other assets) has no commercial substance because the cash settlement amount (or value of the other assets) bears no relationship to, and is likely to be lower in value than, the fair value of the equity instruments; or

(b) the choice of settlement relates only to a net settlement feature and there is an obligation on the entity under tax laws or regulations to withhold an amount for an employee's tax obligation associated with that share-based payment.

In circumstances (a) and (b) the entity shall account for the transaction as a wholly equity-settled transaction in accordance with paragraphs 26.7 to 26.13A. However, if the entity withholds an amount of shares that exceeds the monetary value of the employee's tax obligation in circumstance (b), the entity shall account for the excess shares withheld as a cash-settled share-based payment when this amount is paid in cash (or other assets) to the employee.

26.15C ~~If the choice of settlement in cash (or other assets) has no commercial substance because the cash settlement amount (or value of the other assets) bears no relationship to, and is likely to be lower in value than, the fair value of the equity instruments, the entity shall account for the transaction as a wholly equity-settled transaction in accordance with paragraphs 26.7 to 26.13.~~ [Deleted]

269 Paragraphs 26.18(a), 26.18(b)(i), 26.18(b)(vi), 26.18(b)(vii) and 26.23 are each preceded by a ^ in the left-hand margin.

Amendments to Section 27 *Impairment of Assets*

270 The following paragraphs set out the amendments to Section 27 *Impairment of Assets* (deleted text is struck through, inserted text is underlined).

271 Paragraph 27.1 is amended as follows:

27.1 This section applies to the impairment of ~~assets~~ **assets** and the **recognition** of **impairment losses** except in relation to:

(a) **contract assets** and ~~**assets**~~ assets arising from ~~**construction contracts**~~ costs to obtain or fulfil a **contract** (see paragraphs 23.121 to 23.123 ~~Section 23 *Revenue*~~);

(b) **deferred tax assets** (see Section 29 *Income Tax*);

(c) assets arising from **employee benefits** (see Section 28 *Employee Benefits*);

(d) **financial assets** within the scope of Section 11 *Basic Financial Instruments* or Section 12 *Other Financial Instruments Issues*;

(e) **investment property** measured at **fair value** (see Section 16 *Investment Property*);

(f) **biological assets** related to **agricultural activity** measured at fair value less ~~estimated~~ costs to sell (see Section 34 *Specialised Activities*); and

(g) **deferred acquisition costs** and **intangible assets** arising from contracts within the scope of **FRS 103**.

272 In paragraph 27.9 the term 'fair value less costs to sell' is no longer shown in bold type.

273 Paragraph 27.14 is amended as follows:

27.14 Fair value less costs to sell is a measurement based on fair value. ~~the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. The best evidence of the fair value less costs to sell of an asset is a price in a binding sale agreement in an arm's length transaction or a market price in an **active market**. 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 reporting 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.~~ Section 2A *Fair Value Measurement* provides guidance on fair value measurement.

274 Paragraph 27.14A is amended as follows:

27.14A When determining an asset's fair value less costs to sell, consideration shall be given to any restrictions ~~imposed~~ on the sale or use of that asset. Costs to sell shall ~~also~~ include the cost of obtaining relaxation of a restriction ~~where~~ when necessary in order to enable the asset to be sold. ~~If~~ However, if a restriction would also apply to any potential purchaser of an asset, that restriction may instead affect the fair value of the asset, as set out in paragraph 2A.4 ~~may be lower than that of an asset whose use is not restricted~~. Costs to sell shall not include factors that have already been taken into account when determining the fair value of an asset.

275 Paragraph 27.24 is amended as follows:

27.24 Goodwill, by itself, cannot be sold. Nor does it generate cash flows to an entity that are independent of the cash flows of other assets. As a consequence, the ~~fair value~~ recoverable amount of goodwill cannot be measured directly. Therefore, the ~~fair value~~ recoverable amount of goodwill must be derived from **measurement** of the ~~fair value~~ recoverable amount of the cash-generating unit(s) of which the goodwill is a part.

276 Paragraph 27.33 is amended as follows:

27.33 An entity shall disclose the information required by paragraph 27.32 for each of the following classes of asset:

(a) inventories;

(b) **property, plant and equipment** (including investment property accounted for by the cost method);

(bA) **right-of-use assets**;

(c) goodwill;

(d) intangible assets other than goodwill;

(e) investments in **associates**; and

(f) investments in **joint ventures**.

Amendments to Section 28 *Employee Benefits*

277 The following paragraphs set out the amendments to Section 28 *Employee Benefits* (deleted text is struck through, inserted text is underlined).

278 Paragraph 28.15 is amended as follows:

28.15 An entity shall measure the net defined benefit liability for its obligations under defined benefit plans at the net total of the following amounts:

(a) the present value of its obligations under defined benefit plans (its **defined benefit obligation**) at the reporting date (paragraphs 28.16 to 28.21A provide guidance for measuring this obligation); minus

(b) the **fair value** at the reporting date of plan assets (if any) out of which the obligations are to be settled. ~~The Appendix to Section 2 *Concepts and Pervasive Principles*~~ <u>Section 2A *Fair Value Measurement*</u> provides guidance on determining the fair values of those plan assets, except that, if the asset is an insurance policy that exactly matches the amount and timing of some or all of the benefits payable under the plan, the fair value of the asset is deemed to be the present value of the related obligation.

279 Paragraph 28.17 is amended as follows:

28.17 An entity shall measure its defined benefit obligation on a discounted present value basis. The entity shall determine the rate used to discount the future payments by reference to market yields at the reporting date on high quality corporate bonds. In countries with no deep market in such bonds, the entity shall use the market yields (at the reporting date) on ~~government~~ <u>national **government**</u> bonds. The currency and term of the corporate bonds or <u>national</u> government bonds shall be consistent with the currency and estimated period of the future payments.

280 Paragraph 28.25 is amended as follows:

28.25 Remeasurement of the net defined benefit liability comprises:

(a) **actuarial gains and losses**;

(b) the return on plan assets, excluding amounts included in net interest on the net defined benefit liability <u>and after deducting the costs of managing the plan assets</u>; and

(c) any change in the amount of a defined benefit plan surplus that is not recoverable (see paragraph 28.22), excluding amounts included in net interest on the net defined benefit liability.

281 Paragraph 28.41 is amended as follows:

28.41 An entity shall disclose the following information about defined benefit plans (except for any multi-employer defined benefit plans that are accounted for as a defined contribution plan in accordance with paragraphs 28.11 and 28.11A, for which the disclosures in paragraphs 28.40 and 28.40A apply instead). If an entity has more than one defined benefit plan, these disclosures may be made in aggregate, separately for each plan, or in such groupings as are considered to be the most useful:

(a) A general description of the type of plan, including **funding** policy. This includes the amount and timing of the future payments to be made by the entity under any agreement with the defined benefit plan to fund a deficit (such as a schedule of contributions).

(b) [Deleted]

(c) [Deleted]

(d) The date of the most recent comprehensive actuarial valuation and, if it was not as of the reporting date, a description of the adjustments that were made to measure the defined benefit obligation at the reporting date.

(e) A reconciliation of opening and closing balances for each of the following:

   (i) the defined benefit obligation;

   (ii) the fair value of plan assets; and

   (iii) any reimbursement right recognised as an asset.

(f) Each of the reconciliations in paragraph 28.41(e) shall show each of the following, if applicable:

   (i) the change in the defined benefit liability arising from employee service rendered during the reporting period in profit or loss;

   (ii) interest income or expense;

   (iii) remeasurement of the defined benefit liability, showing separately actuarial gains and losses and the return on plan assets less amounts included in (ii) above;~~ and~~

   (iv) plan introductions, changes, curtailments and settlements~~.~~;

   (v) contributions to the plan;

   (vi) payments from the plan;

   (vii) the effect of changes in foreign exchange rates; and

   (viii) the effect of **business combinations** and disposals.

(g) ~~The total cost relating to defined benefit plans for the period, disclosing separately the amounts:~~

   ~~(i) recognised in profit or loss as an expense; and~~

   ~~(ii) included in the cost of an asset.~~[Deleted]

(h) For each major class of plan assets, which shall include, but is not limited to, equity instruments, debt instruments, property, and all other assets, the percentage or amount that each major class constitutes of the fair value of the total plan assets at the reporting date.

(i) The amounts included in the fair value of plan assets for:

   (i) each class of the entity's own **financial instruments**; and

   (ii) any property occupied by, or other assets used by, the entity.

(j) The return on plan assets.

(k) The principal actuarial assumptions used, including, when applicable:

   (i) the discount rates;

   (ii) [Deleted]

   (iii) the expected rates of salary increases;

   (iv) medical cost trend rates; and

(v) any other **material** actuarial assumptions used.

(l) When applicable, the basis used to determine the limit on recognising a plan surplus (see paragraph 28.22).

The reconciliations in (e) and (f) above need not be presented for prior periods.

Amendments to Section 29
Income Tax

282 The following paragraphs set out the amendments to Section 29 *Income Tax* (deleted text is struck through, inserted text is underlined).

283 Paragraphs 29.11 and 29.11A are amended as follows:

29.11 When the ~~amount that can be deducted for tax for~~ **tax base** of an asset (other than goodwill) that is recognised in a business combination accounted for by applying the purchase method is less (more) than the value at which ~~it~~ the asset is recognised, a deferred tax liability (asset) shall be recognised for the additional tax that will be paid (avoided) in respect of that difference. Similarly, a deferred tax asset (liability) shall be recognised for the additional tax that will be avoided (paid) because of a difference between the value at which a liability is recognised in a business combination accounted for by applying the purchase method and the ~~amount that will be assessed for~~ tax base of that liability. The amount attributed to goodwill (or negative goodwill) shall be adjusted by the amount of deferred tax recognised.

29.11A In applying paragraph 29.11 and determining the ~~amount that can be deducted for~~ tax base of an asset or a liability an entity shall consider the manner in which the entity expects, at the end of the **reporting period**, to recover or settle the **carrying amount** of the relevant asset or liability.

284 A sub-heading and paragraphs 29.17A to 29.17C are inserted as follows:

Uncertain tax treatments

29.17A It may be unclear how tax law applies to a particular transaction or circumstance. An entity shall determine whether to consider each **uncertain tax treatment** separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty.

29.17B An entity shall assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes:

(a) it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings.

(b) it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates by using either of the following methods, depending on which better predicts the resolution of the uncertainty:

(i) the most likely amount – the single most likely amount in a range of possible outcomes.

(ii) the expected value – the sum of the probability-weighted amounts in a range of possible outcomes.

29.17C An entity shall reflect the effect of a change in relevant facts and circumstances, or of new information, on its judgements or estimates about uncertain tax treatments as a change in accounting estimate in accordance with paragraphs 10.14D to 10.18.

285 Paragraphs 29.26, 29.27(b) and 29.27(e) are each preceded by a ^ in the left-hand margin.

Amendments to Section 31 *Hyperinflation*

286 The following paragraph sets out the amendments to Section 31 *Hyperinflation*.

287 In paragraph 31.4 the term 'government' is now shown in bold type.

Amendments to Section 32
Events after the End of the Reporting Period

288 The following paragraphs set out the amendments to Section 32 *Events after the End of the Reporting Period*.

289 In paragraph 32.5 the term ‘customer’ is now shown in bold type.

290 In paragraph 32.11(c) the term ‘government’ is now shown in bold type.

Amendments to Section 33
Related Party Disclosures

291 The following paragraphs set out the amendments to Section 33 *Related Party Disclosures* (deleted text is struck through, inserted text is underlined).

292 Paragraph 33.1A is amended as follows:

^ 33.1A Disclosures required by ~~this section~~ paragraph 33.9 need not be given of transactions entered into between two or more members of a **group**, provided that any **subsidiary** which is a party to the transaction is wholly owned by such a member.

293 In paragraph 33.4 the terms 'government' and 'customer' are now shown in bold type.

294 The sub-heading before paragraph 33.5 is amended as follows:

Disclosure of ~~parent-subsidiary~~ controlling party relationships

295 Paragraph 33.9 is amended, and is preceded by a ^ instead of a * in the left-hand margin, as follows (the sequentially numbered footnote in this paragraph is not presented here and is unchanged by this amendment):

^ 33.9 If an entity has related party transactions, it shall disclose the nature of the related party relationship as well as information about the transactions, outstanding balances and commitments necessary for an understanding of the potential effect of the relationship on the financial statements. Those disclosure requirements are in addition to the requirements in paragraph 33.7 to disclose key management personnel compensation.[58] At a minimum, disclosures shall include:

(a) The amount of the transactions.

(b) The amount of outstanding balances and commitments, 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 or received.

(c) Provisions for uncollectible receivables related to the amount of outstanding balances.

(d) The expense recognised during the period in respect of bad or doubtful debts due from related parties.

Such transactions could include purchases, sales, or transfers of goods or services, **leases**, guarantees and settlements by the entity on behalf of the related party or vice versa.

296 Paragraph 33.11 is amended as follows:

^ 33.11 An entity is exempt from the disclosure requirements of paragraph 33.9 in relation to related party transactions, outstanding balances, and commitments, with:

(a) a ~~**state** (a national, regional or local government)~~ government that has control, joint control or significant influence over the reporting entity; and

(b) another entity that is a related party because the same ~~state~~ government has control, joint control or significant influence over both the reporting entity and the other entity.

However, the entity must still disclose a ~~parent-subsidiary~~ controlling party relationship as required by paragraph 33.5.

297 Paragraph 33.12 is amended as follows:

33.12 The following are examples of transactions that shall be disclosed if they are with a related party:

(a) purchases or sales of goods (finished or unfinished);

(b) purchases or sales of property and other **assets**;

(c) rendering or receiving of services;

(d) leases;

(e) transfers of **research** and **development**;

(f) transfers under licence agreements;

(g) transfers under finance arrangements (including loans and equity contributions in **cash** or in kind);

(h) provision of guarantees or collateral;

(hA) commitments to do something if a particular event occurs or does not occur in the future;

(i) settlement of **liabilities** on behalf of the entity or by the entity on behalf of another party; and

(j) participation by a parent or subsidiary in a **defined benefit plan** that shares risks between group entities.

298 Paragraph 33.14 is preceded by a ^ in the left-hand margin instead of a *.

Amendments to Section 34 *Specialised Activities*

299 The following paragraphs set out the amendments to Section 34 *Specialised Activities* (deleted text is struck through, inserted text is underlined).

300 Paragraph 34.1 is amended as follows:

34.1 This section applies to the following types of specialised activities:

(a) ~~Agriculture~~ Agricultural Activities (see paragraphs 34.2 to 34.10A);

(b) Extractive Activities (see paragraphs 34.11 to 34.11C);

(c) Service Concession Arrangements (see paragraphs 34.12 to 34.16C);

(d) Financial Institutions (see paragraphs 34.17 to 34.33);

(e) Retirement Benefit Plans: Financial Statements (see paragraphs 34.34 to 34.48);

(f) Heritage Assets (see paragraphs 34.49 to 34.56);

(g) Funding Commitments (see paragraphs 34.57 to 34.63);

(h) Incoming Resources from Non-Exchange Transactions (see paragraphs PBE34.64 to PBE34.74);

(i) Public Benefit Entity Combinations (see paragraphs PBE34.75 to PBE34.86); and

(j) Public Benefit Entity Concessionary Loans (see paragraphs PBE34.87 to PBE34.97).

Agriculture

301 The heading (underlined) before paragraph 34.2 is amended as follows:

~~Agriculture~~Agricultural Activities

302 Paragraph 34.3C is inserted as follows:

34.3C Prior to harvest, agricultural produce is not distinguished from the biological asset to which it is related. Subsequent to harvest, it is accounted for in accordance with Section 13 *Inventories* or another applicable section, as described in paragraphs 34.5 and 34.9.

303 In paragraph 34.4 the term ‘fair value less costs to sell’ is no longer shown in bold type.

304 Paragraph 34.5 is amended as follows:

34.5 Agricultural produce harvested from an entity’s biological assets shall be measured at the point of harvest at its fair value less costs to sell. Such **measurement** ~~is~~ becomes the cost at that date ~~when~~ for the purposes of applying Section 13 ~~*Inventories*~~ or another applicable section of this FRS.

305 Paragraph 34.6 is amended as follows:

34.6 ~~In determining fair value, an entity shall consider the following:~~

~~(a) If an **active market** exists for a biological asset or agricultural produce in its present location and condition, the quoted price in that market is~~

~~the appropriate basis for determining the fair value of that asset. If an entity has access to different active markets, the entity shall use the price existing in the market that it expects to use.~~

~~(b) If an active market does not exist, an entity uses one or more of the following, when available, in determining fair value:~~

~~(i) the most recent market transaction price, provided that there has not been a significant change in economic circumstances between the date of that transaction and the end of the **reporting period**;~~

~~(ii) market prices for similar assets with adjustment to reflect differences; and~~

~~(iii) sector benchmarks such as the value of an orchard expressed per export tray, bushel, or hectare, and the value of cattle expressed per kilogram of meat.~~

~~(c) In some cases, the information sources listed in (b) may suggest different conclusions as to the fair value of a biological asset or an item of agricultural produce. An entity considers the reasons for those differences, to arrive at the most reliable estimate of fair value within a relatively narrow range of reasonable estimates.~~

~~(d) In some circumstances, fair value may be readily determinable even though market determined prices or values are not available for a biological asset in its present condition. An entity shall consider whether the **present value** of expected net **cash flows** from the asset discounted at a current market determined rate results in a reliable measure of fair value.~~

Section 2A *Fair Value Measurement* provides guidance on fair value measurement. The application of valuation techniques in accordance with paragraphs 2A.15 to 2A.18 may involve sector benchmarks such as the value of an orchard expressed per export tray, bushel, or hectare, or the value of cattle expressed per kilogram of meat.

306 Paragraph 34.6A is amended as follows:

34.6A If the fair value of a biological asset cannot be measured reliably, the entity shall apply the cost model to that biological asset in accordance with paragraphs 34.8 and ~~34.10A~~ 34.10 until such time that the fair value can be reliably measured.

307 Paragraph 34.8 is amended as follows:

34.8 An entity applying the cost model shall measure biological assets at cost less any accumulated **depreciation** ~~(when relevant)~~ and any accumulated **impairment losses**.

308 Paragraph 34.9 is amended as follows:

34.9 In applying the cost model, agricultural produce harvested from an entity's biological assets shall be measured at the point of harvest at either:

(a) the lower of cost and estimated selling price less costs to complete and sell; or

(b) its fair value less costs to sell. Any gain or loss arising on initial recognition of agricultural produce at fair value less costs to sell shall be included in profit or loss for the period in which it arises.

Such measurement ~~is~~ becomes the cost at that date ~~when~~ for the purposes of applying Section 13 or another applicable section of this FRS.

309 A new sub-heading and paragraph 34.9A are inserted as follows:

Elements of cost

34.9A The cost of a biological asset comprises all of the following:

(a) Its purchase price, including legal and brokerage fees, import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.

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

(c) The initial estimate of the costs, recognised and measured in accordance with Section 21 *Provisions and Contingencies*, of removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period.

(d) Any **borrowing costs** capitalised in accordance with paragraph 25.2.

Service Concession Arrangements

310 Paragraph 34.12A is amended as follows:

34.12A Specifically an arrangement is a service concession arrangement when the following conditions apply:

(a) the grantor controls or regulates what services the operator must provide using the infrastructure assets, to whom, and at what price; and

(b) the grantor controls, through ownership, beneficial entitlement or otherwise, any significant **residual interest** in the ~~**assets**~~ infrastructure assets at the end of the term of the arrangement.

311 Paragraph 34.12C is amended as follows:

34.12C A service concession arrangement may contain a group of ~~contracts~~ **contracts** and sub-arrangements as elements of the service concession arrangement as a whole. Such an arrangement shall be treated as a whole when the group of contracts and sub-arrangements are linked in such a way that the commercial effect cannot be understood without reference to them as a whole. Accordingly, the contractual terms of certain contracts or arrangements may meet both the scope requirements of paragraphs 34.12 and 34.12A, and ~~Section 20 *Leases*~~ the definition of a **lease**. ~~Where~~ When this is the case, the requirements of this section shall prevail.

312 Paragraph 34.12D is amended as follows:

34.12D ~~Where~~ When an arrangement does not meet the requirements of paragraphs 34.12 and 34.12A, it shall be accounted for in accordance with Section 17 *Property, Plant and Equipment*, Section 18 *Intangible Assets other than Goodwill*, Section 20 *Leases* or Section 23 *Revenue from Contracts with Customers*, based on the nature of the arrangement.

313 The sub-heading preceding paragraph 34.12E is amended as follows:

Accounting by grantors – ~~Finance lease~~ Lease liability model

314 The word ‘assets’ in paragraph 34.12E is now shown in bold type.

315 Paragraph 34.12F is amended as follows:

34.12F The grantor shall initially recognise the liability associated with the infrastructure assets ~~and associated liability in accordance with~~ by applying paragraphs ~~20.9 and 20.10~~ 20.49 to 20.54, as if the grantor were a lessee, and recognise the infrastructure assets by applying paragraphs 20.46 to 20.48. Accordingly, if ~~If~~ as a result of applying paragraphs ~~20.9 and 20.10~~ 20.49 to 20.54 the grantor has not recognised a liability ~~to make payments to the operator~~, it shall not recognise the infrastructure assets.

316 Paragraph 34.12G is amended as follows:

34.12G The liability shall be recognised as a ~~finance~~ lease liability and subsequently accounted for ~~in accordance with paragraph 20.11~~ by applying paragraphs 20.62 to 20.64, as if the grantor were a lessee.

317 Paragraph 34.12J is inserted immediately before paragraph 34.13 as follows:

34.12J The operator shall recognise and measure **revenue** in accordance with Section 23 *Revenue from Contracts with Customers* for the services it performs, which may include construction or upgrade services and operating services. The nature of the consideration determines its subsequent accounting treatment. The subsequent accounting for consideration received as a financial asset and as an intangible asset is set out in paragraphs 34.14 and 34.15 respectively.

318 A sub-heading and paragraph 34.12K are inserted as follows:

Construction or upgrade services

34.12K The operator shall account for construction or upgrade services in accordance with Section 23.

319 Paragraph 34.13 is amended and split into two paragraphs as follows:

34.13 If the operator provides construction or upgrade services, the consideration received or receivable by the operator shall be recognised in accordance with Section 23. There are two principal categories of ~~service concession arrangements~~ consideration:

(a) In one, the operator receives a financial asset - an unconditional contractual right to receive a specified or determinable amount of cash or another financial asset from, or at the direction of, the grantor in return for constructing (or upgrading) the infrastructure assets, and then operating and maintaining the ~~asset~~ infrastructure assets for a specified period of time. This category includes guarantees by the grantor to pay for any shortfall between amounts received from users of the public service and specified or determinable amounts.

(b) In the other, the operator receives an intangible asset - a right to charge for use of the infrastructure assets that it constructs (or upgrades) and then operates and maintains for a specified period of time. A right to charge users is not an unconditional right to receive cash because the amounts are contingent on the extent to which the public uses the service.

Sometimes, a single arrangement may contain both types~~: to~~.

34.13A To the extent that the grantor has given an unconditional guarantee of payment for the construction (or upgrade) of the infrastructure assets, the operator ~~has~~ shall recognise a financial asset; to the extent that the operator receives a right to charge the public for using the service, the operator ~~has~~

shall recognise an intangible asset. The nature of the consideration determines the subsequent accounting as set out in paragraphs 34.14 and 34.15. However, both types of consideration are classified as a **contract asset** during the construction or upgrade period in accordance with Section 23.

320 Paragraph 34.14 is amended and the associated sub-heading is deleted as follows:

~~***Accounting – financial asset model***~~

34.14 The operator shall ~~recognise a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from, or at the direction of, the grantor for the construction (or upgrade) services. The operator shall initially recognise the financial asset at **fair value** for the consideration received or receivable, based on the fair value of the construction (or upgrade) services provided. Thereafter, it shall~~ account for ~~the~~ a financial asset in accordance with Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instruments Issues*. In classifying the financial asset as basic or other, a payment being contingent on the operator ensuring that the infrastructure meets specified quality or efficiency requirements does not in itself prevent its classification as basic.

321 Paragraph 34.15 is amended and the associated sub-heading is deleted as follows:

~~***Accounting – intangible asset model***~~

34.15 The operator shall ~~recognise an intangible asset to the extent that it receives a right (a licence) to charge users of the public service. The operator shall initially recognise the intangible asset at fair value for the consideration received or receivable, based on the fair value of the construction (or upgrade) services provided. Thereafter, it shall~~ account for ~~the~~ an intangible asset in accordance with Section 18.

322 Paragraph 34.16 is amended as follows:

34.16 The operator shall account for operating services ~~**revenue**~~ in accordance with Section 23 ~~for the operating services it performs~~.

323 Paragraph 34.16A is amended as follows:

34.16A **Borrowing costs** attributable to the arrangement shall be recognised as an **expense**, in accordance with Section 25 *Borrowing Costs*, in the period in which they are incurred unless the operator ~~has~~ recognises an intangible asset. In this case borrowing costs attributable to the arrangement may be capitalised in accordance with Section 25 where a policy of capitalisation has been adopted in accordance with that section.

Financial Institutions

324 Paragraph 34.21A is amended as follows:

34.21A When a financial institution has made the accounting policy choice in paragraphs 11.2(c) and 12.2(c) to apply the recognition and measurement provisions of IFRS 9, it shall disclose information that enables users of its financial statements to understand the effect of **credit risk** on the amount, timing and uncertainty of future **cash flows**. This shall include:

(a) An explanation of the financial institution's credit risk management practices and how they relate to the recognition and measurement of expected credit losses. For the avoidance of doubt, this shall include, but is not limited to, providing the disclosure required by paragraph 11.48ZA.

(b) A reconciliation from the opening balance to the closing balance of the loss allowance, in a table, showing separately the changes during the period for:

(i) the loss allowance measured at an amount equal to 12-month expected credit losses;

(ii) the loss allowance measured at an amount equal to lifetime expected credit losses (showing separately the amount relating to financial instruments for which credit risk has increased significantly since initial recognition); and

(iii) financial assets that are purchased or originated credit-impaired.

(c) By credit risk rating grade, the gross **carrying amount** of financial assets and the exposure to credit risk on loan commitments and **financial guarantee contracts** (showing separately information for financial instruments for which the loss allowance is measured at an amount equal to 12-month expected credit losses, for which the loss allowance is measured at an amount equal to lifetime expected credit losses, and that are purchased or originated credit-impaired **financial assets**).

325 Paragraph 34.22 is amended as follows:

34.22 For financial instruments held at **fair value** in the statement of financial position, a financial institution shall disclose for each class of financial instrument, an analysis of the level in the following fair value hierarchy into which the fair value measurements are categorised. A fair value measurement is categorised in its entirety on the basis of the lowest level input that is significant to the fair value measurement in its entirety (Level 3 being the lowest level).

Level 1: The unadjusted quoted price in an **active market** for identical **assets** or **liabilities** that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable (ie developed using market data) for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable (ie for which market data is unavailable) for the asset or liability.

326 Paragraph 34.28 is amended as follows:

34.28 A financial institution shall provide a maturity analysis for **financial liabilities** that shows the remaining contractual maturities at undiscounted amounts separated between derivative and non-derivative financial liabilities, and with lease liabilities presented separately within non-derivative financial liabilities.

327 In paragraph 34.33 the term ‘customers’ is now shown in bold type.

Retirement Benefit Plans: Financial Statements

328 Paragraph 34.35 is amended as follows

34.35 A retirement benefit plan need not comply with the requirements of paragraph 3.17. The financial statements of a retirement benefit plan shall contain as part of the financial statements:

(a) a statement of changes in **net assets available for benefits** (which can also be called a Fund Account) (see paragraph 34.37);

(b) a statement of net assets available for benefits (see paragraph 34.38); and

(c) **notes**, comprising its ~~significant~~ **material accounting** ~~**policies**~~ **policy** information and other explanatory information.

329 Paragraph 34.36 is amended as follows:

34.36 At each **reporting date**, the net assets available for benefits shall be measured in accordance with paragraph 28.15(b). Changes in **fair value** shall be recognised in the ~~statements~~ statement of changes in net assets available for benefits.

330 Paragraph 34.42 is amended as follows:

34.42 For financial instruments held at fair value in the statement of net assets available for benefits, a retirement benefit plan shall disclose for each class of financial instrument, an analysis of the level in the following fair value hierarchy into which the fair value measurements are categorised. A fair value measurement is categorised in its entirety on the basis of the lowest level input that is significant to the fair value measurement in its entirety (Level 3 being the lowest level).

Level 1: The unadjusted quoted price in an **active market** for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable (ie developed using market data) for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable (ie for which market data is unavailable) for the asset or liability.

331 Paragraph 34.43 is amended as follows:

34.43 A retirement benefit plan shall disclose information that enables users of its financial statements to evaluate the nature and extent of **credit risk** and **market risk** arising from financial instruments to which the retirement benefit plan is exposed at the end of the **reporting period** and which may impact the ability of the plan to pay benefits to members.

Heritage Assets

332 Paragraphs 34.49 to 34.56, and the sub-heading preceding paragraph 34.55, are amended, and paragraphs 34.50A, 34.54A and 34.55A are inserted, as follows:

34.49 ~~All **heritage**~~ **Heritage assets** shall be accounted for in accordance with the requirements of paragraphs 34.50 to 34.56. ~~These paragraphs do not apply to **investment property, property, plant and equipment** or **intangible assets** which fall within the scope of Section 16 *Investment Properties*, Section 17~~

~~*Property, Plant and Equipment* and Section 18 *Intangible Assets other than Goodwill*.~~

34.50 ~~Works of art and similar objects are sometimes held by commercial entities but are not heritage assets because they are not maintained principally for their contribution to knowledge and culture. These **assets** shall therefore be accounted for in accordance with Section 17. Heritage assets used by the entity itself, for example historic buildings used for teaching by education establishments, shall also be accounted for in accordance with Section 17. This is based on the view that an operational perspective is likely to be most relevant for most users of **financial statements**. However, entities that use historic buildings and similar assets may wish to consider whether it is appropriate to apply the disclosures required by paragraphs 34.55 and 34.56.~~ In determining whether an **asset** is a heritage asset, the entity's management shall use its judgement to assess the characteristics of the asset and whether it is held and maintained principally for its contribution to knowledge and culture. For example:

(a) works of art and similar objects are sometimes held by commercial entities but are not heritage assets because they are not maintained principally for their contribution to knowledge and culture; and

(b) an **investment property** is unlikely to be a heritage asset because it is held to earn rentals or for capital appreciation or both.

34.50A An asset with characteristics of a heritage asset, but which is used by the entity itself, for example historic buildings used for teaching by education establishments, shall be accounted for in accordance with the applicable other section of this FRS rather than this section. However, an entity is encouraged to provide the disclosures set out in paragraphs 34.55 and 34.56 in respect of that asset, in addition to the disclosures required by that section.

34.51 An entity shall recognise and measure heritage assets in accordance with Section 17 ~~or~~, Section 18, or Section 20, as appropriate ~~(ie using the cost model or revaluation model)~~, subject to the requirements set out in ~~paragraphs 34.52 to~~ paragraph 34.53 ~~below~~.

34.52 ~~Heritage assets shall be recognised in the statement of financial position separately from other assets.~~ [Moved to paragraph 34.54A]

34.53 When a heritage asset is acquired in a **non-exchange transaction**, an entity shall usually measure the asset at its **fair value** on initial recognition. Paragraph PBE34.73B provides guidance on determining the fair value of an asset acquired in a non-exchange transaction. ~~Where heritage assets have previously been capitalised or are recently purchased, information on the cost or value of the asset will be available. Where this information is not available, and cannot be obtained~~ If, in exceptional cases, the fair value of the heritage asset cannot be measured reliably at a cost which is commensurate with the benefits to users of the ~~financial statements~~ **financial statements**, the ~~assets~~ heritage asset shall not be recognised in the statement of financial position, but must be disclosed in accordance with the requirements below.

34.54 ~~At each **reporting date**, an~~ An entity shall apply Section 27 *Impairment of Assets* to determine whether a heritage asset is impaired and~~, if so, how to recognise and measure the~~ to account for any **impairment loss** identified. A heritage asset may be impaired, for example, ~~where~~ when it has suffered physical deterioration~~,~~ or breakage, or when doubts arise as to its authenticity.

~~Disclosure~~ Presentation and disclosure

34.54A Heritage assets shall be presented in the statement of financial position separately from other assets.

34.55 An entity shall disclose the following for all heritage assets it holds, showing separately heritage assets held by a lessee as a **right-of-use asset**:

(a) An indication of the nature and scale of heritage assets held by the entity.

(b) The policy for the acquisition, preservation, management and disposal of heritage assets (including a description of the records maintained by the entity of its collection of heritage assets and information on the extent to which access to the assets is permitted).

(c) The **accounting policies** adopted for heritage assets, including details of the **measurement** bases used.

(d) For heritage assets that have not been recognised in the statement of financial position, the **notes** to the financial statements shall:

(i) explain the reasons why;

(ii) describe the significance and nature of those assets; and

(iii) disclose information that is helpful in assessing the value of those heritage assets.

* (e) Where heritage assets are recognised in the statement of financial position the following disclosure is required:

(i) the **carrying amount** of heritage assets at the beginning of the **reporting period** and the ~~reporting date~~ **reporting date**, including an analysis between classes or groups of heritage assets recognised at cost and those recognised at valuation; and

* (ii) where assets are recognised at valuation, sufficient information to assist in understanding the valuation being recognised (date of valuation, method used, whether carried out by external valuer and if so their qualification and any significant limitations on the valuation).

* (f) A summary of transactions relating to heritage assets for the reporting period and each of the previous four reporting periods disclosing:

(i) the cost of acquisitions of heritage assets;

(ii) the value of heritage assets acquired by donations;

(iii) the carrying amount of heritage assets disposed of in the period and proceeds received;~~ and~~

(iv) any impairment recognised in the period; and

(v) any **depreciation** or **amortisation** recognised in the period.

The summary shall show separately those transactions that are included in the statement of financial position and those that are not.

(g) ~~In exceptional circumstances where it is impracticable to obtain a valuation of heritage assets acquired by donation the reason shall be stated.~~[Deleted]

34.55A If, in exceptional cases as permitted by paragraph 34.53, a heritage asset acquired during the reporting period in a non-exchange transaction has not been recognised because its fair value cannot be measured reliably, an entity shall state for what reason its fair value cannot be measured reliably. This disclosure can be aggregated for groups or classes of heritage assets, provided this does not obscure significant information.

34.56 ~~Where~~ When it is impracticable to do so, the disclosures required by paragraph 34.55(f) need not be given for ~~any accounting period earlier than~~

~~the previous comparable~~ more than one prior period, and a statement to the effect that it is impracticable shall be made.

Funding Commitments

333 Paragraph 34.57 is amended as follows:

34.57 An entity that commits to provide resources to other entities shall apply the requirements of paragraphs 34.58 to 34.63 and the accompanying guidance at Appendix A to this section ~~except for commitments to make a loan to which entities shall apply Section 11 *Basic Financial Instruments* or Section 12 *Other Financial Instruments Issues*, as applicable~~. These paragraphs do not apply to **financial instruments** (including loan commitments) (see Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instruments Issues*).

Incoming Resources from Non-Exchange Transactions

334 Paragraph PBE34.65 is amended as follows:

PBE34.65 Paragraphs PBE34.67 to PBE34.74 ~~and the accompanying guidance at Appendix B to this section~~ apply to other resources received from **non-exchange transactions** by **public benefit entities** or entities within a **public benefit entity group.** ~~A non-exchange transaction is a transaction whereby an entity receives value from another entity without directly giving approximately equal value in exchange or gives value to another entity without directly receiving approximately equal value in exchange.~~

335 The sub-heading preceding paragraph PBE34.67 is amended as follows:

Recognition ~~and measurement~~

336 Paragraph PBE34.67 is amended as follows:

PBE34.67 An entity shall recognise receipts of resources from non-exchange transactions as follows:

(a) Transactions that do not impose specified future ~~performance-related conditions~~ **performance-related conditions** on the recipient are recognised in **income** when the resources are received or receivable.

(b) Transactions that do impose specified future performance-related conditions on the recipient are recognised in income only when the performance-related conditions are ~~met~~ satisfied.

(c) ~~Where~~ When resources are received or receivable before the ~~**revenue recognition** criteria~~ performance-related conditions are satisfied, a **liability** is recognised.

337 Paragraph PBE34.68 is amended as follows:

PBE34.68 The existence of a **restriction** does not prohibit a resource from being recognised in income when received or receivable.

338 Paragraph PBE34.69 is amended as follows:

PBE34.69 ~~When applying the requirements of paragraph PBE34.67, an entity must take into consideration whether the resource can be measured reliably and whether the benefits of recognising the resource outweigh the costs.~~

Resources shall only be recognised when the value of the incoming resources can be measured reliably.

339 Paragraph PBE34.69A is inserted as follows:

PBE34.69A Resources that can usually be measured reliably include donations of cash or goods, facilities such as free use of office accommodation or event space, and services usually provided by an individual or an entity as part of their trade or profession for a fee. It is expected that other contributions made by volunteers cannot be measured reliably and shall therefore not be recognised.

340 Paragraph PBE34.70 is amended as follows:

PBE34.70 ~~Therefore, where~~ In some cases it ~~is~~ may be **impracticable** to estimate the value of ~~the~~ a resource with sufficient **reliability** when the resource is received or receivable; for example, in the case of high volume, low value second-hand goods donated for resale. In such cases, the income shall be ~~included~~ recognised in the ~~financial~~ period when the resource is sold or distributed.

341 Paragraphs PBE34.70A and PBE 34.70B are inserted as follows:

PBE34.70A Donations in the form of legacies are recognised when it is **probable** that the legacy will be received and its value can be measured reliably. Whether receipt of a legacy is probable and whether its value can be measured reliably may be affected by events such as valuations and disputes. An entity shall apply Section 32 *Events after the End of the Reporting Period* to determine whether the receipt of evidence about a legacy after the **reporting date** is an adjusting event after the end of the **reporting period**. When a legacy meets the definition of a **contingent asset**, the entity shall not recognise it but shall provide the disclosures required by paragraph 21.16. Similarly, when a legacy meets the definition of an **asset** but the **recognition** criteria are not met, the entity is encouraged to consider disclosing information relevant to users' understanding of the entity's financial position. In determining the probability of receipt and reliability of measurement, and in measuring the expected inflow, an entity may apply estimates and assumptions to a portfolio of legacies if the entity reasonably expects that the result of doing so would not differ materially from the result of applying this paragraph to each individual legacy.

PBE34.70B The recognition of receipts of resources from non-exchange transactions will result in the recognition of income and a corresponding asset or **expense**. There may be circumstances when resources are used in the production of an asset, for example erecting a building. In these cases, the associated resources would be recognised as a part of the cost of that asset. When a lease contains a non-exchange transaction (eg when the lease payments are significantly below market rents), the incoming resources shall be accounted for as a receipt of resources that form part of the cost of the **right-of-use asset**.

342 Paragraph PBE34.72 is deleted as follows:

PBE34.72 ~~Donations of services that can be reasonably quantified will usually result in the recognition of income and an **expense**. An **asset** will be recognised only when those services are used for the production of an asset and the services received will be capitalised as part of the cost of that asset.~~[Deleted]

343 A sub-heading is inserted immediately before paragraph PBE34.73 as follows:

Measurement

344 Paragraph PBE34.73 is amended as follows:

PBE34.73 An entity shall measure incoming resources from non-exchange transactions recognised in accordance with paragraphs PBE34.67 to PBE34.72 as follows:

(a) Donated services and facilities~~, that would otherwise have been purchased,~~ shall be measured at the value to the entity.

(b) All other incoming resources from non-exchange transactions shall be measured at the **fair value** of the resources received or receivable.

345 Paragraphs PBE34.73A and PBE34.73B are inserted as follows:

PBE34.73A Value to the entity is the price the entity estimates it would have paid in the open market for a service or facility of equivalent utility to the entity: for example, the amount that the entity would have paid had the service or facility not been donated. This may not be the same as the market value of the service or facility received. For example, if the entity received a premium service but would otherwise only have paid for a standard service, the value to the entity may be the value of a standard service. If an entity would not have purchased the service or facility at all had it not been donated, the value to the entity is expected to be nil.

PBE34.73B The fair value of resources received or receivable is usually the price that the entity would have paid on the open market for an identical or comparable resource. Section 2A *Fair Value Measurement* provides guidance on determining fair value. When there is an absence of evidence of an open market value for an identical or comparable resource, the fair value shall be estimated using another valuation technique. Relevant evidence for use in another valuation technique may include:

(a) the cost of the item to the donor; or

(b) in the case of goods that are expected to be sold, the estimated resale value (which may reflect the amount actually realised) after deducting the cost to sell the goods.

346 Paragraph PBE34.74 is amended as follows:

PBE34.74 An entity shall disclose the following:

(a) the nature and amounts of resources receivable from non-exchange transactions recognised in the **financial statements**;

(b) any unfulfilled conditions or other contingencies attaching to resources from non-exchange transactions that have not been recognised in income; and

(c) an indication of other forms of resources from non-exchange transactions from which the entity has benefited, for example unrecognised volunteer services, or donated goods that have been received but which the entity does not expect to recognise until the goods are sold or distributed.

Public Benefit Entity Combinations

347 Paragraph PBE34.83 is amended as follows:

PBE34.83 Subject to the requirements of paragraphs 9.9 and 9.9A, the ~~The~~ results and **cash flows** of all the combining entities shall be brought into the **financial statements** of the newly formed entity from the beginning of the financial period in which the merger occurs.

348 Paragraph PBE34.84 is amended as follows:

PBE34.84 The comparative amounts shall be restated by including the results for the previous accounting period for all the combining entities ~~for the previous accounting period~~ and their ~~**statement of financial positions**~~ **statements of financial position** for the previous **reporting date**. The comparative figures shall be marked as 'combined' figures.

Public Benefit Entity Concessionary Loans

349 Paragraph PBE34.89 is amended as follows:

PBE34.89 An entity ~~Entities~~ making or receiving public benefit entity concessionary loans shall ~~use~~ choose to apply either:

(a) the **accounting policy** choice made for its **financial instruments** under paragraphs 11.2 and 12.2 ~~**recognition, measurement** and disclosure requirements in Section 11 *Basic Financial Instruments* or Section 12 *Other Financial Instruments Issues* (for example, Section 11 requires initial measurement at **fair value** and subsequent measurement at **amortised cost** using the **effective interest method**)~~; or

(b) the accounting treatment set out in paragraphs PBE34.90 to PBE34.97 ~~below~~

to its public benefit entity concessionary loans.

A public benefit entity or an entity within a public benefit entity group shall apply the same ~~**accounting policy**~~ accounting policy to concessionary loans both made and received.

350 Paragraph PBE34.96 is amended as follows:

PBE34.96 The entity shall disclose the following:

(a) the terms and conditions of concessionary loan arrangements, for example the interest rate, any security provided and the terms of the repayment; and

(b) the value of concessionary loans which have been committed but not taken up at the ~~year end~~ **reporting date**.

Appendix B *Guidance on incoming resources from non-exchange transactions (paragraphs PBE34.64 to PBE34.74)* to Section 34

351 Appendix B *Guidance on incoming resources from non-exchange transactions (paragraphs PBE34.64 to PBE34.74)* to Section 34 is deleted.

Amendments to Section 35
Transition to this FRS

352 The following paragraphs set out the amendments to Section 35 *Transition to this FRS* (deleted text is struck through, inserted text is underlined).

353 Paragraph 35.1 is amended as follows:

35.1 This section applies to a **first-time adopter of this FRS**, regardless of whether its previous financial reporting framework was **adopted IFRS**, **FRS 101**, **FRS 105**, ~~or~~ another set of generally accepted accounting principles (GAAP) such as its national accounting standards, or another framework such as the local **income tax** basis.

354 Paragraph 35.4 is amended as follows (the sequentially numbered footnote in this paragraph is not presented here and is unchanged by this amendment):

35.4 An entity's first financial statements that conform to this FRS are the first financial statements[60] in which the entity makes an explicit and unreserved statement in those financial statements of compliance with this FRS. Financial statements prepared in accordance with this FRS are an entity's first such financial statements if, for example, the entity:

(a) did not present financial statements for previous periods;

(b) ~~presented its most recent previous financial statements under previous UK and Republic of Ireland requirements that are not consistent with this FRS in all respects; or~~[Deleted]

(c) presented its most recent previous financial statements in conformity with adopted IFRS;

(d) presented its most recent previous financial statements in conformity with FRS 101; or

(e) presented its most recent previous financial statements in conformity with FRS 105.

355 Paragraphs 35.8A to 35.8C are inserted as follows:

35.8A An entity choosing to adopt an accounting policy of expensing **borrowing costs**, which had adopted a policy of capitalising borrowing costs under a previous financial reporting framework, shall not include such capitalised borrowing costs as part of the cost of an asset on transition to this FRS.

35.8B An entity choosing to adopt an accounting policy of expensing **development** costs, which had adopted a policy of capitalising development costs under a previous financial reporting framework, shall not include such capitalised development costs as part of the cost of an asset on transition to this FRS.

35.8C On first-time adoption of this FRS, an entity may choose to apply the accounting policy choice available under paragraphs 11.2(b) and 12.2(b) if this would make the entity's accounting policies consistent with those adopted in the **consolidated financial statements** in which the entity is included. Otherwise, the entity shall choose to apply either the accounting policy choice available under paragraphs 11.2(a) and 12.2(a), or the accounting policy choice available under paragraphs 11.2(c) and 12.2(c), to account for all of its financial instruments.

356 In sub-paragraph 35.9(c) the term 'accounting estimates' is now shown in bold type.

357 Paragraph 35.10 is amended as follows:

35.10 An entity may use one or more of the following exemptions in preparing its first financial statements that conform to this FRS:

(a) ***Business combinations, including group reconstructions***

A first-time adopter may elect not to apply Section 19 *Business Combinations and Goodwill* to business combinations that were effected before the date of transition to this FRS. However, if a first-time adopter restates any business combination to comply with Section 19, it shall restate all later business combinations. If a first-time adopter does not apply Section 19 retrospectively, the first-time adopter shall recognise and measure all its assets and liabilities acquired or assumed in a past business combination at the date of transition to this FRS in accordance with paragraphs 35.7 to 35.9 or, if applicable, with paragraphs 35.10(b) to (~~v~~y) except for:

(i) **intangible assets** other than **goodwill** – intangible assets subsumed within goodwill shall not be separately recognised; and

(ii) goodwill – no adjustment shall be made to the carrying value of goodwill; if goodwill has previously been determined to have an indefinite **useful life**, it shall be re-assessed to determine its remaining useful life and shall subsequently be measured in accordance with paragraph 19.23.

(b) ***Share-based payment transactions***

A first-time adopter is not required to apply Section 26 *Share-based Payment* to equity instruments (including the equity component of **share-based payment transactions** previously treated as compound instruments) that were granted before the date of transition to this FRS, or to liabilities arising from share-based payment transactions that were settled before the date of transition to this FRS. Except that a first-time adopter previously applying ~~FRS 20 (IFRS 2) Share-based Payment or~~ IFRS 2 *Share-based Payment* or **FRS 101** shall, in relation to equity instruments (including the equity component of share-based payment transactions previously treated as compound instruments) that were granted before the date of transition to this FRS, apply either ~~FRS 20/~~ IFRS 2 ~~(as applicable)~~ or Section 26 of this FRS at the date of transition.

~~In addition, for a **small entity** that first adopts this FRS for an accounting period that commences before 1 January 2017, this exemption is extended to equity instruments that were granted before the start of the first reporting period that complies with this FRS, provided that the small entity did not previously apply FRS 20 or IFRS 2.~~

~~A small entity that chooses to apply this exemption shall provide disclosures in accordance with paragraph 1AC.31.~~

(c) ***Fair value as deemed cost***

A first-time adopter may elect to measure an:

(i) item of **property, plant and equipment** (including an **investment property** transferred to property, plant and equipment in accordance with sub-paragraph 16.4A(b)); or

(ii) ~~**investment property**; or~~[Deleted]

(iii) intangible asset which meets the recognition criteria and the criteria for revaluation in Section 18 *Intangible Assets other than Goodwill*

on the date of transition to this FRS at its **fair value** and use that fair value as its **deemed cost** at that date.

(d) ***Revaluation as deemed cost***

A first-time adopter may elect to use a revaluation determined under its previous financial reporting framework of an:

(i) item of property, plant and equipment (including an investment property transferred to property, plant and equipment in accordance with sub-paragraph 16.4A(b)); or

(ii) ~~investment property; or~~[Deleted]

(iii) intangible asset which meets the recognition criteria and the criteria for revaluation in Section 18

at, or before the date of transition to this FRS as its deemed cost at the revaluation date.

(e) [Deleted]

(f) ***Individual and separate financial statements***

When an entity prepares individual or **separate financial statements**, paragraphs 9.26, 14.4 and 15.9 require the entity to account for its investments in subsidiaries, **associates**, and **jointly controlled entities** either at cost less impairment or at fair value.

If a first-time adopter measures such an investment at cost, it shall measure that investment at one of the following amounts in its individual or separate opening statement of financial position, as appropriate, prepared in accordance with this FRS:

(i) cost determined in accordance with Section 9 *Consolidated and Separate Financial Statements*, Section 14 *Investments in Associates* or Section 15 *Investments in Joint Ventures* at the date of transition; or

(ii) deemed cost, which shall be the **carrying amount** at the date of transition as determined under the entity's previous financial reporting framework.

(g) ***Compound financial instruments***

Paragraph 22.13 requires an entity to split a **compound financial instrument** into its liability and equity components at the date of issue. A first-time adopter need not separate those two components if the liability component is not outstanding at the date of transition to this FRS.

(h) [Deleted]

(i) ~~***Service concession arrangements – Accounting by operators***~~

~~A first-time adopter is not required to apply paragraphs 34.12I to 34.16A to **service concession arrangements** that were entered into before the date of transition to this FRS. Such service concession arrangements shall continue to be accounted for using the same accounting policies being applied at the date of transition to this FRS.~~[Deleted]

(j) ***Extractive activities***

A first-time adopter that under its previous financial reporting framework accounted for exploration and development costs for oil and gas properties in the development or production phases, in cost centres that included all properties in a large geographical area may elect to measure oil and gas assets at the date of transition to this FRS on the following basis:

(i) Exploration and evaluation assets at the amount determined under the entity's previous financial reporting framework.

(ii) Assets in the development or production phases at the amount determined for the cost centre under the entity's previous financial reporting framework. The entity shall allocate this amount to the cost centre's underlying assets pro rata using reserve volumes or reserve values as of that date.

The entity shall test exploration and evaluation assets and assets in the development and production phases for impairment at the date of transition to this FRS in accordance with Section 34 *Specialised Activities* or Section 27 *Impairment of Assets* of this FRS respectively, and if necessary, reduce the amount determined in accordance with (i) or (ii) above. For the purposes of this paragraph, oil and gas assets comprise only those assets used in the exploration, evaluation, development or production of oil and gas.

(k) ~~***Arrangements containing a lease***~~

~~A first-time adopter may elect to determine whether an arrangement existing at the date of transition to this FRS contains a **lease** (see paragraph 20.3A) on the basis of facts and circumstances existing at that date, rather than when the arrangement was entered into.~~[Deleted]

(l) ***Decommissioning liabilities included in the cost of property, plant and equipment***

Paragraph 17.10(c) states that the cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce **inventories** during that period. A first-time adopter may elect to measure this component of the cost of an item of property, plant and equipment at the date of transition to this FRS, rather than on the date(s) when the obligation initially arose.

(lA) ***Decommissioning liabilities included in the cost of right-of-use assets***

Paragraph 20.47(d) states that the cost of a **right-of-use asset** includes the initial estimate of the costs of dismantling and removing the **underlying asset** and restoring the site on which it is located. A first-time adopter may elect to measure this component of the cost of a right-of-use asset at the date of transition to this FRS, rather than on the date(s) when the obligation initially arose.

(m) ***Dormant ~~companies~~ entities***

A company within the Companies Act definition of a dormant company, or an LLP within the definition of a dormant LLP as set out in *The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008* (SI 2008/1911), may elect to retain its accounting policies for reported assets, liabilities and equity at the date of transition to this FRS until there is any change to those balances, or the company undertakes any new transactions, that would cause the company to cease to be dormant within the **Act's** definition or the LLP to cease to be dormant under the definition in SI 2008/1911.

(n) ~~***Deferred development costs as a deemed cost***~~

~~A first-time adopter may elect to measure the carrying amount at the date of transition to this FRS for **development** costs deferred in accordance with SSAP 13 *Accounting for research and development* as its deemed cost at that date.~~[Deleted]

(o) ***Borrowing costs***

An entity ~~electing~~ choosing to adopt an accounting policy of capitalising borrowing costs as part of the cost of a **qualifying asset** may elect to treat the date of transition to this FRS as the date on which capitalisation commences.

(p) ~~***Lease incentives***~~

~~A first-time adopter is not required to apply paragraphs 20.15A and 20.25A to **lease incentives** provided the term of the lease commenced before the date of transition to this FRS. The first-time adopter shall continue to recognise any residual benefit or cost associated with these lease incentives on the same basis as that applied at the date of transition to this FRS.~~[Deleted]

(q) ***Public benefit entity combinations***

A first-time adopter may elect not to apply paragraphs PBE34.75 to PBE34.86 relating to **public benefit entity combinations** to combinations that were effected before the date of transition to this FRS. However, if on first-time adoption a **public benefit entity** restates any entity combination to comply with this section, it shall restate all later entity combinations.

(r) ***Assets and liabilities of subsidiaries, associates and joint ventures***

If a subsidiary becomes a first-time adopter later than its parent, the subsidiary shall in its financial statements measure its assets and liabilities at either:

(i) the carrying amounts that would be included in the parent's ~~**consolidated financial statements**~~ consolidated financial statements, based on the parent's date of transition to this FRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary; or

(ii) the carrying amounts required by the rest of this FRS, based on the subsidiary's date of transition to this FRS. These carrying amounts could differ from those described in (i) when:

(a) the exemptions in this FRS result in measurements that depend on the date of transition to this FRS; or

(b) the accounting policies used in the subsidiary's financial statements differ from those in the consolidated financial statements. For example, the subsidiary may use as its accounting policy the cost model in Section 17 *Property, Plant and Equipment*, whereas the **group** may use the revaluation model.

A similar election is available to an associate or **joint venture** that becomes a first-time adopter later than an entity that has **significant influence** or **joint control** over it.

However, if an entity becomes a first-time adopter later than its subsidiary (or associate or joint venture) the entity shall, in its consolidated financial statements, measure the assets and liabilities of the subsidiary (or associate or joint venture) at the same carrying amounts as in the financial statements of the subsidiary (or associate or joint venture), after adjusting for consolidation (and equity accounting) adjustments and for the effects of the business combination in which the entity acquired the subsidiary (or transaction in which it acquired the associate or joint venture). Similarly, if a parent becomes a first-time adopter for its separate financial statements earlier or later than for its consolidated financial statements, it shall measure its assets and liabilities at the same amounts in both financial statements, except for consolidation adjustments.

(s) ***Designation of previously recognised financial instruments***

This FRS permits a **financial instrument** (provided it meets certain criteria) to be designated on initial recognition as a financial asset or financial liability at fair value through profit or loss. Despite this an entity is permitted to designate, as at the date of transition to this FRS, any financial asset or financial liability at fair value through profit or loss provided the asset or liability meets the criteria in paragraph 11.14(b) at that date.

(t) ***Hedge accounting***

(i) ***A hedging relationship existing on the date of transition***

A first-time adopter may choose to apply hedge accounting to a hedging relationship of a type described in paragraph 12.19 which exists on the date of transition between a **hedging instrument** and a **hedged item**, provided the conditions of paragraphs 12.18(a) to (c) are met on the date of transition to this FRS and the conditions of paragraphs 12.18(d) and (e) are met no later than the date the first financial statements that comply with this FRS are authorised for issue. This choice applies to each hedging relationship existing on the date of transition.

Hedge accounting as set out in Section 12 *Other Financial Instruments Issues* of this FRS may commence from a date no earlier than the conditions of paragraphs 12.18(a) to (c) are met. In a fair value hedge the cumulative **hedging gain or loss** on the hedged item from the date hedge accounting commenced to the date of transition, shall be recognised in retained earnings (or if appropriate, another category of equity). In a cash flow hedge and net investment hedge, the lower of the following (in absolute amounts) shall be recognised in equity (in respect of cash flow hedges in the cash flow hedge reserve):

(a) the cumulative gain or loss on the hedging instrument from the date hedge accounting commenced to the date of transition; and

(b) the cumulative change in fair value (ie the **present value** of the cumulative change of expected future **cash flows**) on the hedged item from the date hedge accounting commenced to the date of transition.

(ii) ***A hedging relationship that ceased to exist before the date of transition because the hedging instrument has expired, was sold, terminated or exercised prior to the date of transition***

A first-time adopter may elect not to adjust the carrying amount of an asset or liability for previous financial reporting framework effects of a hedging relationship that has ceased to exist.

A first-time adopter may elect to account for amounts deferred in equity in a cash flow hedge under a previous financial reporting framework, as described in paragraph 12.23(d) from the date of transition. Any amounts deferred in equity in relation to a hedge of a **net investment in a foreign operation** under a previous financial reporting framework shall not be reclassified to profit or loss on disposal or partial disposal of the **foreign operation**.

(iii) ***A hedging relationship that commenced after the date of transition***

A first-time adopter may elect to apply hedge accounting to a hedging relationship of a type described in paragraph 12.19 that commenced after the date of transition between a hedging instrument and a hedged item, starting from the date the conditions of paragraphs 12.18(a) to (c) are met, provided that the conditions of paragraphs 12.18(d) and (e) are met no later than the date the first financial statements that comply with this FRS are authorised for issue.

The choice applies to each hedging relationship that commenced after the date of transition.

(iv) ***Entities taking the accounting policy choice under paragraphs 11.2(b) or (c) or paragraphs 12.2(b) or (c) to apply IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments***

A first-time adopter adopting an accounting policy set out in paragraphs 11.2(b) or (c) or paragraphs 12.2(b) or (c) shall not apply the transitional provisions of paragraphs (i) to (iii) above. Such a first-time adopter shall apply the transitional requirements applicable to hedge accounting in IFRS 1 *First-time adoption of International Financial Reporting Standards*, paragraphs B4 to B6, except that the designation and documentation of a hedging relationship may be completed after the date of transition, and no later than the date the first financial statements that comply with this FRS are authorised for issue, if the hedging relationship is to qualify for hedge accounting from the date of transition.

A first-time adopter adopting an accounting policy set out in paragraphs 11.2(b) or (c) or paragraphs 12.2(b) or (c) that has entered into a hedging relationship as described in IAS 39 or IFRS 9 in the period between the date of transition and the **reporting date** for the first financial statements that comply with this FRS may elect to apply hedge accounting prospectively from the date all qualifying conditions for hedge accounting in IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments* are met, except that an entity shall complete the formal designation and documentation of a hedging relationship no later than the date the first financial statements that comply with this FRS are authorised for issue.

(u) ~~***Small entities – fair value measurement of financial instruments***~~

~~A small entity that first adopts this FRS for an accounting period that commences before 1 January 2017 need not restate comparative information to comply with the fair value measurement requirements of Section 11 *Basic Financial Instruments* or Section 12, unless those financial instruments were measured at fair value in accordance with the small entity's previous financial reporting framework.~~

~~A small entity that chooses to present comparative information that does not comply with the fair value measurement requirements of Sections 11 and 12 in its first year of adoption:~~

~~(a) shall apply its existing accounting policies to the relevant financial instruments in the comparative information and is encouraged to disclose this fact;~~

~~(b) shall disclose the accounting policies applied (in accordance with paragraph 1AC.3); and~~

~~(c) shall treat any adjustment between the statement of financial position at the comparative period's reporting date and the statement of financial position at the start of the first reporting period that complies with Sections 11 and 12 as an adjustment, in the current reporting period, to opening equity.~~[Deleted]

(v) ~~***Small entities – financing transactions involving related parties***~~

~~A small entity that first adopts this FRS for an accounting period that commences before 1 January 2017 need not restate comparative information to comply with the requirements of paragraph 11.13 only insofar as they related to financing transactions involving **related parties**.~~

~~A small entity that chooses to present comparative information that does not comply with the financing transaction requirements of Section 11 in its first year of adoption:~~

~~(a) shall apply its existing accounting policies to the relevant financial instruments in the comparative information and is encouraged to disclose this fact;~~

~~(b) shall disclose the accounting policies applied (in accordance with paragraph 1AC.3); and~~

~~(c) shall treat any adjustment between the statement of financial position at the comparative period's reporting date and the statement of financial position at the start of the first reporting period that complies with paragraph 11.13 as an adjustment, in the current reporting period, to opening equity. The present value of the financial asset or financial liability at the start of the first reporting period that complies with this FRS may be determined on the basis of the facts and circumstances existing at that date, rather than when the arrangement was entered into.~~[Deleted]

(w) ***Development costs***

An entity choosing to adopt an accounting policy of capitalising development costs may elect to treat the date of transition to this FRS as the date on which capitalisation commences.

(x) ***Leases***

An entity may assess whether a contract existing at the date of transition to this FRS contains a **lease** by applying paragraphs 20.15 to

20.18 on the basis of facts and circumstances existing at that date, rather than at the **commencement date of the lease**.

A lessee applying IFRS 16 *Leases* immediately prior to the date of transition to this FRS may use the lease liability and right-of-use asset calculated under IFRS 16 as the lease liability and right-of-use asset on the date of transition to this FRS. A lessee making this election shall disclose that fact, and shall apply it to all of its leases. In this case, a lessee may rely on its previous assessment of whether right-of-use assets are impaired at the date of transition to this FRS, rather than applying Section 27 at that date.

A lessee not applying the IFRS 16 election described above shall measure the lease liability at the date of transition to this FRS at the present value of remaining lease payments, discounted using the **lessee's incremental borrowing rate** or the **lessee's obtainable borrowing rate** for each lease at the date of transition to this FRS. The right-of-use asset shall be measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

Notwithstanding the previous items in this paragraph, a lessee shall measure a right-of-use asset that meets the definition of investment property, and will not be transferred to right-of-use assets using the election in paragraph 16.4A(b)(ii), at fair value on the date of transition to this FRS.

A lessee may do one or more of the following at the date of transition to this FRS, applied on a lease-by-lease basis:

(i) Apply a single discount rate to a portfolio of leases with reasonably similar characteristics (eg a similar remaining lease term for a similar **class of underlying asset** in a similar economic environment).

(ii) Choose not to recognise a lease liability and right-of-use asset for leases for which the lease term ends within 12 months of the date of transition to this FRS, or leases for which the underlying asset is of low value (as described in paragraph 20.5). Instead, the entity shall account for (including disclosure of information about) these leases as if they were **short-term leases** accounted for in accordance with paragraph 20.6.

(iii) Use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

(y) ***Revenue from Contracts with Customers***

A first-time adopter may apply the transitional provisions in paragraph 1.65. If a first-time adopter decides to apply those transitional provisions, it shall also apply paragraph 1.66.

For the purposes of applying paragraph 1.65 in the context of this paragraph:

(i) references to the date of initial application shall be read as to the beginning of the reporting period; and

(ii) a completed contract is a contract for which an entity has transferred all of the goods or services identified in accordance with the entity's previous financial reporting framework.

A first-time adopter shall disclose the information required by paragraph 1.65.

358 Paragraph 35.12A is renumbered as paragraph 35.12C, and new paragraphs 35.12A and 35.12B are inserted, as follows:

35.12A An entity shall state which, if any, of the transitional exemptions described in paragraph 35.10 it has adopted on transition to this FRS.

35.12B To comply with paragraph 35.12, an entity shall provide an explanation of material changes to its reported financial position that are not presented in the reconciliation required by paragraph 35.13. This explanation should state whether the identified changes arose as a result of error or of a change in accounting policy.

~~35.12A~~35.12C An entity that has applied this FRS in a previous reporting period but not in its most recent annual financial statements, as described in paragraph 35.2, shall disclose:

(a) the reason it stopped applying this FRS;

(b) the reason it is resuming the application of this FRS; and

(c) whether it has applied this section or has applied this FRS retrospectively in accordance with Section 10.

359 Paragraph 35.13 is preceded by a ^ in the left-hand margin.

Amendments to Appendix I
Glossary

360 The following paragraphs set out the amendments to Appendix I *Glossary* (deleted text is struck through, inserted text is underlined).

361 The following glossary terms and definitions are inserted in alphabetical order as follows:

accounting estimates	Monetary amounts in **financial statements** that are subject to **measurement** uncertainty.
commencement date (of a lease)	The date on which a lessor makes an **underlying asset** available for use by a lessee.
contract	An agreement between two or more parties that creates enforceable rights and obligations.
contract asset	An entity's right to consideration in exchange for goods or services that the entity has transferred to a **customer** when that right is conditional on something other than the passage of time (eg the entity's future performance).
contract liability	An entity's obligation to transfer goods or services to a **customer** for which the entity has received consideration (or the amount is due) from the customer.
customer	A party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.
economic resource	A right that has the potential to produce economic benefits.
effective date of the modification	The date when both parties agree to a **lease modification**.
government	Government, government agencies and similar bodies whether local, national or international.
government assistance	Action by **government** designed to provide an economic benefit specific to an entity or range of entities qualifying under specified criteria.
initial direct costs	Incremental costs of obtaining a **lease** that would not have been incurred if the lease had not been obtained, except for such costs incurred by a manufacturer or dealer lessor in connection with a **finance lease**.
lease modification	A change in the scope of a **lease**, or the consideration for a lease, that was not part of the original terms and conditions of the lease (eg adding or terminating the right to use one or more **underlying assets**, or extending or shortening the contractual **lease term**).

lease payment	Payments made by a lessee to a lessor relating to the right to use an **underlying asset** during the **lease term**, comprising the following: (a) fixed payments (including in-substance fixed payments), less any **lease incentives**; (b) variable lease payments that depend on an index or a rate; (c) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and (d) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease. For the lessee, lease payments also include amounts expected to be payable by the lessee under **residual value guarantees**. Lease payments do not include payments allocated to non-lease components of a **contract**, unless the lessee elects to combine non-lease components with a lease component and to account for them as a single lease component. For the lessor, lease payments also include any residual value guarantees provided to the lessor by the lessee, a party related to the lessee or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee. Lease payments do not include payments allocated to non-lease components.
lessee's obtainable borrowing rate	The rate of interest a lessee would have to pay to borrow, over a similar term, an amount similar to the total undiscounted value of **lease payments** to be included in the measurement of the lease liability.
market participant	Buyers and sellers in the **principal** (or **most advantageous**) **market** for the **asset** or **liability** that have all of the following characteristics: (a) they are independent of each other, that is they are not **related parties**; (b) they are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information; (c) they are able to enter into a transaction for the asset or liability; and (d) they are willing to enter into a transaction for the asset or liability, that is, they are motivated but not forced or otherwise compelled to do so.
most advantageous market	The market that maximises the amount that would be received to sell the asset or minimises the amount that would be paid to transfer the liability, after taking into account **transaction costs** and transport costs.

net settlement feature (of a share-based payment)	A term of a **share-based payment arrangement** that permits or requires the entity to withhold the number of equity instruments equal to the monetary value of the employee's tax obligation from the total number of equity instruments that otherwise would have been issued to the employee upon exercise (or vesting) of the share-based payment. Such terms may exist when tax laws or regulations oblige an entity to withhold an amount for an employee's tax obligation associated with a share-based payment and transfer that amount, normally in cash, to the tax authority on the employee's behalf.
non-performance risk	The risk that an entity will not fulfil an obligation. Non-performance risk includes, but may not be limited to, the entity's own **credit risk**.
owner-occupied property	A property held by the owner, or by the lessee as a **right-of-use asset**, for use in the production or supply of goods or services or for administrative purposes.
period of use	The total period of time that an **asset** is used to fulfil a contract with a customer (including any non-consecutive periods of time).
performance obligation	A promise in a **contract** with a **customer** to transfer to the customer either: (a) a distinct good or service (or a distinct bundle of goods or services); or (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.
principal market	The market with the greatest volume and level of activity for the asset or liability.
residual value guarantee	A guarantee made to a lessor by a party unrelated to the lessor that the value (or part of the value) of an **underlying asset** at the end of a **lease** will be at least a specified amount.
right-of-use asset	An asset that represents a lessee's right to use an **underlying asset** for the lease term.
short-term lease	A **lease** that, at the **commencement date**, has a **lease term** of 12 months or less. A lease that contains a purchase option is not a short-term lease.
statement(s) of financial performance	The single **statement of comprehensive income**, the separate **income statement** and statement of comprehensive income, or the **statement of income and retained earnings**.
statement of changes in equity	**Financial statement** that presents an entity's **profit or loss** for a **reporting period**, **other comprehensive income** for the period, the effects of changes in **accounting policies** and corrections of **material errors** recognised in the period, and the amounts of investments by, and dividends and other distributions to, equity investors during the period.
tax base	The amount that: (a) for an **asset**, can be deducted for tax; or (b) for a **liability**, will be assessed for tax.

transaction costs (fair value measurement)	The costs to sell an **asset** or transfer a **liability** in the **principal market** (or **most advantageous market**) for the asset or liability that are directly attributable to the disposal of the asset or the transfer of the liability and meet both of the following criteria: (a) they result directly from and are essential to that transaction; and (b) they would not have been incurred by the entity had the decision to sell the asset or transfer the liability not been made.
uncertain tax treatment	A tax treatment for which there is uncertainty over whether the relevant taxation authority will accept the tax treatment under tax law. For example, a tax treatment that relies on an interpretation of the law that is not in accordance with the way in which the taxation authority is known to interpret the law.
underlying asset	An **asset** that is the subject of a **lease**, for which the right to use that asset has been provided by a lessor to a lessee.
unearned finance income	The difference between: (a) the **gross investment in a lease**; and (b) the **net investment in a lease**.
unguaranteed residual value	That portion of the **residual value** of the **underlying asset**, the realisation of which by a lessor is not assured or is guaranteed solely by a party related to the lessor.

362 The following glossary terms and definitions are amended, and sequentially numbered footnotes are inserted (subsequent footnotes are renumbered sequentially), as follows:

active market	A market in which transactions for the **asset** or **liability** take place with sufficient frequency and volume to provide pricing information on an ongoing basis. ~~all the following conditions exist:~~ ~~(a) the items traded in the market are homogeneous;~~ ~~(b) willing buyers and sellers can normally be found at any time; and~~ ~~(c) prices are available to the public.~~
asset	A present **economic resource** ~~resource~~ controlled by the entity as a result of past events ~~and from which future economic benefits are expected to flow to the entity~~.
biological asset	A living animal or plant that may or may not be intended for use on a continuing basis in the entity's activities.
carrying amount	The amount at which an **asset** ~~or~~, a **liability** or **equity** is recognised in the **statement of financial position**.
class of [underlying] assets	A grouping of [underlying] **assets** of a similar nature and use in an entity's operations.
consolidated financial statements	The **financial statements** of a **parent** and its **subsidiaries** presented as those of a single ~~economic~~ reporting entity.

derecognition	The removal of all or part of a ~~previously~~ recognised **asset** or **liability** from an entity's **statement of financial position**.
expenses	Decreases in ~~economic benefits during the **reporting period** in the form of outflows or depletions of~~ **assets** or ~~incurrences of~~ increases in **liabilities** that result in decreases in **equity**, other than those relating to distributions to equity investors.
fair value[*footnote 1]	~~The amount for which an **asset** could be exchanged, a **liability** settled, or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm's length transaction.~~ The price that would be received to sell an **asset** or paid to transfer a **liability** in an orderly transaction between **market participants** at the measurement date. In the absence of any specific guidance provided in the relevant section of this FRS, the guidance in ~~the Appendix to Section 2 *Concepts and Pervasive Principles*~~ Section 2A *Fair Value Measurement* shall be used in determining fair value.
government grant	~~Assistance by government~~ **Government assistance** in the form of a transfer of resources to an entity in return for past or future compliance with specified conditions relating to the **operating activities** of the entity. ~~Government refers to government, government agencies and similar bodies whether local, national or international.~~
gross investment in a lease	The aggregate of: (a) the ~~**minimum**~~ **lease payments** receivable by the lessor under a **finance lease**; and (b) any unguaranteed **residual value** accruing to the lessor.
inception date (of ~~the~~ a lease)	The earlier of the date of the **lease** agreement and the date of commitment by the parties to the principal ~~provisions~~ terms and conditions of the lease.
income	Increases in ~~economic benefits during the **reporting period** in the form of inflows or enhancements of~~ **assets** or decreases ~~of~~ in **liabilities** that result in increases in **equity**, other than those relating to contributions from equity investors.
intangible asset[*footnote 2]	An identifiable non-monetary **asset** without physical substance. Such an asset is identifiable when: (a) it is separable, ie capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related ~~contract~~ **contract**, asset or **liability**; or (b) it 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.

interest rate implicit in the lease	The ~~discount~~ rate of interest that~~, at the **inception of the lease**,~~ causes the ~~aggregate~~ **present value** of: (a) the ~~**minimum**~~ **lease payments**; and (b) the unguaranteed **residual value** to ~~be~~ equal ~~to~~ the sum of: (i) the **fair value** of the ~~leased~~ **underlying asset**; and (ii) any initial direct costs of the lessor.
investment property	Property (land or a building, or part of a building, or both) held by the owner, or by the lessee ~~under a **finance lease**~~ as a **right-of-use asset**, to earn rentals or for capital appreciation or both, rather than for: (a) use in the production or supply of goods or services or for administrative purposes, or (b) sale in the ordinary course of **business**.
lease	~~An agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an **asset** for an agreed period of time.~~ A **contract**, or part of a contract, that conveys the right to use an **asset** (the **underlying asset**) for a period of time in exchange for consideration.
lease incentives	~~Incentives provided by the lessor to the lessee to enter into a new or renew an operating lease. Examples of such incentives include up-front cash payments to the lessee, the reimbursement or assumption by the lessor of costs of the lessee (such as relocation costs, leasehold improvements and costs associated with pre-existing lease commitments of the lessee), or initial periods of the lease provided by the lessor rent-free or at a reduced rent.~~ Payments made by a lessor to a lessee associated with a lease, or the reimbursement or assumption by a lessor of costs of a lessee.
lease term	~~The non-cancellable period for which the lessee has contracted to **lease** the **asset** together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the **inception of the lease** it is reasonably certain that the lessee will exercise the option.~~ The aggregate of: (a) the non-cancellable period of a **lease**; (b) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and (c) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.
lessee's incremental borrowing rate ~~(of interest)~~	The rate of interest ~~the~~ a lessee would have to pay ~~on a similar **lease** or, if that is not determinable, the rate that, at the **inception of the lease**, the lessee would incur~~ to borrow over a similar term, and with a similar security, the funds necessary to ~~purchase the **asset**~~ obtain an asset of a similar value to the **right-of-use asset** in a similar economic environment.

liability[*footnote 3]	A present obligation of the entity ~~arising from~~ to transfer an **economic resource** as a result of past events~~, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits~~.
material	~~Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions 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. The size or nature of the item, or a combination of both, could be the determining factor.~~ Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the users of **general purpose financial statements** make on the basis of those financial statements, which provide financial information about a specific reporting entity.
market vesting condition	A ~~condition~~ **performance condition** upon which the exercise price, vesting or exercisability of an equity instrument depends that is related to the market price (or value) of the entity's equity instruments (or the equity instruments of another entity in the same group), such as attaining a specified share price or a specified amount of **intrinsic value** of a **share option**, or achieving a specified target that is based on the market price (or value) of the entity's equity instruments (or the equity instruments of another entity in the same group) relative to an index of market prices of equity instruments of other entities. A market vesting condition requires the counterparty to complete a specified period of service (ie a **service condition**); the service requirement can be explicit or implicit.
net debt	Net debt consists of the borrowings of an entity, together with any related **derivatives** and obligations under ~~**finance**~~ **leases**, less any **cash** and **cash equivalents**.

performance condition (in respect of share-based payment arrangements)	A **vesting condition** that requires: (a) the counterparty to complete a specified period of service (ie a **service condition**); the service requirement can be explicit or implicit; and (b) specified performance target(s) to be met while the counterparty is rendering the service required in (a). The period of achieving the performance target(s): (a) shall not extend beyond the end of the service period; and (b) may start before the service period on the condition that the commencement date of the performance target is not substantially before the commencement of the service period. A performance target is defined by reference to: (a) the entity's own operations (or activities) or the operations or activities of another entity in the same **group** (ie a non-market vesting condition); or (b) the price (or value) of the entity's ~~**equity instruments**~~ equity instruments or the equity instruments of another entity in the same group (including shares and **share options**) (ie a **market vesting condition**). A performance target might relate either to the performance of the entity as a whole or to some part of the entity (or part of the group), such as a division or an individual employee.
performance-related condition (in respect of funding commitments, government grants and other non-exchange transactions)	A condition under which entitlement to resources is ~~that requires the performance of a particular level of service or units of output to be delivered, with payment of, or entitlement to, the resources~~ conditional on ~~that~~ the performance of: (a) a specified activity; or (b) a particular level of service or units of output to be delivered.
provision	A ~~**liability**~~ liability of uncertain timing or amount. For the purposes of this definition, 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.
prudence	~~The inclusion of a degree of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty, such that **assets** or **income** are not overstated and **liabilities** or **expenses** are not understated.~~ The exercise of caution when making judgements under conditions of uncertainty. The exercise of prudence means that **assets** and **income** are not overstated and **liabilities** and **expenses** are not understated. Equally, the exercise of prudence does not allow for the understatement of assets or income or the overstatement of liabilities or expenses.

public benefit entity concessionary loan	A loan made or received between a **public benefit entity** or an entity within a **public benefit entity group** and another party: (a) at below the **prevailing market rate** of interest; (b) that is not repayable on demand; and (c) that is for the purposes of furthering the objectives of the public benefit entity or public benefit entity **parent**.
qualifying asset	An **asset** that necessarily takes a substantial period of time to get ready for its intended use or sale. Depending on the circumstances any of the following may be qualifying assets: (a) **inventories**; (b) manufacturing plants; (c) power generation facilities; (d) **intangible assets**;~~ and~~ (e) **investment properties**; and (f) **biological assets**. **Financial assets**, and inventories that are produced over a short period of time, are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.
recognition	The process of capturing for inclusion ~~incorporating~~ in the **statement of financial position** or **statement of comprehensive income** an item that meets the definition of one of the elements of **financial statements**: (a) **assets**; (b) **liabilities**; (c) **equity**; (d) **income**; or (e) **expenses**. Recognition involves depicting the item in one of those statements – either alone or in aggregation with other items – in words and by a monetary amount, and including that amount in one or more totals in that statement~~ an **asset**, **liability**, **equity**, **income** or **expense** and satisfies the following criteria:~~ ~~(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**~~.
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.~~ **Income** arising in the course of an entity's ordinary activities.

turnover[*footnote 4]	The amounts derived from the provision of goods and services after deduction of: (a) trade discounts; (b) value added tax; and (c) any other taxes based on the amounts so derived.

[*footnote 1] For the purposes of applying the lessor accounting requirements in Section 20, fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

[*footnote 2] For the purposes of this definition, 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.

[*footnote 3] For the purposes of Sections 21 and 22, 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.

[*footnote 4] As defined in section 474(1) of the Act.

363 The following glossary terms and definitions are deleted:

~~**agent**~~	~~An entity is acting as an agent when it does not have exposure to the significant risks and rewards associated with the sale of goods or the rendering of services. One feature indicating that an entity is acting as an agent is that the amount the entity earns is predetermined, being either a fixed fee per transaction or a stated percentage of the amount billed to the customer.~~
~~**change in accounting estimate**~~	~~An adjustment of the **carrying amount** of an **asset** or a **liability**, or the amount of the periodic consumption 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**.~~
~~**commencement of lease term**~~	~~The date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial **recognition** of the **lease** (ie the recognition of the **assets**, **liabilities**, **income** or **expenses** resulting from the lease, as appropriate).~~
~~**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.~~
~~**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 (eg percentage of future sales, amount of future use, future price indices, and future market rates of interest).~~
~~**fair value less costs to sell**~~	~~The amount obtainable from the sale of an **asset** or **cash-generating unit** in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.~~

~~**imputed rate of interest**~~	~~The more clearly determinable of either:~~ ~~(a) the prevailing rate for a similar instrument of an issuer with a similar credit rating; or~~ ~~(b) a rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.~~
~~**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.~~ ~~However, if the lessee has an option to purchase the **asset** at a price that is expected to be sufficiently lower than **fair value** at the date the option becomes exercisable for it to be reasonably certain, at the **inception of the lease**, that the option will be exercised, the minimum lease payments comprise the minimum payments payable over the lease term to the expected date of exercise of this purchase option and the payment required to exercise it.~~
~~**principal**~~	~~An entity is acting as a principal when it has exposure to the significant risks and rewards associated with the sale of goods or the rendering of services. Features that indicate that an entity is acting as a principal include:~~ ~~(a) the entity has the primary responsibility for providing the goods or services to the customer or for fulfilling the order, for example by being responsible for the acceptability of the products or services ordered or purchased by the customer;~~ ~~(b) the entity has **inventory** risk before or after the customer order, during shipping or on return;~~ ~~(c) the entity has latitude in establishing prices, either directly or indirectly, for example by providing additional goods or services; and~~ ~~(d) the entity bears the customer's **credit risk** for the amount receivable from the customer.~~
~~**relevance**~~	~~The quality of information that allows it to influence the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations.~~
~~**state**~~	~~A national, regional, or local government.~~

~~**timeliness**~~	~~Providing the information in **financial statements** within the decision time frame.~~
~~**understandability**~~	~~The presentation of information in a way that makes it comprehensible by users who have a reasonable knowledge of **business** and economic activities and accounting and a willingness to study the information with reasonable diligence.~~

364 In the glossary term ‘derivative’ the term ‘contract’ is now shown in bold type.

365 In the glossary term ‘discretionary participation feature’ the term ‘contract’ is now shown in bold type.

366 In the glossary term ‘financial asset’ the term ‘contract’ is now shown in bold type.

367 In the glossary term ‘financial guarantee contract’ the term ‘contract’ is now shown in bold type.

368 In the glossary term ‘financial instrument’ the term ‘contract’ is now shown in bold type.

369 In the glossary term ‘financial liability’ the term ‘contract’ is now shown in bold type.

370 In the glossary term ‘financial risk’ the term ‘contract’ is now shown in bold type.

371 In the glossary term ‘insurance contract’ the term ‘contract’ is now shown in bold type.

372 In the glossary term ‘interest rate implicit in the lease’ the term ‘initial direct costs’ is now shown in bold type.

373 In the glossary term ‘onerous contract’ the term ‘contract’ is now shown in bold type.

374 In the glossary term ‘potential ordinary share’ the term ‘contract’ is now shown in bold type.

375 In the glossary term ‘recoverable amount’ the term ‘fair value less costs to sell’ is no longer shown in bold type, and the term ‘fair value’ is now shown in bold type.

376 In the glossary term ‘reinsurance contract’ the term ‘contract’ is now shown in bold type.

377 In the glossary term ‘share option’ the term ‘contract’ is now shown in bold type.

378 In the glossary definition of ‘state (employee benefit) plan’ the term ‘government’ is now shown in bold type.

Amendments to Appendix II
Table of equivalence for company law terminology

379 The following paragraph sets out the amendments to Appendix II *Table of equivalence for company law terminology* (deleted text is struck through, inserted text is underlined).

380 The following amendment is made to the table, and the amended row is positioned in alphabetical order in the table:

Company law terminology	**FRS 102 terminology**
~~Individual [accounts]~~	~~Individual [financial statements]~~
Trade d~~D~~ebtors	Trade receivables

Amendments to Appendix III
Note on legal requirements

381 The following paragraph sets out the amendments to Appendix III *Note on legal requirements* (deleted text is struck through, inserted text is underlined).

382 Paragraph A3.6 is amended as follows:

A3.6 Section 395(1) of the Act states:

'A company's individual accounts may be prepared—

(a) in accordance with section 396 (''Companies Act individual accounts''), or

(b) in accordance with UK-adopted international accounting standards (''IAS individual accounts'').'

Section 403(2) of the Act states:

'The group accounts of other companies may be prepared—

(a) in accordance with section 404 (''Companies Act group accounts''), or

(b) in accordance with UK-adopted international accounting standards (''IAS group accounts'').'

383 Paragraph A3.11D is amended as follows:

A3.11D In accordance with section 393 of the Act the directors of any company, including a small company, must not approve accounts unless they are satisfied that they give a true and fair view of the assets, liabilities, financial position and profit and loss of the company. In order to achieve this, a company, including a small company, may need to provide disclosures additional to those required by company law. In relation to small companies, paragraph ~~1A.16~~ 1A.5 of FRS 102 reflects this requirement and ~~paragraph 1A.17 encourages a small company to consider all other disclosures in FRS102 to determine any additional disclosures to provide.~~ paragraph 1A.6 refers to the need to consider providing additional disclosures in order to comply with it.

384 Paragraph A3.11F is inserted as follows:

A3.11F Paragraph 66 of Schedule 1 to the Small Companies Regulations requires disclosure of material transactions with specified related parties that have not been concluded under normal market conditions. Small entities disclosing all transactions with related parties in accordance with paragraph 1AC.35 of FRS 102 will be compliant with this requirement of the Small Companies Regulations.

385 Paragraph A3.37B is amended as follows:

A3.37B Paragraph PBE34.67 requires the receipt of resources from non-exchange transactions to be recognised in income. This includes situations when items of property, plant and equipment, or inventory, are received. The income will be measured at the fair value of the assets received, ~~which are measured~~ in accordance with paragraphs PBE34.73 ~~and PBE34B.15 to PBE34B.18~~ to PBE34.73B.

386 A sub-heading and paragraph A3.38A are inserted as follows:

Notes to the financial statements

A3.38A Paragraph 23.131 requires an entity to disclose the revenue it has recognised from contracts with customers disaggregated into categories. In some cases, the disclosures provided in applying that paragraph may not be sufficient to comply with the requirement in Paragraph 68 of Schedule 1 to the Regulations, which requires particulars of turnover to be disclosed. In addition, although paragraph 1.12(cB) provides an exemption for qualifying entities from paragraph 23.131, the requirements of the Regulations shall still be complied with.

387 The sub-heading and paragraph A3.40A are deleted as follows:

~~***Presentation of amounts due under contracts***~~

A3.40A ~~Paragraph 23.35 requires amounts due from customers for contract work to be presented as part of inventories when it represents work in progress (ie costs incurred are greater than costs recognised as expenses). This is in order to meet company law presentation requirements.~~[Deleted]

388 The following row in the table immediately following Paragraph A3.42 is amended and the corresponding footnote is deleted (subsequent footnotes are renumbered sequentially), as follows:

Legislation	**Overview of requirements**
Friendly Societies Act 1992	Every society shall prepare a balance sheet and an income and expenditure account for each financial year giving a true and fair view of the affairs of the society and its income and expenditure for the year. ~~The Regulations[*footnote]~~ *The Friendly Societies (Accounts and Related Provisions) Regulations 1994* make further requirements about the form and content of friendly society accounts, which do not appear inconsistent with the requirements of FRS 102.

~~[*footnote] *The Friendly Societies (Accounts and Related Provisions) Regulations 1994* (as amended)~~

Amendments to Appendix IV
Republic of Ireland legal references

389 The following paragraph sets out the amendments to Appendix IV *Republic of Ireland legal references* (deleted text is struck through, inserted text is underlined).

390 Paragraph A4.2 is amended as follows:

A4.2 General references are made in this FRS to UK legislation such as the ‘*Companies Act 2006*’~~,~~ (‘the Companies Act’, or ‘the Act’), ‘*The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008* (SI 2008/410)’~~,~~ (‘the Regulations’), ‘*The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015* (SI 2015/980)’~~, ‘the Small Companies Regulations’~~ and ‘*The Small Companies and Groups (Accounts and Directors’ Report) Regulations 2008 (SI 2008/409)*’ (‘the Small Companies Regulations’). In an Irish context reference should be made to the relevant sections and paragraphs of Irish company law. Such general references are not dealt with in the tables below. References in the text to ‘IAS accounts’ are to be read as ‘IFRS financial statements’ in Irish company law.

For the purposes of the tables below, where general references are made in the text of this FRS to Schedules to the Regulations, the approach taken is that the corresponding Schedule to the *Companies Act 2014* is referenced. For example, the corresponding reference used for Schedule 1 to the Regulations is Schedule 3 to the *Companies Act 2014* (Accounting principles, form and content of entity financial statements). Likewise, the corresponding Irish references used for Schedule 2 and for Schedule 3 to the Regulations are the following, respectively:

- the *European Union (Credit Institutions: Financial Statements) Regulations 2015* (SI No. 266 of 2015) (Credit Institutions Regulations 2015); and
- the *European Union (Insurance Undertakings: Financial Statements) Regulations 2015* (SI No. 262 of 2015)~~, as amended by the European Union (Insurance Undertakings: Financial Statements) (Amendment) Regulations 2016 (SI No. 213 of 2016)~~ (Insurance Undertakings Regulations 2015 ~~(as amended)~~).

Similar to the approach noted in paragraph A3.3 of Appendix III of this FRS, where reference is made in this appendix to Schedule 3 to the *Companies Act 2014*, Irish entities applying the Credit Institutions Regulations 2015, the Insurance Undertakings Regulations 2015 ~~(as amended)~~ or Schedule 4 to the *Companies Act 2014* should read the references as referring to the corresponding paragraphs in those regulations or that Schedule where applicable. Small entities applying the small companies regime should read them as referring to the corresponding paragraph in Schedule 3A (Accounting principles, form and content of entity financial statements of a company qualifying for the small companies regime) or Schedule 4A (Accounting principles, form and content of group financial statements for companies subject to the small companies regime) to the *Companies Act 2014*, where applicable. The requirements of Schedule 3 to the *Companies Act 2014* are not necessarily the same as those contained in the Credit Institutions Regulations 2015 or in the Insurance Undertakings Regulations 2015 ~~(as amended)~~ in all cases. References should be made to the specific requirement as appropriate.

Note: Schedule 6 to the ~~[UK]~~ Regulations contains group financial statements requirements for all entities, including credit institutions and insurance undertakings. For Irish credit institutions and insurance undertakings, reference should be made to the Credit Institutions Regulations 2015 and the Insurance Undertakings Regulations 2015~~ (as amended)~~, respectively.

391 Paragraph A4.6 is amended as follows:

A4.6 The ~~*Companies (Accounting) Act 2017* amended the~~ *Companies Act 2014* ~~to introduce the~~ includes a small companies regime (which is similar but not identical to the UK small companies regime)~~, into Irish company law~~. ~~Where~~ When a company qualifies as a small company in accordance with section 280A or 280B (small holding company) of the *Companies Act 2014*, as may be appropriate, then ~~different rules~~ the small companies regime may be applied ~~(referred to as the 'small companies regime' in the *Companies Act 2014*)~~ by the company in respect of financial statements and reports for a financial year, in relation to which that company qualifies as a small company (section 280C of the *Companies Act 2014*).

The definitions of a small company and a small holding company are contained in sections 280A and 280B of the *Companies Act 2014*. These sections also detail certain companies that cannot qualify as a small company or small holding company and are therefore excluded from the small companies regime.

Subject to certain conditions and exclusions, the qualifying conditions are met by a company if, in relation to a financial year, it does not exceed two or more of the following criteria:

(a)	Turnover	€12 million
(b)	Balance sheet total	€6 million
(c)	Average number of employees	50

A newly incorporated company must meet the qualifying conditions in relation to its first financial year to qualify as a small company.

In relation to a subsequent financial year (referred to as a 'relevant year') the qualifying conditions must be met by a company (i) in respect of the relevant year and the financial year immediately preceding the relevant year; (ii) in respect of the relevant year and the company qualified as a small company in relation to the financial year immediately preceding the relevant year; or (iii) in the financial year immediately preceding the relevant year and the company qualified as a small company in relation to that preceding financial year.

A holding company can only qualify as a small company in relation to a financial year if the group that it heads qualifies as small (as set out in section 280B of the *Companies Act 2014*).

A holding company that qualifies for the small companies regime is exempt from the requirement to prepare group financial statements, but may however elect to prepare them.

392 Paragraph A4.7 is amended as follows:

A4.7 There are a number of UK legal references, primarily in Appendix III, to paragraph 36 of Schedule 1 to the Regulations in respect of the measurement of financial instruments at fair value. The corresponding reference in the *Companies Act 2014* is paragraph 38 of Schedule 3 to the *Companies Act 2014*.

It should also be noted, however, that the wording in paragraphs 51 and 52 of Schedule 1 to the Credit Institutions Regulations 2015 and in paragraphs 46 and 47 of Schedule 1 to the Insurance Undertakings Regulations 2015 ~~(as~~

~~amended)~~ differ to that used in Schedule 3 to the *Companies Act 2014*, and reference should be made to these paragraphs where applicable.

393 Paragraph A4.8 is amended as follows:

A4.8 Paragraph A3.12C in Appendix III to this FRS discusses a potential departure from UK law for the overriding purpose of giving a true and fair view. Paragraph 41(3) of Schedule 3 to the *Companies Act 2014*, as distinct from UK law, cross references the rules in respect of the accounting for changes in the fair value of financial instruments to IFRS, thereby allowing any changes in the fair value of financial instruments to be accounted for under any approach permitted under IFRS. Consequently, presenting fair value gains or losses attributable to changes in own credit risk in other comprehensive income in accordance with IFRS 9 will not require a true and fair override.

It should also be noted, however, that the wording in paragraph 56 of Schedule 1 to the Credit Institutions Regulations 2015 and in paragraph 51 of Schedule 1 to the Insurance Undertakings Regulations 2015 ~~(as amended)~~ differ to that used in Schedule 3 to the *Companies Act 2014*, and reference should be made to these paragraphs where applicable. Consequently, for entities applying those regulations, presenting fair value gains or losses attributable to changes in own credit risk in other comprehensive income in accordance with IFRS 9 will usually require a true and fair override.

394 The following row is amended in the table **Section 4 *Statement of Financial Position* and Section 5 *Statement of Comprehensive Income and Income Statement***:

	UK references	**RoI references**	
Paragraph	**Act and the Regulations (unless otherwise stated)**	**Companies Act 2014**	**Other legislative reference**
4.2, 5.5 and 5.7	Part 1 *General Rules and Formats* of Schedule 3 to the Regulations		Part II *General Rules and Formats* of Schedule 1 to the Insurance Undertakings Regulations 2015 ~~(as amended)~~

395 The following row is inserted into the table **Appendix I *Glossary*** in alphabetical order:

	UK references	**RoI references**	
Paragraph	**Act and the Regulations (unless otherwise stated)**	**Companies Act 2014**	**Other legislative reference**
‘turnover’ (Footnote [*footnote])	Section 474(1)	Section 275(1)	

396 The table **Appendix III *Note on legal requirements*** is amended as follows (new references are inserted in numerical order):

	UK references	**RoI references**	
Paragraph	**Act and the Regulations (unless otherwise stated)**	**Companies Act 2014**	**Other legislative reference**
A3.3	Schedule 3 to the Regulations		Insurance Undertakings Regulations 2015 ~~(as amended)~~ Refer also to paragraph A4.2 of this appendix.
A3.11F	Paragraph 66 of Schedule 1 to the Small Company Regulations	Paragraph 55 in Part IV of Schedule 3A	
A3.38A	Paragraph 68 of Schedule 1 to the Regulations	Paragraph 62 in Part IV of Schedule 3	
A3.42 ~~and Footnote 72~~	Friendly Societies Act 1992 and Friendly Societies (Accounts and Related Provisions) Regulations 1994 ~~(as amended)~~		Regulations 4 and 5 of the Friendly Societies Regulations, 1988, pursuant to Section 3 of the Friendly Societies (Amendment) Act, 1977

Amendments to other FRSs

Amendments to FRS 100 *Application of Financial Reporting Requirements*

397 The following paragraphs set out the amendments to FRS 100 *Application of Financial Reporting Requirements* (deleted text is struck through, inserted text is underlined).

398 Paragraph 6 is amended as follows (the sequentially numbered footnote in this paragraph is not presented here and is unchanged by this amendment):

6 When a SORP applies, an entity~~,~~ (other than a **small entity** in the Republic of Ireland applying the small entities regime in FRS 102)~~,~~ shall state in its financial statements the title of the SORP and whether its financial statements have been prepared in accordance with the SORP's provisions that are currently in effect[6]. In the event of a departure from those provisions, the entity shall give a brief description of how the financial statements depart from the recommended practice set out in the SORP, which shall include:

(a) for any treatment that is not in accordance with the SORP, the reasons why the treatment adopted is judged more appropriate to the entity's particular circumstances; and

(b) brief details of any disclosures recommended by the SORP that have not been provided, and the reasons why they have not been provided.

A small entity in the Republic of Ireland applying the small entities regime in FRS 102 is encouraged to provide these disclosures.

399 Paragraph 9 is amended and the sequentially numbered footnote is deleted (subsequent footnotes are renumbered sequentially) as follows:

9 ~~Where~~ When an entity prepares its financial statements in accordance with FRS 101 or FRS 102, it shall include a statement of compliance in the notes to the financial statements in accordance with the requirements set out in the relevant standard unless it is ~~a small entity~~ an Irish qualifying partnership applying the small entities regime in FRS 102, in which case it is encouraged to include a statement of compliance in the notes to the financial statements.~~[7]~~

~~[7] Irish small entities, other than qualifying partnerships, are required to include a statement of compliance.~~

400 A sub-heading and paragraph 10E are inserted as follows:

Periodic Review 2024

10E In March 2024 amendments were made to this FRS as a result of the Periodic Review 2024. An entity shall apply the amendments to this FRS, as set out in *Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs – Periodic Review 2024*, for accounting periods beginning on or after 1 January 2026. Early application is permitted, provided that all the amendments are applied at the same time. If an entity applies these amendments before 1 January 2026 it shall disclose that fact, unless it is a small entity in the Republic of Ireland, in which case it is encouraged to disclose that fact.

Amendments to FRS 101 *Reduced Disclosure Framework*

401 The following paragraphs set out the amendments to FRS 101 *Reduced Disclosure Framework* (deleted text is struck through, inserted text is underlined).

402 Paragraph 9 is amended as follows:

9 Reference ~~should~~ shall be made to the Application Guidance to FRS 100 in deciding whether the consolidated financial statements ~~of the group~~ in which the qualifying entity is included provide disclosures ~~which~~ that are equivalent to the requirements of adopted IFRS~~,~~ from which relief is provided in paragraph 8 of this FRS.

403 A sub-heading and paragraph 18 are inserted as follows:

Periodic Review 2024

18 In March 2024 amendments were made to this FRS as a result of the Periodic Review 2024. An entity shall apply the amendments to this FRS, as set out in *Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs – Periodic Review 2024*, for periods beginning on or after 1 January 2026. Early application is permitted, provided that all the amendments are applied at the same time. If an entity applies these amendments before 1 January 2026 it shall disclose that fact.

Appendix III *Republic of Ireland legal references*

404 Paragraph A3.2 is amended as follows:

A3.2 General references are made in this FRS to UK legislation such as the '*Companies Act 2006*'~~,~~ ('the Companies Act', or 'the Act'), '*The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008* (SI 2008/410)'~~,~~ ('the Regulations'), '*The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015* (SI 2015/980)'~~, 'the Small Companies Regulations'~~ and '*The Small Companies and Groups (Accounts and Directors' Report) Regulations 2008* (SI 2008/409)' ('the Small Companies Regulations'). In an Irish context reference should be made to the relevant sections and paragraphs of Irish company law. Such general references are not dealt with in the tables below. References in the text to 'IAS accounts' are to be read as 'IFRS financial statements' in Irish company law. IFRS financial statements are within the scope of the IAS Regulation.

For the purposes of the tables below, where general references are made in the text of this FRS to Schedules to the Regulations, the approach taken is that the corresponding Schedule to the *Companies Act 2014* is referenced. For example, the corresponding reference used for Schedule 1 to the Regulations is Schedule 3 to the *Companies Act 2014* (Accounting principles, form and content of entity financial statements). Likewise, the corresponding Irish references used for Schedule 2 and for Schedule 3 to the Regulations are the following, respectively:

- the *European Union (Credit Institutions: Financial Statements) Regulations 2015* (SI No. 266 of 2015) (Credit Institutions Regulations 2015); and
- the *European Union (Insurance Undertakings: Financial Statements) Regulations 2015* (SI No. 262 of 2015)~~, as amended by the European~~

~~Union (Insurance Undertakings: Financial Statements) (Amendment) Regulations 2016 (SI No. 213 of 2016)~~ (Insurance Undertakings Regulations 2015~~ (as amended)~~).

Similar to the approach noted in paragraph A3.3 of Appendix III of this FRS, where reference is made in this appendix to Schedule 3 to the *Companies Act 2014*, Irish entities applying the Credit Institutions Regulations 2015, the Insurance Undertakings Regulations 2015~~ (as amended)~~ or Schedule 4 to the *Companies Act 2014* should read the references as referring to the corresponding paragraphs in those regulations or that Schedule where applicable. Small entities applying the small companies regime should read them as referring to the corresponding paragraph in Schedule 3A (Accounting principles, form and content of entity financial statements of a company qualifying for the small companies regime) or Schedule 4A (Accounting principles, form and content of group financial statements for companies subject to the small companies regime) to the *Companies Act 2014*, where applicable. The requirements of Schedule 3 to the *Companies Act 2014* are not necessarily the same as those contained in the Credit Institutions Regulations 2015 or in the Insurance Undertakings Regulations 2015 ~~(as amended)~~ in all cases. References should be made to the specific requirement as appropriate.

405 Throughout the rest of Appendix III the phrase 'Insurance Undertakings Regulations 2015 (as amended)' is replaced with the phrase 'Insurance Undertakings Regulations 2015'.

Amendments to FRS 103 *Insurance Contracts*

406 The following paragraphs set out the amendments to FRS 103 *Insurance Contracts* (deleted text is struck through, inserted text is underlined).

Section 1 *Scope*

407 Paragraph 1.7 is amended as follows:

1.7 An entity shall not apply this FRS to:

(a) product warranties issued directly by a manufacturer, dealer or retailer (see Sections 21 *Provisions and Contingencies* and 23 *Revenue from Contracts with Customers* of FRS 102);

(b) employers' assets and **liabilities** under employee benefit plans (see Sections 26 *Share-based Payment* and 28 *Employee Benefits* of FRS 102) and retirement benefit obligations reported by defined benefit retirement plans (see Section 34 of FRS 102);

(c) contractual rights or contractual obligations that are contingent on the future use of, or right to use, a non-financial item (for example, some licence fees, royalties, variable and other contingent lease payments and similar items), as well as a lessee's residual value guarantee embedded in a finance lease (see Sections 18 *Intangible Assets other than Goodwill*, 20 *Leases* and 23 of FRS 102);

(d) **financial guarantee contracts** unless the issuer has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts, in which case the issuer may elect to apply either Section 21 of FRS 102 or this FRS to such financial guarantee contracts. The issuer may make that election contract by contract, but the election for each contract is irrevocable;

(e) contingent consideration payable or receivable in a **business combination** (see Section 19 *Business Combinations and Goodwill* of FRS 102); or

(f) **direct insurance contracts** that the entity holds (ie direct insurance contracts in which the entity is the **policyholder**) (for which an accounting policy shall be selected in accordance with the principles of FRS 102). However, a **cedant** shall apply this FRS to reinsurance contracts that it holds.

408 A sub-heading and paragraph 1.15 are inserted as follows:

Periodic Review 2024

1.15 In March 2024 amendments were made to this FRS as a result of the Periodic Review 2024. An entity shall apply the amendments to this FRS, as set out in *Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs – Periodic Review 2024*, for periods beginning on or after 1 January 2026, except for the amendments to Section 6 *Transition to this FRS*, which shall apply for periods beginning on or after 1 January 2024. Early application of the amendments other than those in Section 6 is permitted, provided that all those other amendments are applied at the same time.

Section 6 *Transition to this FRS*

409 Paragraph 6.1 is amended as follows:

6.1 ~~The transitional provisions in paragraphs 6.3 and 6.4 apply~~ This section applies to both an entity that is already applying FRS 102 when it first applies this FRS and an entity that applies both FRS 102 and this FRS together for the first time.

410 A sub-heading and paragraph 6.5 are inserted as follows:

Transition from IFRS Accounting Standards

6.5 When preparing financial statements at the date of transition, an insurer whose previous financial reporting framework was **adopted IFRS**, or included an approach and methodology for accounting for **insurance contracts** that is equivalent to adopted IFRS, shall disregard its **existing accounting policies** for insurance contracts and apply this FRS as if it were setting accounting policies in relation to insurance contracts for the first time (see paragraph 1.5).

Appendix I *Glossary*

411 The following glossary terms and definitions are amended as follows (deleted text is struck through, inserted text is underlined):

fair value	~~The amount for which an **asset** could be exchanged, a **liability** settled, or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm's length transaction~~The price that would be received to sell an **asset** or paid to transfer a **liability** in an orderly transaction between market participants at the measurement date. In the absence of any specific guidance provided in the relevant section of this FRS, the guidance in ~~the Appendix to Section 2 *Concepts and Pervasive Principles*~~ Section 2A *Fair Value Measurement* of **FRS 102** shall be used in determining fair value.
liability	A present obligation of the entity ~~arising from~~ to transfer an economic resource as a result of past events~~, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits~~.
recognition	The process of capturing for inclusion ~~incorporating~~ in the **statement of financial position** or **statement of comprehensive income** an item that meets the definition of one of the elements of financial statements: (a) **assets**; (b) **liabilities**; (c) **equity**; (d) **income**; or (e) **expenses**. Recognition involves depicting the item in one of those statements – either alone or in aggregation with other items – in words and by a monetary amount, and including that amount in one or more totals in that statement ~~an asset, liability, equity, income or expense and satisfies the following criteria:~~ ~~(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~~.

Appendix II *Definition of an insurance contract*

412 Paragraph A2.7 is amended as follows:

A2.7 Applying ~~the~~ this FRS to the contracts described in paragraph A2.6 is likely to be no more burdensome than applying FRS 102 if such contracts were outside the scope of this FRS:

(a) There are unlikely to be material liabilities for malfunctions and breakdowns that have already occurred;

(b) If Section 23 *Revenue from Contracts with Customers* of FRS 102 applied, the service provider would recognise revenue ~~by reference to the stage of completion~~ when (or as) it transfers services to the customer (~~and~~ subject to other specified criteria). That approach is also acceptable under this FRS, which permits the service provider to continue its **existing accounting policies** for these contracts unless they involve practices prohibited by paragraph 2.13.

(c) If this FRS did not apply to these contracts, the service provider would apply Section 21 *Provisions and Contingencies* of FRS 102 to determine whether the contracts are onerous.

413 Paragraph A2.21 is amended as follows:

A2.21 If the contracts described in paragraph A2.19 do not create financial assets or financial liabilities, Section 23 of FRS 102 applies. Under Section 23 of FRS 102, revenue ~~associated with a transaction involving the rendering of services~~ is recognised ~~by reference to the stage of completion of the transaction if the outcome of the transaction can be estimated reliably~~ when (or as) an entity satisfies a performance obligation in an amount that reflects the consideration to which the entity expects to be entitled.

414 Paragraphs A2.22 to A2.24 are amended as follows:

A2.22 ~~Examples 15, 17 and 17A in the appendix to Section 23 of FRS 102 are relevant to the recognition of revenue for the types of contract described in paragraph A2.19.~~[Deleted]

A2.23 ~~Where~~ When the consideration for a contract meeting the definition of an investment contract comprises both a fee for the origination and an ongoing charge for the provision of (eg investment management) services, the insurance undertaking shall ~~record the origination fee as revenue on the date on which it becomes entitled to it where it can be demonstrated that the undertaking has no further obligations in respect of the fee~~ evaluate whether to account for the origination as a separate performance obligation in accordance with paragraphs 23.17 to 23.25 of FRS 102. Otherwise, the fee is included in the transaction price for the contract and recognised as revenue when those services are provided.

A2.24 ~~Incremental costs that are directly attributable to securing an investment management contract are recognised as an asset if they can be identified separately and measured reliably and if it is probable that they will be recovered. The asset represents the entity's contractual right to benefit from providing investment management services and is amortised as the entity recognises the related revenue. If the entity has a portfolio of investment management contracts, it may assess their recoverability on a portfolio basis.~~ Costs of obtaining an investment management contract may be recognised as an asset if they meet the criteria in paragraph 23.113 of FRS 102. The asset is amortised in accordance with the pattern of transfer and revenue recognition of the services to which the asset relates.

Appendix IV *Republic of Ireland legal references*

415 Paragraph A4.1 is amended as follows:

A4.1 The tables below outline the provisions of the *Companies Act 2014* and the *European Union (Insurance Undertakings: Financial Statements) Regulations 2015* (SI No. 262 of 2015)~~, as amended by the European Union (Insurance Undertakings: Financial Statements) (Amendment) Regulations 2016 (SI No. 213 of 2016)~~ (Insurance Undertakings Regulations 2015~~ (as amended)~~) which correspond to the provisions of UK company law referred to in this FRS.

416 Paragraph A4.2 is amended as follows:

A4.2 The following Irish legislation is also referenced in the tables below:

- *European Union (Insurance and Reinsurance) Regulations 2015* (SI No. 485 of 2015)~~, as amended by the European Union (Insurance and Reinsurance) (Amendment) Regulations 2017 (SI No. 384 of 2017) (SI No. 485 of 2015 (as amended))~~ – (Solvency II firms);
- *European Communities (Non-life Insurance) Framework Regulations 1994* (SI No. 359 of 1994)~~, as continued for the purposes set out in the *Finance (Miscellaneous Provisions) Act 2015* (No. 37 of 2015)~~ – (Firms outside the scope of Solvency II);
- *European Communities (Life* Assurance*) Framework Regulations 1994* (SI No. 360 of 1994)~~, as continued for the purposes set out in the *Finance (Miscellaneous Provisions) Act 2015* (No. 37 of 2015)~~ – (Firms outside the scope of Solvency II);
- Building Societies Act, 1989;
- The Credit Union Acts 1997 to 2012;
- *Central Bank Act, 1971*;
- The Friendly Societies Acts 1896 to 2014; and
- *Industrial and Provident Societies (Amendment) Act, 1978*~~ (as amended)~~.

417 Paragraph A4.3 is amended as follows:

A4.3 ~~Throughout this FRS, general~~ General references are made in this FRS to 'the Regulations', which are defined in the Glossary as '*The* [UK] *Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008* (SI 2008/410)'~~. Schedule 3 and Schedule 6 to those Regulations apply to UK insurance companies preparing Companies Act individual accounts and Companies Act group accounts respectively. General references are also made in this FRS~~, and to 'the Act', which is defined in the Glossary as the [UK] '*Companies Act 2006*'. Such general references ~~to 'the Regulations' and 'the Act' in this FRS~~ are not ~~included~~ dealt with in the tables below. In an Irish context, reference should be made to the relevant provisions of the Irish legislation outlined above.

418 Throughout the rest of Appendix IV:

(a) the phrase 'Insurance Undertakings Regulations 2015 (as amended)' is replaced with the phrase 'Insurance Undertakings Regulations 2015'.

(b) the phrase 'SI No. 485 of 2015 (as amended)' is replaced with the phrase 'SI No. 485 of 2015 (Solvency II firms)'.

(c) except in paragraph A4.6, the phrase 'SI No. 359 of 1994' is replaced with the phrase 'SI No. 359 of 1994 (Firms outside the scope of Solvency II)'.

(d) except in paragraph A4.6, the phrase 'SI No. 360 of 1994' is replaced with the phrase 'SI No. 360 of 1994 (Firms outside the scope of Solvency II)'.

(e) the phrase 'Industrial and Provident Societies (Amendment) Act, 1978 (as amended)' is replaced with the phrase 'Industrial and Provident Societies (Amendment) Act, 1978'.

419 The following row is inserted into the table **Appendix I *Glossary*** in alphabetical order:

Paragraph	**UK references**	**ROI references**
'LLP regulations'	The Large and Medium-sized Limited Liability Partnerships (Accounts) Regulations 2008 (SI 2008/1913)	Refer to paragraph A4.11 of FRS 102.

Amendments to Implementation Guidance to accompany FRS 103 *Insurance Contracts*

420 The following paragraphs set out the amendments to Implementation Guidance to accompany FRS 103 *Insurance Contracts* (deleted text is struck through, inserted text is underlined).

421 The introductory text above paragraph IG2.1 is amended as follows:

Paragraphs IG2.1 to IG2.8 provide guidance for ~~applying the principles of Section 23 Revenue of FRS 102 to~~ <u>recognising income from</u> general insurance contracts.

422 The introductory text above paragraph IG2.29 is amended as follows:

Paragraphs IG2.29 to IG2.32 ~~provide guidance for applying the principles of Section 23 Revenue of FRS 102. They~~ are only relevant to general insurance business.

Amendments to FRS 104 *Interim Financial Reporting*

423 The following paragraphs set out the amendments to FRS 104 *Interim Financial Reporting* (deleted text is struck through, inserted text is underlined).

424 Paragraph 24 is amended as follows:

24 As described in ~~paragraph 2.6~~ paragraphs 2.11 to 2.13 of FRS 102, ~~an item is material if its omission or misstatement could influence the economic decisions of users of the financial statements~~ materiality is an entity-specific aspect of relevance that depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.

425 Paragraph 31 is amended as follows:

31 Under Section 2 *Concepts and Pervasive Principles* of FRS 102, recognition is the ~~'...~~ process of incorporating in the statement of financial position or statement(s) of comprehensive income an item that meets the definition of ~~an asset, liability, equity, income or expense and satisfies the ... criteria [for recognition]'~~ one of the elements of the financial statements. The definitions of assets, liabilities, equity, income, and expenses are fundamental to recognition, at the end of both annual and interim financial reporting periods.

426 Paragraph 33 is amended as follows:

33 An essential characteristic of income (revenue) and expenses is that the related inflows and outflows of assets and liabilities have already taken place. If those inflows or outflows have taken place, the related revenue and expense are recognised; otherwise they are not recognised. ~~Section 2 of FRS 102 states that 'an entity shall recognise expenses in the statement of comprehensive income (or in the income statement, if presented) when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably'.~~ Section 2 of FRS 102 does not allow the recognition of items in the statement of financial position which do not meet the definition of assets or liabilities, however in some cases this may be inconsistent with the requirements of another section of FRS 102, which takes precedence.

427 In paragraph 35, the term 'change in accounting estimate' is no longer shown in bold type and the term 'accounting estimate' is shown in bold type.

428 A sub-heading and paragraph 56D are inserted as follows:

Periodic Review 2024

56D In March 2024 amendments were made to this FRS as a result of the Periodic Review 2024. An entity shall apply the amendments to this FRS, as set out in *Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs – Periodic Review 2024*, for interim periods beginning on or after 1 January 2026. Early application is permitted, provided that all the amendments are applied at the same time. If an entity applies these amendments before 1 January 2026 it shall disclose that fact.

Appendix I *Glossary*

429 The following glossary terms and definitions are inserted in alphabetical order as follows:

accounting estimates	Monetary amounts in **financial statements** that are subject to **measurement** uncertainty.
contract	An agreement between two or more parties that creates enforceable rights and obligations.
economic resource	A right that has the potential to produce economic benefits.

430 The following glossary terms and definitions are amended as follows:

asset	A present **economic resource** ~~resource~~ controlled by the entity as a result of past events ~~and from which future economic benefits are expected to flow to the entity~~.
carrying amount	The amount at which an **asset** ~~or~~, a **liability**, or **equity** is recognised in the **statement of financial position**.
expenses	Decreases in ~~economic benefits during the **reporting period** in the form of outflows or depletions of~~ **assets** or ~~incurrences of~~ increases in **liabilities** that result in decreases in **equity**, other than those relating to distributions to equity investors.
fair value	~~The amount for which an **asset** could be exchanged, a **liability** settled, or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm's length transaction.~~ The price that would be received to sell an **asset** or paid to transfer a **liability** in an orderly transaction between market participants at the measurement date. In the absence of any specific guidance provided in the relevant section of this FRS or of **FRS 102**, the guidance in ~~the Appendix to Section 2 *Concepts and Pervasive Principles*~~ Section 2A *Fair Value Measurement* of FRS 102 shall be used in determining fair value.
income	Increases in ~~economic benefits during the **reporting period** in the form of inflows or enhancements of~~ **assets** or decreases ~~of~~ in **liabilities** that result in increases in **equity**, other than those relating to contributions from equity investors.
liability	A present obligation of the entity ~~arising from~~ to transfer an **economic resource** as a result of past events~~, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits~~.

material	~~Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that of users of general purpose financial statements make taken on the basis of the those **financial statements**. Materiality depends on the size and nature and magnitude of the omission or misstatement judged in the surrounding circumstances. The size or nature and magnitude of the item, or a combination of both, could be the determining factor.~~ Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the users of **general purpose financial statements** make on the basis of those financial statements, which provide financial information about a specific reporting entity.
recognition	The process of capturing for inclusion ~~incorporating~~ in the **statement of financial position** or **statement of comprehensive income** an item that meets the definition of one of the elements of financial statements: (a) **assets**; (b) **liabilities**; (c) **equity**; (d) **income**; or (e) **expenses**. Recognition involves depicting the item in one of those statements – either alone or in aggregation with other items – in words and by a monetary amount, and including that amount in one or more totals in that statement ~~an asset, liability, equity, income or expense and satisfies the following criteria:~~ ~~(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**~~.
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.~~ **Income** arising in the course of an entity's ordinary activities.
timely or timeliness	~~Providing the information in **financial statements** within the decision time frame.~~ Having information available to decision-makers in time to be capable of influencing their decisions.

431 The following glossary terms and definitions are deleted:

~~**change in accounting estimate**~~	~~An adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption 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.~~
~~**fair value less costs to sell**~~	~~The amount obtainable from the sale of an **asset** or **cash-generating unit** in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.~~

432 In the glossary term 'recoverable amount', the term 'fair value less costs to sell' is no longer shown in bold type and the term 'fair value' is shown in bold type.

Appendix II *Illustrations and examples*

433 The sub-heading and paragraph A2.9 are amended as follows:

~~Contingent~~ Variable lease payments

A2.9 ~~Contingent~~ Variable lease payments based on sales can be an example of a legal or constructive obligation that is recognised as a liability. If a lease provides for ~~contingent~~ variable payments based on the lessee achieving a certain level of annual sales, an obligation can arise in the interim periods of the financial year before the required annual level of sales has been achieved, if that required level of sales is expected to be achieved and the entity, therefore, has no realistic alternative but to make the future lease payment.

434 Paragraph A2.21 is amended as follows:

A2.21 Some tax jurisdictions give taxpayers credits against the tax payable based on amounts of capital expenditures, exports, research and development expenditures, or other bases. Anticipated tax benefits of this type for the full year are generally reflected in computing the estimated annual effective income tax rate, because those credits are granted and calculated on an annual basis under most tax laws and regulations. On the other hand, tax benefits that relate to a one-off event are recognised in computing income tax expense in that interim period, in the same way that special tax rates applicable to particular categories of income are not blended into a single effective annual tax rate. Moreover, in some jurisdictions tax benefits or credits, including those related to capital expenditures and levels of exports, while reported on the income tax return, are more similar to a government grant and are recognised in the interim period in which they arise.

435 Paragraph A2.25 is amended as follows:

A2.25 Volume rebates or discounts and other contractual changes in the prices of raw materials, labour, or other purchased goods and services are anticipated in interim periods, by both the payer and the recipient, if it is probable that they have been earned or will take effect. Thus, contractual rebates and discounts are anticipated but discretionary rebates and discounts are not anticipated because the resulting asset or liability would not satisfy the conditions ~~set out in FRS 102~~ that an asset must be a resource controlled by the entity as a result of a past event and that a liability must be a present obligation whose settlement is expected to result in an outflow of resources.

Appendix III *Table of comparison between terminology used in the DTRs and FRS 104*

436 The following term is inserted in alphabetical order:

Terminology used in the DTRs	**FRS 104 terminology**
UK-adopted IFRS	UK-adopted international accounting standards

Appendix V *Republic of Ireland legal references*

437 Paragraph A5.1 is amended as follows:

A5.1 In the Republic of Ireland the *Companies Act 2014* provides for, inter alia, the implementation of certain aspects of the EU Transparency Directive (Directive 2004/109/EC). Where entities fall within the scope of the EU Transparency Directive, the half-yearly reporting requirements are set out in Regulation 6 of SI No. 277 of 2007 – *Transparency (Directive 2004/109/EC) Regulations 2007* ~~(as amended)~~ (Transparency Regulations).

438 The following row is amended in the table **Appendix I** ***Glossary***:

'DTRs'	Corresponding aspects of the EU Transparency Directive are implemented in the Republic of Ireland through the ~~*Transparency (Directive 2004/109/EC) Regulations 2007*, including any subsequent amendments thereto~~ Transparency Regulations.

Amendments to FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime*

439 The following paragraphs set out the amendments to FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime* (deleted text is struck through, inserted text is underlined).

Section 1 *Scope*

440 The sub-heading and paragraph 1.6 are amended as follows:

Triennial ~~review~~ Review 2017

1.6 In December 2017 amendments were made to this FRS as a result of the ~~triennial review~~ Triennial Review 2017.

(a) A micro-entity in the UK shall apply the amendments to this FRS as set out in the *Triennial review 2017 amendments* for accounting periods beginning on or after 1 January 2019, except for the amendments to paragraph 3.13A and Section 6 *Notes to the Financial Statements* (including its appendices) which shall apply for accounting periods beginning on or after 1 January 2017.

Early application is permitted provided that all the amendments to this FRS are applied at the same time.

(b) A micro-entity in the Republic of Ireland shall apply the amendments to this FRS that incorporate the micro-entities regime in the Republic of Ireland in accordance with paragraph 1.4A, and shall apply the other amendments set out in the *Triennial review 2017 amendments* for accounting periods beginning on or after 1 January 2019.

Early application of the other amendments is permitted provided that all of these other amendments are applied at the same time.

441 A sub-heading and paragraphs 1.10 and 1.11 are inserted as follows:

Periodic Review 2024

1.10 In March 2024 amendments were made to this FRS as a result of the Periodic Review 2024. A micro-entity shall apply the amendments to this FRS, as set out in *Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs – Periodic Review 2024* (the '*Periodic Review 2024 amendments*'), for accounting periods beginning on or after 1 January 2026. Early application is permitted, provided that all the amendments are applied at the same time.

1.11 When a micro-entity first applies the *Periodic Review 2024 amendments*, as an exception to **retrospective application**, it shall apply the revised Section 18 *Revenue from Contracts with Customers* prospectively to contracts that begin after the date it first applies the *Periodic Review 2024 amendments*, and therefore shall not change its accounting policy for any contracts in progress at that date.

Section 2 *Concepts and Pervasive Principles*

442 For ease of reading, in this section revised text is not underlined.

443 Paragraphs 2.1 to 2.38 are deleted and replaced with the following:

Scope of this section

2.1 This section sets out the concepts and basic principles underlying the **recognition** and **measurement** of transactions of **micro-entities** within the scope of this FRS.

2.2 If there are inconsistencies between this section and the requirements of another section, the requirements in the other section within this FRS take precedence over this section.

Financial statements

2.3 **Financial statements** of a micro-entity are prepared for a specified period of time (**reporting period**) and provide information about:

(a) **assets** and **liabilities** – including unrecognised assets and liabilities – and **equity** that existed at the end of the reporting period, or during the reporting period; and

(b) **income** and **expenses** for the reporting period.

2.4 To help users of the financial statements of micro-entities to identify and assess changes and trends, financial statements also provide comparative information for at least one preceding reporting period, except when this FRS permits or requires otherwise.

2.5 Information about possible future transactions and other possible future events is included in financial statements if it:

(a) relates to the micro-entity's assets or liabilities – including unrecognised assets or liabilities – or equity that existed at the end of the reporting period, or during the reporting period, or to income or expenses for the reporting period; and

(b) is useful to users of financial statements.

Financial statements do not typically provide other types of forward-looking information, for example, explanatory material about management's expectations and strategies for the micro-entity.

Perspective adopted in financial statements

2.6 Financial statements provide information about transactions and other events viewed from the perspective of the micro-entity as a whole.

Going concern assumption

2.7 Financial statements are normally prepared on the assumption that the micro-entity is a going concern and will continue in operation for the foreseeable future. However, if management either intends to liquidate the entity or cease trading, or has no realistic alternative but to do so, the financial statements shall be prepared on a different basis.

The elements of financial statements

2.8 The elements of financial statements defined in this section are:

(a) assets, liabilities and equity, which relate to a micro-entity's **financial position**; and

(b) income and expenses, which relate to a micro-entity's financial **performance**.

Definition of an asset

2.9 An asset is a present **economic resource** controlled by the micro-entity as a result of past events. An economic resource is a right that has the potential to produce economic benefits.

2.10 Rights that have the potential to produce economic benefits take many forms, including:

(a) rights that correspond to an obligation of another party, for example:

(i) rights to receive cash.

(ii) rights to receive goods or services.

(iii) rights to exchange economic resources with another party on favourable terms. Such rights include, for example, a forward contract to buy an economic resource on terms that are currently favourable, or an option to buy an economic resource.

(iv) rights to benefit from an obligation of another party to transfer an economic resource if a specified uncertain future event occurs.

(b) rights that do not correspond to an obligation of another party, for example:

(i) rights over physical objects, such as **property, plant and equipment** or **inventories**. Examples of such rights are a right to use a physical object or a right to benefit from the residual value of a leased object.

(ii) rights to use intellectual property.

2.11 Many rights are established by **contract**, legislation or similar means. For example, a micro-entity might obtain rights from owning or leasing a physical object, from owning a debt instrument or an equity instrument, or from owning a registered patent. However, a micro-entity might also obtain rights in other ways, for example:

(a) by acquiring or creating know-how that is not in the public domain; or

(b) through an obligation of another party that arises because that other party has no practical ability to act in a manner inconsistent with its customary practices, published policies or specific statements.

2.12 For the potential to produce economic benefits to exist, it does not need to be certain, or even likely, that the right will produce economic benefits. It is only necessary that the right already exists.

2.13 Control links an economic resource to a micro-entity. Assessing whether control exists helps to identify the economic resource for which the micro-entity accounts. A micro-entity controls an economic resource if it has the present ability to direct the use of the economic resource and obtain the economic benefits that may flow from it. A micro-entity has the present ability to direct the use of an economic resource if it has the right to deploy that economic resource in its activities, or to allow another party to deploy the economic resource in that other party's activities.

Definition of a liability

2.14 For a liability to exist, three criteria must all be satisfied:

(a) the micro-entity has an obligation;

(b) the obligation is to transfer an economic resource; and

(c) the obligation is a present obligation that exists as a result of past events.

2.15 An obligation is a duty or responsibility that a micro-entity has no practical ability to avoid. An obligation is always owed to another party (or parties). It is not necessary to know the identity of the party (or parties) to whom the obligation is owed. Many obligations are established by contract, legislation or similar means and are legally enforceable by the party (or parties) to whom they are owed. Obligations can also arise, however, from a micro-entity's customary practices, published policies or specific statements if the micro-entity has no practical ability to act in a manner inconsistent with those practices, policies or statements. The obligation that arises in such situations is sometimes referred to as a **constructive obligation**.

2.16 To satisfy the criterion in paragraph 2.14(b), the obligation must have the potential to require the micro-entity to transfer an economic resource to another party (or parties). For that potential to exist, it does not need to be certain, or even likely, that the micro-entity will be required to transfer an economic resource – the transfer may, for example, be required only if a specified uncertain future event occurs. It is only necessary that the obligation already exists and that, in at least one circumstance, it would require the micro-entity to transfer an economic resource.

2.17 Obligations to transfer an economic resource include, for example:

(a) obligations to pay cash;

(b) obligations to deliver goods or provide services;

(c) obligations to exchange economic resources with another party on unfavourable terms;

(d) obligations to transfer an economic resource if a specified uncertain future event occurs; and

(e) obligations to issue a **financial instrument** if that financial instrument will oblige the micro-entity to transfer an economic resource.

2.18 Instead of fulfilling an obligation to transfer an economic resource to the party that has a right to receive that resource, micro-entities sometimes decide to, for example:

(a) settle the obligation by negotiating a release from the obligation;

(b) transfer the obligation to a third party; or

(c) replace that obligation to transfer an economic resource with another obligation by entering into a new transaction.

2.19 To satisfy the criterion in paragraph 2.14(c), a present obligation exists as a result of past events only if:

(a) the micro-entity has already obtained economic benefits or taken an action; and

(b) as a consequence, the micro-entity will or may have to transfer an economic resource that it would not otherwise have had to transfer.

2.20 The economic benefits obtained could include, for example, goods or services. The action taken could include, for example, operating a particular **business** or operating in a particular market. If economic benefits are obtained, or an action is taken, over time, the resulting present obligation may accumulate over that time.

Income and expenses

2.21 Users of financial statements need information about both a micro-entity's financial position and its financial performance. Hence, although income (which includes both **revenue** and gains) and expenses are defined in terms of changes in assets and liabilities, information about income and expenses is just as important as information about assets and liabilities.

Measurement of assets, liabilities, income and expenses

2.22 Measurement is the process of determining the monetary amounts at which a micro-entity measures assets, liabilities, income and expenses in its financial statements. Measurement involves the selection of a basis of measurement. This FRS specifies which measurement basis a micro-entity shall use for many types of assets, liabilities, income and expenses.

Pervasive recognition and measurement principles

2.23 In the absence of a requirement in this FRS that applies specifically to a transaction or other event or condition, paragraph 8.4 provides guidance for making a judgement and paragraph 8.5 requires a micro-entity to look to the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses and the pervasive principles set out in this section.

Accrual basis

2.24 A micro-entity shall prepare its financial statements using the **accrual basis** of accounting. On the accrual basis, items are recognised as assets, liabilities, equity, income or expenses when they satisfy the definitions and recognition criteria for those items.

Recognition and derecognition

The recognition process

2.25 Recognition links the elements of financial statements, the statement of financial position, and the **income statement** as follows:

(a) in the statement of financial position at the beginning and end of the reporting period, total assets minus total liabilities equal total equity; and

(b) recognised changes in equity during the reporting period comprise:

  (i) income minus expenses recognised in the income statement; plus

  (ii) contributions from equity holders, minus distributions to equity holders.

Recognition criteria

2.26 Only items that meet the definition of an asset, a liability or equity are recognised in the statement of financial position. Similarly, only items that meet the definition of income or expenses are recognised in profit or loss.

2.27 However, not all items that meet the definition of one of those elements are recognised, for example if doing so would not provide relevant information, or if the costs of doing so outweigh the benefits.

2.28 The recognition criteria for an item that meets the definition of one of the elements of financial statements are set out in the applicable sections of this FRS.

2.29 The failure to recognise an item that satisfies the recognition criteria is not rectified by disclosure of the accounting policies used or by notes or explanatory material.

2.30 Unless explicitly required or permitted by this FRS, an entity shall not recognise items in the statement of financial position that do not meet the definition of assets or of liabilities regardless of whether they result from applying the notion commonly referred to as 'matching' for measuring profit or loss.

2.31 An item that fails to meet the recognition criteria may qualify for recognition at a later date as a result of subsequent circumstances or events.

Derecognition

2.32 **Derecognition** normally occurs when an item no longer meets the definition of an asset or of a liability:

(a) for an asset, derecognition normally occurs when the micro-entity loses control of all or part of the recognised asset; and

(b) for a liability, derecognition normally occurs when the micro-entity no longer has a present obligation for all or part of the recognised liability.

2.33 Accounting requirements for derecognition aim to faithfully represent both any assets and liabilities retained after the transaction or other event that led to derecognition and the change in assets or liabilities as a result of that transaction or other event.

2.34 The aim of paragraph 2.33 is normally achieved by:

(a) derecognising any assets or liabilities (components) that have expired or have been consumed, collected, fulfilled or transferred (collectively, the transferred components), and recognising, and presenting separately in the income statement, any resulting income and expenses; and

(b) continuing to recognise, and presenting separately in the statement of financial position, any retained assets or liabilities (the retained component).

Measurement

Measurement at initial recognition

2.35 At initial recognition, a micro-entity shall measure assets and liabilities at cost.

2.36 Under limited circumstances this FRS requires a micro-entity to estimate the cost of an asset or liability based on its **fair value**. When this FRS requires a micro-entity to determine the fair value of an asset or liability, a micro-entity shall use the following methodology to estimate the fair value:

(a) The best evidence of fair value is an unadjusted quoted price for an identical or comparable asset or liability in an **active market**.

(b) When an unadjusted quoted price is not available, the price of a recent orderly transaction between **market participants** for an identical or comparable asset or liability provides evidence of fair value. However, this price may not be a reliable estimate of fair value if there has been a significant change in economic circumstances or a significant period of time between the date of the transaction~~,~~ and the measurement date.

(c) If neither (a) nor (b) above are available or reliable, the fair value shall be estimated using another valuation technique. The objective of using another valuation technique is to estimate the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date.

Subsequent measurement

Financial assets and financial liabilities

2.37 A micro-entity measures financial assets and financial liabilities as follows:

(a) Investments in preference shares or ordinary shares and investments in **subsidiaries** and **associates** and interests in **jointly controlled entities** shall be measured at cost less impairment.

(b) **Derivatives** are measured at cost adjusted for amounts recognised in profit or loss over the term of the instruments and any **impairment loss**.

(c) Financial instruments other than financial instruments covered by paragraphs (a) and (b) are measured at cost adjusted for the allocation of interest, the **amortisation** of any **transaction costs** included in the cost of the instruments and any impairment loss.

Non-financial assets

2.38 Property, plant and equipment, **investment property** and **biological asset**s are measured at cost less accumulated **depreciation** and accumulated impairment losses.

2.39 Inventories are measured at the lower of cost and selling price less costs to complete and sell.

2.40 Measurement of assets at amounts lower than their initial historical cost is intended to ensure that an asset is not measured at an amount greater than the micro-entity expects to recover from the sale or use of that asset.

Liabilities other than financial liabilities

2.41 Most liabilities other than financial liabilities are measured at the best estimate of the amount that would be required to settle the obligation at the **reporting date**.

Presentation

2.42 Offsetting occurs when a micro-entity recognises and measures both an asset and liability separately, but groups them into a single net amount in the statement of financial position. Offsetting classifies dissimilar items together and therefore is generally not appropriate.

2.43 A micro-entity shall not offset assets and liabilities, or income and expenses, unless required or permitted by this FRS.

2.44 Measuring assets net of valuation allowances (eg allowances for inventory obsolescence and allowances for uncollectible receivables) is not offsetting.

2.45 If a micro-entity's normal **operating activities** do not include buying and selling **fixed assets**, including investments and operating assets, then the entity reports **gains** and losses on disposal of such assets by deducting from the proceeds on disposal the **carrying amount** of the asset and related selling expenses.

Disclosure

2.46 An Irish micro-entity shall disclose information in relation to assets or income set off against amounts in respect of items representing liabilities or expenditure or vice versa in accordance with Appendix B to Section 6 *Notes to the Financial Statements*.

Section 3 *Financial Statement Presentation*

444 Paragraph 3.13 is amended as follows:

3.13 A micro-entity shall clearly identify each of the financial statements and the notes. In addition, a micro-entity shall display the following information prominently, and repeat it when necessary for an understanding of the information presented:

(a) the name of the reporting micro-entity and any change in its name since the end of the preceding reporting period;

(b) the date of the end of the reporting period and the period covered by the financial statements;

(c) the presentation currency; and

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

Section 7 *Subsidiaries, Associates, Jointly Controlled Entities and Intermediate Payment Arrangements*

445 Paragraph 7.5 is amended as follows:

7.5 When a micro-entity makes payments (or transfers assets) to an intermediary, there is a rebuttable presumption that the micro-entity has exchanged one asset for another and that the payment itself does not represent an immediate **expense**. To rebut this presumption at the time the payment is made to the intermediary, the micro-entity must demonstrate:

(a) it will not obtain future economic benefit from the amounts transferred; or

(b) it does not have control of the right or other access to the future economic benefit it is expected to receive.

Section 8 *Accounting Policies, Estimates and Errors*

446 The sub-heading preceding paragraph 8.11 is amended, and paragraphs 8.10B and 8.10C are inserted, as follows:

~~Changes in accounting~~ Accounting estimates

8.10B An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty – that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an **accounting estimate** to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information.

8.10C An entity uses measurement techniques and inputs to develop an accounting estimate. Measurement techniques include estimation techniques and valuation techniques.

447 Paragraph 8.11 is amended as follows:

8.11 ~~A **change in accounting estimate** is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption 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.~~ The effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates unless they result from the correction of prior period errors. A change in the measurement basis applied is a change in an accounting policy, and is not a change in an accounting estimate. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.

Section 9 *Financial Instruments*

448 Paragraph 9.3 is amended as follows:

9.3 This section does not apply to the following financial instruments:

(a) Financial instruments that meet the definition of a **micro-entity's** own **equity**, and the equity component of **compound financial instruments** issued by the reporting micro-entity that contain both a **liability** and an equity component (see Section 17 *Liabilities and Equity*).

(b) **Leases**, to which Section 15 *Leases* applies. However, the derecognition requirements in paragraphs 9.21 to 9.23 and impairment accounting requirements in paragraphs 9.16 to 9.19 apply to derecognition and impairment of receivables recognised by a lessor and the derecognition requirements in paragraphs 9.25 and 9.26 apply to payables recognised by a lessee arising under a **finance lease**.

(c) Employers' rights and obligations under employee benefit plans, to which Section 23 *Employee Benefits* applies.

(d) Financial instruments, contracts and obligations to which Section 21 *Share-based Payment* applies.

(e) Reimbursement assets and **financial guarantee contracts** accounted for in accordance with Section 16 *Provisions and Contingencies*.

(f) Contracts for contingent consideration in a **business combination** (see Section 14 *Business Combinations and Goodwill*). This exemption applies only to the acquirer.

(g) Rights and obligations within the scope of Section 18 *Revenue from Contracts with Customers* that are financial instruments, except for receivables and accrued income. However, a micro-entity shall account for receivables in accordance with this section and apply the impairment accounting requirements in paragraphs 9.16 to 9.19 to the impairment of accrued income.

449 Paragraph 9.5 is amended as follows:

9.5 A financial asset or financial liability is recognised initially at its cost. The cost is measured at the transaction price.

Examples – Transaction price of a financial asset or liability	
1	For a loan the transaction price is the amount borrowed or loaned.
2	For trade ~~receivables or~~ payables (~~trade debtors or~~ trade creditors) the transaction price equals the invoice price unless payment is deferred beyond normal credit terms (see paragraph 9.6).
2A	For trade receivables (trade debtors) the transaction price equals the invoice price unless, at contract inception, payment is deferred for more than 12 months and beyond normal credit terms (see paragraph 9.6A).
3	For an investment the transaction price is the consideration given (eg cash paid to acquire the investment).
4	For an option the transaction price is the premium paid to purchase the option.

450 Paragraph 9.6 is amended as follows:

9.6 When a micro-entity purchases **inventory**, **property, plant and equipment**, or **investment property** ~~or sells goods or services~~ with settlement deferred beyond normal credit terms, the transaction price is the cash price available on the date of the transaction (see Sections 10 *Inventories*~~,~~ and 12 *Property, Plant and Equipment and Investment Property* ~~and 18 *Revenue*~~ respectively).

~~**Examples – Transaction price when payment is deferred**~~
~~A micro-entity sells goods to a customer for CU100. Customers are usually required to pay within 14 days of the invoice date, but the micro-entity agrees with the customer that payment will be deferred for one year. The micro-entity sells the same item for CU90, if payment is received within the usual credit terms.~~ ~~The cash price for the goods and thereby the transaction price is CU90.~~

451 Paragraph 9.6A is inserted as follows:

9.6A When a micro-entity sells goods or services and expects, at contract inception, that payment will be deferred both for more than 12 months and beyond normal credit terms, the transaction price is the cash price available on the date of the transaction (see Section 18 *Revenue from Contracts with Customers*).

Examples – Transaction price when payment is deferred
A micro-entity sells goods to a customer for CU100. Customers are usually required to pay within 14 days of the invoice date, but the micro-entity agrees with the customer that payment will be deferred for one year. The micro-entity sells the same item for CU90, if payment is received within the usual credit terms. The cash price for the goods and thereby the transaction price is CU90.

452 Paragraph 9.8A is inserted as follows:

9.8A Dividends receivable are recognised in profit or loss only when:

(a) the micro-entity's right to receive payment is established;

(b) it is **probable** that the economic benefits associated with the dividend will flow to the micro-entity; and

(c) the amount of the dividend can be measured reliably.

453 Paragraph 9.14 is amended as follows:

9.14 A micro-entity shall allocate total interest income or expense over the term of the contract as follows:

(a) For transactions where settlement is deferred ~~beyond normal credit terms~~ (see ~~paragraph~~ paragraphs 9.6 and 9.6A), total interest income or expense shall be allocated on a straight-line basis over the term of the contract.

(b) In all other cases, interest income or expense is allocated at a constant rate on the financial asset's or financial liability's **carrying amount** excluding transaction costs not yet recognised in profit or loss (see paragraph 9.12(b)). The applicable rate will normally be the contractual rate of interest and may be a variable or a fixed rate.

454 In paragraph 9.17 the term 'probable' is no longer shown in bold type.

Section 10 *Inventories*

455 Paragraph 10.2 is amended as follows:

10.2 This section applies to **inventories**, except:

(a) ~~work in progress arising under **construction contracts**, including directly related service contracts (see Section 18 *Revenue*); and~~ [Deleted]

(b) **biological assets** related to **agricultural activity** and **agricultural produce** at the point of harvest (see Section 27 *Specialised Activities*).

Section 11 *Investments in Joint Ventures*

456 Paragraph 11.6 is amended as follows:

11.6 In respect of its interests in jointly controlled operations, a venturer shall recognise in its **financial statements**:

(a) the assets that it controls and the liabilities that it incurs; and

(b) the expenses that it incurs and its share of the ~~**income**~~ revenue that it earns from the sale of goods or services by the joint venture.

457 Paragraph 11.8 is amended as follows:

11.8 In respect of its interests in a jointly controlled asset, a venturer shall recognise in its financial statements:

(a) its share of the jointly controlled assets, classified in accordance with the format adopted set out in Section 4 *Statement of Financial Position*;

(b) any liabilities that it has incurred;

(c) its share of any liabilities incurred jointly with the other venturers in relation to the joint venture;

(d) any ~~income~~ revenue from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture; and

(e) any expenses that it has incurred in respect of its interest in the joint venture.

Section 12 *Property, Plant and Equipment and Investment Property*

458 Paragraph 12.5 is amended as follows:

12.5 Parts of some items of property, plant and equipment or investment property may require replacement at regular intervals (eg the roof of a building). A micro-entity shall add to the **carrying amount** of an item of property, plant and equipment or investment property the cost of replacing part of such an item when that cost is incurred if the replacement part is expected to provide incremental future economic benefits to the micro-entity. The carrying amount of those parts that are replaced is derecognised in accordance with paragraphs 12.26 and 12.27 regardless of whether the replaced parts had been depreciated separately. If it is **impracticable** for ~~an~~ a micro-entity to identify the carrying amount of the replaced part, it may be estimated using the current cost of the replacement part as a proxy for the original cost of the replaced part and adjusting it for **depreciation** and impairments.

459 Paragraph 12.20 is amended as follows:

12.20 A micro-entity shall consider all the following factors in determining the useful life of an asset:

(a) The expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output.

(b) Expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance programme, and the care and maintenance of the asset while idle.

(c) Technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset. Expected future reductions in the selling price of an item produced using an asset could indicate the expectation of technical or commercial obsolescence of the asset.

(d) Legal or similar limits on the use of the asset, such as the expiry dates of related **leases**.

460 Paragraph 12.23 is amended as follows:

12.23 ~~At each reporting date, a~~ A micro-entity shall apply Section 22 *Impairment of Assets* to determine whether an item or group of items of property, plant and equipment or investment property is impaired and, if so, how to recognise and measure the impairment loss. That section explains when and how a micro-entity reviews the carrying amount of its assets, how it determines the **recoverable amount** of an asset, and when it recognises or reverses an impairment loss.

461 Paragraph 12.24 is amended as follows:

12.24 ~~An~~ A micro-entity shall include in profit or loss, compensation from third parties for items of property, plant and equipment or investment property that were impaired, lost or given up only when the compensation is virtually certain.

Section 13 *Intangible Assets other than Goodwill*

462 Paragraph 13.1 is amended as follows:

13.1 This section applies to separately acquired **intangible assets** and internally generated intangible assets. This section does not apply to intangible assets held by a **micro-entity** for sale in the ordinary course of **business** (see Section 10 *Inventories* ~~and Section 18 *Revenue*~~) and assets arising from **contracts** with **customers** that are recognised in accordance with Section 18 *Revenue from Contracts with Customers*.

463 Paragraph 13.3A is inserted as follows:

13.3A This section uses the term ‘asset’ in a way that differs in some respects from the definition of an asset in paragraph 2.9 and Appendix I *Glossary*. For the purposes of this section, 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.

Section 14 *Business Combinations and Goodwill*

464 Paragraph 14.1 is amended as follows:

14.1 When a **micro-entity** effects a **business combination** by acquiring the trade and **assets** of another **business**, it shall apply Section 19 *Business Combinations and Goodwill* of **FRS 102**, except for the following:

(a) a micro-entity shall not separately identify and recognise **intangible assets**;

(b) a micro-entity shall not recognise a **deferred tax asset** or **liability**;

(c) a micro-entity shall not apply paragraph 19.23 of FRS 102, but instead apply paragraph 14.2 of this FRS;

(d) a micro-entity shall not recognise and measure a **share-based payment transaction** in accordance with Section 26 *Share-based*

Payment of FRS 102, but instead apply Section 21 *Share-based Payment* of this FRS;

(e) a micro-entity shall not recognise and measure a liability (or asset, if any) related to the acquired business's **employee benefits** arrangements in accordance with Section 28 Employee Benefit of FRS 102, but instead apply Section 23 *Employee Benefits* of this FRS; ~~and~~

(eA) references to Section 2 *Concepts and Pervasive Principles* of FRS 102 should be read as referring to Section 2 *Concepts and Pervasive Principles* of this FRS; and

(f) a micro-entity is not required to provide any of the disclosures.

Section 15 *Leases*

465 Paragraph 15.16B is amended as follows:

15.16B ~~An~~ A micro-entity shall apply the requirements in paragraphs 15.16A and 15.25A to temporary rent concessions occurring as a direct consequence of the COVID-19 pandemic if, and only if, all of the following conditions are met:

(a) the change in lease payments results in revised consideration for the lease that is less than the consideration for the lease immediately preceding the change;

(b) any reduction in lease payments affects only payments originally due on or before 30 June 2022; and

(c) there is no significant change to other terms and conditions of the lease.

Section 16 *Provisions and Contingencies*

466 Paragraph 16.5A is inserted as follows:

16.5A This section uses the term 'liability' in a way that differs in some respects from the definition of a liability in paragraph 2.14 and Appendix I *Glossary*. For the purposes of this section, 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.

467 In the Appendix *Examples of recognising and measuring provisions* to Section 16, paragraph 16A.2 is amended as follows:

16A.2 An onerous contract is one in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. For example, a micro-entity may be contractually required under an operating lease to make payments to lease an asset for which it no longer has any use. The cost of fulfilling a contract comprises the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.

Present obligation as a result of a past obligating event: The micro-entity is contractually required to pay out resources for which it will not receive commensurate benefits.

Conclusion: If a micro-entity has a contract that is onerous, the micro-entity recognises and measures the present obligation under the contract as a provision.

468 Paragraph 16A.3 is amended as follows:

16A.3 A manufacturer gives warranties at the time of sale to purchasers of its product. Under the terms of the contract for sale, the manufacturer undertakes to make good, by repair or replacement, manufacturing defects that become apparent within three years from the date of sale. On the basis of experience, it is probable (ie more likely than not) that there will be some claims under the warranties.

Present obligation as a result of a past obligating event: The obligating event is the sale of the product with a warranty, which gives rise to a legal obligation.

An outflow of resources embodying economic benefits in settlement: Probable for the warranties as a whole.

Conclusion: The entity recognises a provision for the best estimate of the costs of making good under the warranty products sold before the reporting date.

Illustration of calculations:

In 20X0, goods are sold for CU100,000. Experience indicates that 90 per cent of products sold require no warranty repairs; 6 per cent of products sold require minor repairs costing 30 per cent of the sale price; and 4 per cent of products sold require major repairs or replacement costing 70 per cent of sale price. Therefore estimated warranty costs are:

CU100,000 × 90% × 0 =	CU0
CU100,000 × 6% × 30% =	CU1,800
CU100,000 × 4% × 70% =	CU2,800
Total	CU4,600

The expenditures for warranty repairs and replacements for products sold in 20X0 are expected to be made 60 per cent in 20X1, 30 per cent in 20X2, and 10 per cent in 20X3, in each case at the end of the period. Because the estimated cash flows already reflect the probabilities of the cash outflows, and assuming there are no other risks or uncertainties that must be reflected, to determine the present value of those cash flows the entity uses a 'risk-free' discount rate based on national government bonds with the same term as the expected cash outflows (6 per cent for one-year bonds and 7 per cent for two-year and three-year bonds). Calculation of the present value, at the end of 20X0, of the estimated cash flows related to the warranties for products sold in 20X0 is as follows:

Year		**Expected cash payments (CU)**	**Discount rate**	**Discount factor**	**Present value (CU)**
1	60% × CU4,600	2,760	6%	0.9434 (at 6% for 1 year)	2,604
2	30% × CU4,600	1,380	7%	0.8734 (at 7% for 2 years)	1,205
3	10% × CU4,600	4,60	7%	0.8163 (at 7% for 3 years)	375
Total					4,184

The entity will recognise a warranty obligation of CU4,184 at the end of 20X0 for products sold in 20X0.

469 The sub-heading and paragraph 16A.4 are deleted as follows:

~~**Example 4 Refund policy**~~

16A.4 ~~A retail store has a policy of refunding purchases by dissatisfied customers, even though it is under no legal obligation to do so. Its policy of making refunds is generally known.~~

~~Present obligation as a result of a past obligating event: The obligating event is the sale of the product, which gives rise to a constructive obligation because the conduct of the store has created a valid expectation on the part of its customers that the store will refund purchases.~~

~~An outflow of resources embodying economic benefits in settlement: Probable that a proportion of goods will be returned for refund.~~

~~Conclusion: The micro-entity recognises a provision for the best estimate of the amount required to settle the refunds.~~[Deleted]

Section 17 *Liabilities and Equity*

470 Paragraph 17.8 is amended as follows:

17.8 A micro-entity shall measure equity instruments, other than when merger relief or group reconstruction relief under sections 611 to 615 of the Act are applied or those accounted for in accordance with paragraph 17.8A, at the **fair value** of the cash or other resources received or receivable, net of **transaction costs**. If payment is deferred and the time value of money is material, the initial measurement shall be on a **present value** basis.

471 Paragraph 17.8A is amended as follows:

17.8A A micro-entity shall not apply paragraph 17.8 to transactions in which a financial liability is extinguished (partially or in full) by the issue of equity instruments if:

(a) the creditor is also a direct or indirect shareholder and is acting in its capacity as a direct or indirect existing shareholder;

(b) the creditor and the micro-entity are controlled by the same party or parties before and after the transaction and the substance of the transaction includes an equity distribution by, or contribution to, the micro-entity; or

(c) the extinguishment is in accordance with the original terms of the financial liability.

In these circumstances, there is no **gain** or loss recognised in **profit or loss** as the result of such a transaction.

Section 18 *Revenue*

472 For ease of reading, in this section revised text is not underlined.

473 Section 18 is retitled from *Revenue* to *Revenue from Contracts with Customers.*

474 Paragraphs 18.1 to 18.26 are deleted and replaced with the following:

Scope of this section

18.1 This section applies to all **contracts** with **customers**, except:

(a) lease agreements within the scope of Section 15 *Leases*;

(b) financial instruments and other contractual rights or obligations within the scope of Section 9 *Financial Instruments* and Section 11 *Investments in Joint Ventures*; and

(c) non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.

18.2 A contract with a customer may be partially within the scope of this section and partially within the scope of other sections (eg a lease agreement that includes the provision of services). If the other section specifies how to separate or initially measure any parts of the contract, then a **micro-entity** shall first apply the separation or **measurement** requirements in that section. Otherwise, the micro-entity shall apply this section to separate or initially measure those parts of the contract.

Revenue recognition model

18.3 This section establishes a **revenue** recognition model for accounting for revenue from contracts with customers. The objective of the model is for a micro-entity to recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the micro-entity expects to be entitled in exchange for those goods or services. To apply the model, a micro-entity shall take the following steps:

(a) Step 1 – Identify the contract(s) with a customer (see paragraphs 18.7 to 18.11);

(b) Step 2 – Identify the **performance obligations** in the contract (see paragraphs 18.12 to 18.19);

(c) Step 3 – Determine the transaction price (see paragraphs 18.20 to 18.25);

(d) Step 4 – Allocate the transaction price to the performance obligations in the contract (see paragraphs 18.26 to 18.33); and

(e) Step 5 – Recognise revenue when (or as) the micro-entity satisfies a performance obligation (see paragraphs 18.34 to 18.46).

18.4 A micro-entity shall apply this section consistently to contracts with similar characteristics and in similar circumstances.

18.5 This section specifies the accounting for an individual contract with a customer. A micro-entity may apply this section to a portfolio of similar contracts (or promises) if the entity reasonably expects that the result of doing so would not differ materially from the result of applying this section to the individual contracts (or promises) within that portfolio.

Revenue recognition for simple transactions or transactions that are completed within one reporting period

18.6 All contracts with customers are subject to the same revenue recognition model. However, application of that model may be simpler in the case of simpler contracts, or contracts that are completed within a single reporting period. In the case of such contracts:

(a) A micro-entity may be able to determine more easily the application of some steps in the revenue recognition model. For example:

 (i) when a contract is complete and all the consideration promised by the customer has been received it is usually clear that the criteria in paragraph 18.7 are met;

 (ii) when only the micro-entity is involved in providing goods or services to a customer it is usually clear that the micro-entity is a principal (see paragraphs 18.15 to 18.19);

 (iii) when the consideration promised in a contract is an agreed fixed cash amount it is usually straightforward to apply Step 3 – *Determine the transaction price*; and

 (iv) when a contract has only a single performance obligation, or all performance obligations in a contract are satisfied at the same point in time, it is not necessary to apply Step 4 – *Allocate the transaction price to the performance obligations in the contract.*

(b) It is always necessary to determine the transaction price (Step 3). However, it may not be necessary to determine other aspects of revenue recognition in detail in order for a micro-entity to be able to present the information required by Section 3 *Financial Statement Presentation*. For example, when a contract with a customer starts and ends in the same reporting period the outcome of the model would generally be the same irrespective of:

 (i) the number of performance obligations identified (Step 2);

 (ii) the allocation of the transaction price to those identified performance obligations (Step 4);

 (iii) whether revenue is recognised over time or at a point in time (Step 5); or

 (iv) whether any costs of fulfilling a contract that are not within the scope of another section of this FRS are recognised as **assets** during the contractual period (see paragraph 18.48).

Step 1 – Identify the contract(s) with a customer

18.7 A micro-entity shall apply the revenue recognition model to account for a contract with a customer that is within the scope of this section only when all of the following criteria are met:

(a) the parties to the contract have approved the contract and are committed to perform their respective obligations;

(b) the micro-entity can identify each party's rights regarding the goods or services to be transferred;

(c) the micro-entity can identify the payment terms for the goods or services to be transferred;

(d) the contract has commercial substance; and

(e) it is **probable** that the customer will have the ability and intention to pay the consideration to which the micro-entity will be entitled when it is due.

18.8 If a contract with a customer meets the criteria in paragraph 18.7 at inception, reassessment is only required if there is an indication of a significant change in relevant facts and circumstances.

18.9 If a contract with a customer does not meet the criteria in paragraph 18.7, a micro-entity shall continue to reassess the contract to determine whether the criteria are subsequently met. The micro-entity shall initially recognise any consideration received from the customer as a **liability** until those criteria are met, or until one of the events in paragraph 18.10 occurs.

18.10 When a contract with a customer does not meet the criteria in paragraph 18.6, a micro-entity shall recognise any consideration received from the customer as revenue when either:

(a) the micro-entity has no remaining obligations to transfer goods or services to the customer and all, or substantially all, of the consideration promised by the customer has been received and is non-refundable; or

(b) the contract is terminated and the consideration received is non-refundable.

18.11 Some contracts with customers may have no fixed duration or may automatically renew periodically. A micro-entity shall apply this section to the duration of the contract (ie the contractual period) in which the parties to the contract have present enforceable rights and obligations.

Step 2 – Identify the promises in the contract

18.12 At contract inception, a micro-entity shall assess the goods and services promised in a contract with a customer and shall identify as a performance obligation each promise to transfer to the customer a distinct good or service.

18.13 A contract with a customer generally explicitly states the goods or services that a micro-entity promises to transfer. However, promises may be implied by a micro-entity's customary business practices, published policies or specific statements if these create a valid expectation of the customer that the entity will transfer a good or service to the customer.

18.14 Performance obligations do not include activities that a micro-entity must undertake to fulfil a contract unless those activities transfer a good or service to the customer. For example, set-up activities and administrative tasks which do not transfer a good or service to the customer would be disregarded for the purpose of identifying performance obligations in a contract.

Principal versus agent considerations

18.15 When another party is involved in providing goods or services to a customer, a micro-entity shall determine whether the nature of its promise is to provide the specified goods or services itself (ie the micro-entity is a principal) or to arrange for those goods or services to be provided by the other party (ie the micro-entity is an agent). A specified good or service is a distinct good or service to be provided to the customer (see paragraphs 18.13 to 18.14). A micro-entity shall determine whether it is a principal or an agent for each performance obligation in a contract.

18.16 A micro-entity is a principal if it controls the specified good or service before that good or service is transferred to a customer. A principal might obtain control of any one of the following:

(a) a good or another asset from the other party that it then transfers to the customer;

(b) a right to a service to be performed by the other party, which gives the micro-entity the ability to direct that party to provide the service to the customer on the micro-entity's behalf; or

(c) a good or service from the other party that it then combines with other goods or services in providing the specified good or service to the customer.

18.17 Indicators that a micro-entity is a principal include, but are not limited to:

(a) the micro-entity is primarily responsible for fulfilling the promise to provide the specified good or service;

(b) the micro-entity has inventory risk before the specified good has been transferred to a customer or after transfer of control to the customer; or

(c) the micro-entity has discretion in establishing the price for the specified good or service.

18.18 A micro-entity that is a principal shall recognise revenue in the gross amount of consideration to which the micro-entity expects to be entitled in exchange for the specified good or service transferred as it satisfies its performance obligation.

18.19 A micro-entity is an agent if the micro-entity's performance obligation is to arrange for the provision of the specified good or service by another party. A micro-entity that is an agent shall recognise revenue in the amount of any fee or commission to which the micro-entity expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party as it satisfies its performance obligation.

Step 3 – Determine the transaction price

18.20 A micro-entity shall consider the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which the micro-entity expects to be entitled in exchange for transferring goods or services promised to a customer, excluding amounts collected on behalf of third parties (eg some sales taxes).

18.21 For the purposes of determining the transaction price, a micro-entity shall assume that the goods or services will be transferred to the customer in accordance with the existing contract and that the contract will not be cancelled, modified or renewed.

Variable consideration

18.22 The consideration promised in a contract may include a variable amount (eg because of some discounts, refunds, penalties or performance bonuses).

18.23 A micro-entity shall include the variable amount in the transaction price only to the extent that it is **highly probable** that it will be entitled to the cumulative amount of revenue recognised when the uncertainty associated with the variable consideration is subsequently resolved.

18.24 At the end of each **reporting period**, a micro-entity shall update the estimate of the variable amount included in the transaction price to reflect any relevant changes in circumstances. A micro-entity shall allocate any changes in the estimate of the variable amount to the performance obligations in the contract on the same basis as at contract inception (see paragraph 18.33). Amounts allocated to a performance obligation that has been satisfied shall be recognised as revenue, or a reduction in revenue, in the period in which the estimate changes.

Time value of money

18.25 If the micro-entity expects, at contract inception, that payment will be deferred both for more than 12 months and beyond normal credit terms, the amount of revenue recognised is equal to the cash price available on the transaction date. Any excess of the deferred payment amount over the cash price available on the transaction date is recognised as interest and accounted for in accordance with paragraph 9.14(a).

Step 4 – Allocate the transaction price to the performance obligations in the contract

18.26 A micro-entity shall allocate the transaction price to each performance obligation identified in the contract on a relative stand-alone selling price basis in accordance with paragraphs 18.28 to 18.30, unless allocating discounts or variable amounts on an alternative basis in accordance with paragraphs 18.31 to 18.33.

18.27 Paragraphs 18.28 to 18.33 do not apply if:

(a) a contract contains a single performance obligation; or

(b) all performance obligations in a contract are satisfied at the same point in time in accordance with paragraph 18.39.

Allocation based on stand-alone selling prices

18.28 A micro-entity shall determine the stand-alone selling price at contract inception of the distinct good or service underlying each performance obligation in the contract and allocate the transaction price in proportion to those stand-alone selling prices.

18.29 The stand-alone selling price is the price at which a micro-entity would sell a good or service promised in a contract separately to a customer. The best evidence of a stand-alone selling price is the observable price of a good or service when the micro-entity sells that good or service separately in similar circumstances and to similar customers.

18.30 If a stand-alone selling price is not directly observable, a micro-entity shall estimate it. When estimating a stand-alone selling price, a micro-entity shall take into account all information that is reasonably available to the micro-entity, including market conditions, entity-specific factors and information about the customer or class of customer. A micro-entity shall apply estimation methods consistently in similar circumstances. Suitable estimation methods include referring to prices from the micro-entity's competitors for similar goods or services, or the expected costs of transferring the good or service promised to a customer plus an appropriate margin.

Allocation of a discount or variable consideration

18.31 A customer receives a discount if the sum of the stand-alone selling prices of the goods or services promised in the contract exceeds the promised consideration.

18.32 A discount or amount of variable consideration (see paragraphs 18.22 to 18.24) may be attributable to the entire contract or to a specific part of the contract.

18.33 A micro-entity shall allocate a discount or amount of variable consideration to all the performance obligations in the contract on a relative stand-alone selling price basis, unless this basis does not depict the amount of consideration to which the micro-entity expects to be entitled in exchange for satisfying each performance obligation in the contract. In that case, the micro-entity shall allocate that discount or amount of variable consideration using a method that reflects such an amount (eg a variable payment may be allocated entirely to one performance obligation in the contract if the terms of that variable payment relate specifically to the entity's efforts to satisfy that performance obligation).

Step 5 – Recognise revenue when (or as) the entity satisfies a performance obligation

18.34 A micro-entity shall recognise revenue when (or as) the micro-entity satisfies a promise to transfer a good or service or bundle of goods or services to a customer. A good or service is transferred when (or as) the customer obtains control of that good or service.

18.35 For each performance obligation identified, a micro-entity shall determine at contract inception whether the performance obligation is satisfied over time (in accordance with paragraphs 18.37 to 18.38) or satisfied at a point in time (in accordance with paragraphs 18.39 to 18.40).

18.36 Goods and services are assets, even if only momentarily, when they are received and used (as in the case of many services). Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining economic benefits that may flow from, the asset.

Performance obligations satisfied over time

18.37 A micro-entity transfers control of a good or service over time, and therefore satisfies a performance obligation over time, if one of the following criteria is met:

(a) the customer simultaneously receives and consumes the benefits provided by the micro-entity's performance as the micro-entity performs (eg routine or recurring services such as a cleaning service). If a micro-entity cannot readily identify whether this is the case, a performance obligation is satisfied over time if another entity would not need to substantially re-perform the work that the micro-entity has completed to date if that other entity were to fulfil the remaining performance obligation to the customer (eg in a freight logistics contract);

(b) the micro-entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced (eg in the case of a construction contract in which the customer controls the work in progress); or

(c) the micro-entity's performance does not create an asset with alternative use to the micro-entity and the micro entity has an enforceable right to payment for work carried out to date.

18.38 The assessment of whether an asset has alternative use to the entity is made at contract inception and is reassessed only if there is a significant change in the relevant facts and circumstances.

Performance obligations satisfied at a point in time

18.39 If a performance obligation is not satisfied over time, a micro-entity satisfies the performance obligation at a point in time. To determine the point in time at which a customer obtains control of a promised asset, a micro-entity shall consider indicators of the transfer of control, which include but are not limited to the following:

(a) the micro-entity has a present right to payment for the asset;

(b) the customer has legal title to the asset;

(c) the customer has physical possession of the asset;

(d) the customer has the significant risks and rewards of ownership of the asset; and

(e) the customer has accepted the asset.

18.40 A micro-entity shall not recognise revenue upon delivery of a product to another party if the delivered product is held on consignment.

Measuring progress towards complete satisfaction of a performance obligation

18.41 For each performance obligation satisfied over time in accordance with paragraphs 18.37 to 18.38, a micro-entity shall recognise revenue over time by measuring its progress towards complete satisfaction of that performance obligation.

18.42 A micro-entity shall select a method of measuring progress that depicts the micro-entity's performance in transferring control of goods or services promised to a customer (ie the satisfaction of the performance obligation). A micro-entity shall apply a single method of measuring progress for each performance obligation satisfied over time and shall apply that method consistently to similar performance obligations and in similar circumstances.

18.43 At the end of each reporting period, a micro-entity shall remeasure its progress towards complete satisfaction of a performance obligation satisfied over time and update its measure of progress. Such changes to a micro-entity's measure of progress shall be accounted for as a change in **accounting estimate** in accordance with paragraphs 8.10B to 8.13.

18.44 In determining a method of measuring progress, a micro-entity shall consider the nature of the good or service that the micro-entity will transfer to the customer. Appropriate methods of measuring progress include methods that recognise revenue based on:

(a) measurements of the value to the customer of the goods or services transferred to date relative to the remaining goods or services to be transferred under the contract (referred to as output methods); and

(b) the micro-entity's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to satisfy the performance obligation (referred to as input methods).

18.45 If a micro-entity has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the micro-entity's work to date (eg a service contract in which a micro-entity bills a fixed amount for each hour of service provided), the micro-entity shall recognise revenue in the amount to which the micro-entity has a right to invoice.

18.46 If a micro-entity cannot reasonably measure its progress towards complete satisfaction of a performance obligation (eg in the early stages of a contract), but the micro-entity expects to recover the costs incurred in satisfying that performance obligation, the micro-entity shall recognise revenue only to the extent of the costs incurred.

Contract costs

Costs to obtain a contract

18.47 A micro-entity shall recognise costs to obtain a contract with a customer as an expense when incurred, unless those costs are explicitly chargeable to the customer regardless of whether the contract is obtained.

Costs of fulfilling a contract

18.48 A micro-entity shall recognise costs incurred in fulfilling a contract with a customer as an expense when incurred, unless those costs:

(a) are in scope of another section of this FRS (eg Section 10 *Inventories*, Section 12 *Property, Plant and Equipment*, or Section 13 *Intangible Assets other than Goodwill*); or

(b) give rise to resources that the micro-entity will use to satisfy (or continue to satisfy) performance obligations in the future and the costs are expected to be recovered, in which case a micro-entity shall recognise those costs as an asset.

18.49 After initial **recognition**, a micro-entity shall measure assets recognised in accordance with paragraph 18.48(b) at cost less accumulated amortisation and any accumulated **impairment losses**.

Additional guidance

Warranties

18.50 A micro-entity might provide a warranty in connection with the sale of a product (whether a good or service).

18.51 A micro-entity shall account for the warranty in accordance with Section 16 *Provisions and Contingencies* unless the customer can purchase the warranty separately (ie there is a choice of purchasing the product with or without a warranty).

18.52 If the micro-entity provides the customer with the option to purchase the warranty separately, the warranty is a separate performance obligation (see Step 2).

Non-cash consideration

18.53 To determine the transaction price (see Step 3) for contracts in which a customer promises consideration in a form other than **cash**, a micro-entity shall measure the non-cash consideration (or promise of non-cash consideration) at **fair value**. If a micro-entity cannot reasonably estimate the fair value of the non-cash consideration, the entity shall measure the consideration indirectly by reference to the stand-alone selling price of the goods or services promised to the customer (or class of customer) in exchange for the consideration.

Licensing

18.54 A licence establishes a customer's rights to the intellectual property of a micro-entity (such as software, technology, trademarks, patents, franchises, music and motion picture films).

18.55 If the promise to grant a licence is not distinct from the other goods or services in the contract, a micro-entity shall apply paragraphs 18.34 to 18.40 to determine whether the performance obligation (which includes the licence) is satisfied over time or at a point in time. If the promise to grant a licence is distinct from the other goods or services in the contract, a micro-entity shall consider whether the nature of its promise in granting the licence provides the customer with:

(a) a right to access the micro-entity's intellectual property as it exists throughout the licence period, in which case the promise to grant the licence is satisfied over time (see paragraphs 18.41 to 18.46); or

(b) a right to use the micro-entity's intellectual property as it exists at the point in time at which the licence is granted, in which case the promise to grant the licence is satisfied at a point in time (see paragraphs 18.39 to 18.40).

Sales-based or usage-based royalties

18.56 A micro-entity shall not apply paragraphs 18.22 to 18.24 to a sale-based or usage-based royalty provided in exchange for a licence of intellectual property when the licence of intellectual property is the sole or predominant item to which the royalty relates. Instead, a micro-entity shall recognise revenue for such royalties when (or as) the later of the following events occurs:

(a) the subsequent sale or usage takes place; and

(b) the performance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied).

475 The appendix *Examples of revenue recognition under the principles in Section 18* to Section 18 is deleted.

Section 19 *Government Grants*

476 In paragraph 19.2 the term 'government assistance' is now shown in bold type.

477 Paragraph 19.6 is amended as follows:

19.6 A micro-entity shall classify ~~government grants~~ a grant, or each part of a grant, either as a grant relating to revenue or a grant relating to assets.

Section 21 *Share-based Payment*

478 Paragraph 21.10 is amended as follows:

21.10 ~~Except as set out in paragraph 21.11, when~~ When the counterparty has a choice of settlement of the transaction in cash (or other assets) or by the transfer of equity instruments, the micro-entity shall account for the transaction as a wholly cash-settled share-based payment transaction in accordance with paragraphs 21.3 to 21.7 unless:

(a) the choice of settlement in cash (or other assets) has no commercial substance because the cash settlement amount (or value of the other assets) bears no relationship to, and is likely to be lower in value than, the **fair value** of the equity instruments; or

(b) the choice of settlement relates only to a **net settlement feature** and there is an obligation on the entity under tax laws or regulations to withhold an amount for an employee's tax obligation associated with that share-based payment.

In circumstances (a) and (b) the micro-entity shall account for the whole transaction as set out in paragraph 21.2. If the entity withholds an amount of shares that exceeds the monetary value of the employee's tax obligation in circumstance (b), the entity shall account for the excess shares withheld as a cash-settled share-based payment when this amount is paid in cash (or other assets) to the employee.

479 Paragraph 21.11 is deleted as follows:

21.11 ~~If the choice of settlement in cash (or other assets) has no commercial substance because the cash settlement amount (or value of the other assets) bears no relationship to, and is likely to be lower in value than, the **fair value** of the equity instruments, the entity shall account for the whole transaction as set out in paragraph 21.2.~~[Deleted]

Section 22 *Impairment of assets*

480 Paragraph 22.1 is amended as follows:

22.1 This section applies to the impairment of **assets** (including **goodwill**), except in relation to:

(a) assets arising from costs to fulfil a **contract** ~~**construction contracts**~~ (see Section 18 *Revenue from Contracts with Customers*);

(b) **financial assets** within the scope of Section 9 *Financial Instruments*; and

(c) **inventories** (see Section 10 *Inventories*).

481 Paragraphs 22.12 and 22.13 are amended as follows:

22.12 Fair value less costs to sell is a measurement based on fair value. ~~the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. The best evidence of the fair value less costs to sell of an asset is a price in a binding sale agreement in an arm's length transaction or an open market price in an **active market**. 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 a micro-entity could obtain, at the reporting 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, a micro-entity considers the outcome of recent transactions for similar assets within the same industry.~~ Paragraph ~~2.31~~ 2.36 provides further guidance on determining fair value.

22.13 When determining an asset's fair value less costs to sell, consideration shall be given to any restrictions ~~imposed~~ on the sale or use of that asset. Costs to sell shall ~~also~~ include the cost of obtaining relaxation of a restriction ~~where~~ when necessary in order to enable the asset to be sold. ~~If~~ However, if a restriction would also apply to any potential purchaser of an asset, that restriction may instead affect the fair value of the asset ~~may be lower than that of an asset whose use is not restricted~~. Costs to sell shall not include factors that have already been taken into account when determining the fair value of an asset.

Section 23 *Employee Benefits*

482 Paragraph 23.11 is amended as follows:

23.11 A micro-entity shall determine the rate used to discount the future payments by reference to market yields at the reporting date on high quality corporate bonds. In countries with no deep market in such bonds, the micro-entity shall use the market yields (at the reporting date) on ~~government~~ national **government** bonds. The currency and term of the corporate bonds or national government bonds shall be consistent with the currency and estimated period of the future payments.

Section 24 *Income Tax*

483 Paragraph 24.4B is amended as follows:

24.4B As an exception, when:

(a) a micro-entity is wholly-owned by one or more charitable entities;

(b) it is **probable** that a gift aid payment will be made to a member of the same charitable group, or charitable **venturer**, within nine months of the **reporting date**; and

(c) that payment will qualify to be set against profits for tax purposes,

the income tax effects of that gift aid payment shall be recognised at the reporting date. The income tax effects shall be measured consistently with the tax treatment planned to be used in the micro-entity's income tax filings.

Section 27 *Specialised Activities*

484 Paragraph 27.1 is amended as follows:

27.1 This section applies to a **micro-entity** involved in ~~agriculture~~ **agricultural activities**.

485 The heading (underlined) before paragraph 27.2 is amended as follows:

~~Agriculture~~Agricultural activities

486 In paragraph 27.2, the term 'agricultural activity' is no longer shown in bold type.

487 Paragraph 27.2A is inserted as follows:

27.2A Prior to harvest, agricultural produce is not distinguished from the biological asset to which it is related. Subsequent to harvest it is accounted for in accordance with Section 10 *Inventories* or another applicable section, as described in paragraph 27.4.

488 Paragraph 27.4 is amended as follows:

27.4 Agricultural produce harvested from a micro-entity's biological assets shall be measured at the point of harvest at the lower of cost and estimated selling price less costs to complete and sell.

Such **measurement** becomes ~~is~~ the cost at that date for the purposes of ~~when~~ applying Section 10 ~~*Inventories*~~ or another applicable section of this FRS.

Section 28 *Transition to this FRS*

489 Paragraph 28.4 is amended as follows:

28.4 A micro-entity's first financial statements that conform to this FRS are the first financial statements prepared in accordance with this FRS if, for example, the micro-entity:

(a) did not present financial statements for previous periods; or

(b) presented its most recent previous financial statements ~~under previous UK and Republic of Ireland requirements or~~ in conformity with **FRS 102** ~~and that are not consistent with this FRS in all respects~~.

490 Paragraph 28.9 is amended, and the sub-headings are each shown in bold type, as follows:

28.9 On first-time adoption of this FRS, a micro-entity shall not retrospectively change the accounting that it followed under its previous financial reporting framework for any of the following transactions:

(a) ***Derecognition of financial assets and financial liabilities***

Financial assets and **financial liabilities** derecognised under a micro-entity's previous financial reporting framework before the date of transition shall not be recognised upon adoption of this FRS. Conversely, for financial assets and liabilities that would have been derecognised under this FRS in a transaction that took place before the date of transition, but that were not derecognised under a micro-entity's previous financial reporting framework, a micro-entity may choose:

(i) to derecognise them on adoption of this FRS; or

(ii) to continue to recognise them until disposed of or settled.

(b) ***Accounting estimates***

Accounting estimates.

(c) ***Revenue from contracts with customers***

Contracts for which the micro-entity has transferred all of the goods or services identified under its previous financial reporting framework before the date of transition.

491 Paragraph 28.10 is amended, and the sub-headings are each shown in bold type, as follows:

28.10 A micro-entity may use one or more of the following exemptions in preparing its first financial statements that conform to this FRS:

(a) ***Business combinations and goodwill***

A first-time adopter is not required to apply Section 14 *Business Combinations and Goodwill* to business combinations that were effected before the date of transition to this FRS. However, if a first-time adopter restates any **business combination** to comply with Section 14, it shall restate all later business combinations. If a first-time adopter does not apply Section 14 retrospectively, the first-time adopter shall recognise and measure all its assets and liabilities acquired or assumed in a past business combination at the date of transition to this FRS in accordance with paragraphs 28.7 to 28.9 or, if applicable, with paragraphs 28.10(b) to (h) except that no adjustment shall be made to the **carrying amount** of **goodwill**; if goodwill has previously been determined to have an indefinite **useful life**, it shall be re-assessed to determine its remaining useful life and shall subsequently be measured in accordance with paragraph 14.2.

(b) ***Share-based payment transactions***

A first-time adopter is not required to apply Section 21 *Share-based Payment* to obligations arising from **share-based payment transactions** that were settled before the date of transition to this FRS.

(c) ***Investment properties***

A first-time adopter is not required to retrospectively apply paragraph 12.15 to determine the depreciated cost of each of the major components of an **investment property** at the date of transition to this FRS. If this exemption is applied, a first-time adopter shall:

(i) Determine the total cost of the investment property including all of its components. Where no **depreciation** had been charged under the micro-entity's previous financial reporting framework, this can be calculated by reversing any revaluation **gains** or losses previously recognised in equity reserves.

(ii) The cost of land, if any, shall be separated from buildings.

(iii) Estimate the total depreciated cost of the investment property (excluding land) at the date of transition to this FRS, by recognising accumulated depreciation since the date of initial acquisition calculated on the basis of the ~~**useful life**~~ useful life of the most significant component of the item of investment property (eg the main structural elements of the building).

(iv) A portion of the estimated total depreciated cost calculated in paragraph (iii) shall then be allocated to each of the other major components (ie excluding the most significant component identified above) to determine their depreciated cost. The allocation should be made on a reasonable and consistent basis. For example, a possible basis of allocation is to multiply the current cost to replace the component by the ratio of its remaining useful life to the expected useful life of a replacement component.

(v) Any amount of the total depreciated cost not allocated under paragraph (iv) shall be allocated to the most significant component of the investment property.

(d) ***Compound financial instruments***

Paragraph 17.11 requires a micro-entity to split a **compound financial instrument** into its liability and equity components at the date of issue. A first-time adopter need not separate those two components if the liability component is not outstanding at the date of transition to this FRS.

(e) ***Arrangements containing a lease***

A first-time adopter may elect to determine whether an arrangement existing at the date of transition to this FRS contains a **lease** (see paragraph 15.4) on the basis of facts and circumstances existing at that date, rather than when the arrangement was entered into.

(f) ***Decommissioning liabilities included in the cost of property, plant and equipment or investment property***

Paragraph 12.9(c) states that the cost of an item of **property, plant and equipment** or investment property includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a micro-entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce **inventories** during that period. A first-time adopter may elect to measure this component of the cost of an item of property, plant and equipment or investment property at the date of transition to this FRS, rather than on the date(s) when the obligation initially arose.

(g) ***Dormant ~~companies~~ micro-entities***

A company within the **Act's** definition of a dormant company, or an **LLP** within the definition of a dormant LLP as set out in *The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008*, may elect to retain its accounting policies for reported assets, liabilities and equity at the date of transition to this FRS until there is any change to those balances or the ~~company~~ micro-entity undertakes any new transactions that would cause the company to cease to be dormant within the Act's definition or the LLP to cease to be dormant within the relevant definition.

(h) ***Lease incentives***

A first-time adopter is not required to apply paragraphs 15.15 and 15.25 to **lease incentives** provided the term of the lease commenced before the date of transition to this FRS. The first-time adopter shall continue to recognise any residual benefit or cost associated with these lease incentives on the same basis as that applied at the date of transition to this FRS.

(i) ***Revenue from contracts with customers***

A first-time adopter is not required to restate completed contracts that begin and end within the comparative **reporting period**. For completed contracts that have variable consideration and are completed before the **reporting date**, a first-time adopter may use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods. A completed contract is a contract for which the micro-entity has transferred all of the goods or services identified in accordance with its previous financial reporting framework or Section 18 *Revenue from Contracts with Customers*.

Appendix I *Glossary*

492 The following glossary terms and definitions are inserted in alphabetical order as follows:

accounting estimates	Monetary amounts in **financial statements** that are subject to **measurement** uncertainty.
contract	An agreement between two or more parties that creates enforceable rights and obligations.
credit risk	The risk that one party to a **financial instrument** will cause a financial loss for the other party by failing to discharge an obligation.
customer	A party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.

economic resource	A right that has the potential to produce economic benefits.
government	Government, government agencies and similar bodies whether local, national or international.
government assistance	Action by **government** designed to provide an economic benefit specific to an entity or range of entities qualifying under specified criteria.
highly probable	Significantly more likely than **probable**.
market participant	Buyers and sellers in the market for the **asset** or **liability** that have all of the following characteristics: (a) they are independent of each other; (b) they are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information; (c) they are able to enter into a transaction for the asset or liability; and (d) they are willing to enter into a transaction for the asset or liability, that is, they are motivated but not forced or otherwise compelled to do so.
net settlement feature (of a share-based payment)	A term of a share-based payment arrangement that permits or requires the entity to withhold the number of equity instruments equal to the monetary value of the employee's tax obligation from the total number of equity instruments that otherwise would have been issued to the employee upon exercise (or vesting) of the share-based payment. Such terms may exist when tax laws or regulations oblige an entity to withhold an amount for an employee's tax obligation associated with a share-based payment and transfer that amount, normally in cash, to the tax authority on the employee's behalf.
performance obligation (in a contract with a customer)	A promise in a **contract** with a **customer** to transfer to the customer a distinct good or service (or a distinct bundle of goods or services).

493 The following glossary terms and definitions are amended, and sequentially numbered footnotes are inserted (subsequent footnotes are renumbered sequentially), in alphabetical order as follows:

active market	A market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. ~~all the following conditions exist:~~ ~~(a) the items traded in the market are homogeneous;~~ ~~(b) willing buyers and sellers can normally be found at any time; and~~ ~~(c) prices are available to the public.~~
asset	A present **economic resource** ~~resource~~ controlled by the entity as a result of past events ~~and from which future economic benefits are expected to flow to the entity~~.

biological asset	A living animal or plant that may or may not be intended for use on a continuing basis in the entity's activities.
carrying amount	The amount at which an **asset** ~~or~~, a **liability** or **equity** is recognised in the **statement of financial position**.
consolidated financial statements	The **financial statements** of a **parent** and its **subsidiaries** presented as those of a single ~~economic~~ reporting entity.
derecognition	The removal of all or part of a ~~previously~~ recognised **asset** or **liability** from an entity's **statement of financial position**.
expenses	Decreases in ~~economic benefits during the **reporting period** in the form of outflows or depletions of~~ **assets** or ~~incurrences of~~ increases in **liabilities** that result in decreases in **equity**, other than those relating to distributions to equity investors.
fair value	~~The amount for which an asset could be exchanged, a liability settled, or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm's length transaction.~~ The price that would be received to sell an **asset** or paid to transfer a **liability** in an orderly transaction between **market participants** at the measurement date. In the absence of any specific guidance provided in the relevant section of this FRS, the guidance in paragraph ~~2.31~~ 2.36 shall be used in determining fair value.
government grant	~~Assistance by government~~ **Government assistance** in the form of a transfer of resources to an entity in return for past or future compliance with specified conditions relating to the **operating activities** of the entity. ~~Government refers to government, government agencies and similar bodies whether local, national or international.~~
income	Increases in ~~economic benefits during the **reporting period** in the form of inflows or enhancements of~~ **assets** or decreases ~~of~~ in **liabilities** that result in increases in **equity**, other than those relating to contributions from equity investors.
intangible asset[*footnote 1]	An identifiable non-monetary **asset** without physical substance. Such an asset is identifiable when: (a) it is separable, ie capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related ~~contract~~ **contract**, asset or **liability**; or (b) it 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.
liability[*footnote 2]	A present obligation of the entity ~~arising from~~ to transfer an economic resource as a result of past events~~, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits~~.

material	~~Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions 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. The size or nature of the item, or a combination of both, could be the determining factor.~~ Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the users of **general purpose financial statements** make on the basis of those financial statements, which provide financial information about a specific reporting entity.
provision	A ~~**liability**~~ liability of uncertain timing or amount. For the purposes of this definition, 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.
qualifying asset	An asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Depending on the circumstances any of the following may be qualifying assets: (a) **inventories**; (b) manufacturing plants; (c) power generation facilities; (d) **intangible assets**; ~~and~~ (e) **investment properties**~~.~~; and (f) **biological assets.** **Financial assets**, and inventories that are produced over a short period of time, are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.
recognition	The process of capturing for inclusion ~~incorporating~~ in the **statement of financial position** or **statement of comprehensive income** an item that meets the definition of one of the elements of **financial statements**: (a) **assets**; (b) **liabilities**; (c) **equity**; (d) **income**; or (e) **expenses**. Recognition involves depicting the item in one of those statements – either alone or in aggregation with other items – in words and by a monetary amount, and including that amount in one or more totals in that statement ~~an **asset**, **liability**, **equity**, **income** or **expense** and satisfies the following criteria:~~ ~~(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**.~~

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.~~ **Income** arising in the course of an entity's ordinary activities.
turnover[*footnote 3]	The amounts derived from the provision of goods and services after deduction of: (a) trade discounts; (b) value added tax; and (c) any other taxes based on the amounts so derived.

[*footnote 1] For the purposes of this definition, 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.

[*footnote 2] For the purposes of Sections 16 and 17, 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.

[*footnote 3] As defined in section 474(1) of the Act.

494 The following glossary terms and definitions are deleted as follows:

~~**agent**~~	~~An entity is acting as an agent when it does not have exposure to the significant risks and rewards associated with the sale of goods or the rendering of services. One feature indicating that an entity is acting as an agent is that the amount the entity earns is predetermined, being either a fixed fee per transaction or a stated percentage of the amount billed to the customer.~~
~~**change in accounting estimate**~~	~~An adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption 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.~~
~~**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.~~
~~**fair value less costs to sell**~~	~~The amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.~~

~~**principal**~~	~~An entity is acting as a principal when it has exposure to the significant risks and rewards associated with the sale of goods or the rendering of services. Features that indicate that an entity is acting as a principal include:~~ ~~(a) the entity has the primary responsibility for providing the goods or services to the customer or for fulfilling the order, for example by being responsible for the acceptability of the products or services ordered or purchased by the customer;~~ ~~(b) the entity has inventory risk before or after the customer order, during shipping or on return;~~ ~~(c) the entity has latitude in establishing prices, either directly or indirectly, for example by providing additional goods or services; and~~ ~~(d) the entity bears the customer's credit risk for the amount receivable from the customer~~
~~**prudence**~~	~~The inclusion of a degree of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty, such that **assets** or **income** are not overstated and **liabilities** or **expenses** are not understated.~~

Appendix II *Table of equivalence for company law terminology*

495 The following amendment is made to the table, and the amended row is positioned in alphabetical order in the table:

Company law terminology	FRS 105 terminology
~~Debtors~~ Trade debtors	Trade receivables

Appendix III *Note on legal requirements*

496 Paragraph A3.4 is amended as follows:

A3.4 For any company, other than a newly incorporated company, to qualify as a micro-entity, the qualifying conditions must be met for two consecutive years. A company will cease to qualify as a micro-entity if it fails to meet the qualifying conditions for two consecutive years. ~~However,~~ This means that if a company which qualified as a micro-entity in one period no longer meets the ~~criteria for a micro-entity~~ qualifying conditions in the next period, the company may continue to ~~claim the exemptions available~~ apply the micro-entities regime in the next period. If that company then reverts back to being a micro-entity by meeting the ~~criteria~~ qualifying conditions, the ~~exemptions~~ application of the micro-entities regime will continue uninterrupted.

497 Paragraph A3.10 is amended as follows:

A3.10 FRS 105 is an accounting standard and all accounting standards issued by the Financial Reporting Council are applicable to the preparation of financial statements that are intended to give a true and fair view. Financial statements of a micro-entity that include the minimum accounting items specified by *The Small Companies (Micro-Entities' Accounts) Regulations 2013* are presumed in law to give a true and fair view. The micro-entity minimum accounting items are set out in Section 3 *Financial Statement Presentation*, Section 4 *Statement of Financial Position*, Section 5 *Income Statement* and Section 6 *Notes to the Financial Statements* of this FRS.

498 Paragraph A3.13 is amended as follows:

A3.13 An entity applying this FRS and holding financial instruments measured at fair value may be required to provide the disclosures required by paragraph 36(4) of Schedule 1 to the Regulations. The disclosures as required by paragraph 36(4) have been incorporated into Section 11. Some of the Section 11 disclosure requirements apply to all financial instruments measured at fair value, whilst others (see paragraph 11.48A of FRS 102) apply only to certain financial instruments (this does not include financial liabilities held as part of a trading portfolio nor financial liabilities that are derivatives). The disclosure requirements of paragraph 11.48A will predominantly apply to certain financial liabilities, however, there may be instances where paragraph 36(3) of Schedule 1 to the Regulations requires that the disclosures must also be provided in relation to financial assets, for example investments in subsidiaries, associates or jointly controlled entities measured at fair value (see paragraph 9.27B of FRS 102).

Appendix IV *Republic of Ireland legal references*

499 Paragraph A4.4 is amended as follows:

A4.4 The ~~*Companies (Accounting) Act 2017* amended the~~ *Companies Act 2014* ~~to introduce the~~ includes a micro companies regime (which is similar but not identical to that in the UK)~~, into Irish company law~~. ~~Where~~ When a company qualifies as a micro company in accordance with section 280D of the *Companies Act 2014*~~, as may be appropriate~~, then ~~different rules~~ the micro companies regime may be applied ~~(referred to as the 'micro companies regime' in the *Companies Act 2014*)~~ by the company in respect of financial statements and reports for a financial year, in relation to which that company qualifies as a micro company (section 280E of the *Companies Act 2014*).

The definition of a micro company is contained in section 280D of the *Companies Act 2014*. This section also details certain companies that cannot qualify as a micro company and are therefore excluded from the micro companies regime, as outlined below.

Subject to certain conditions and exclusions as noted in section 280D, the qualifying conditions are met by a company if, in relation to a financial year, it qualifies for the small companies regime and does not exceed two or more of the following criteria:

(a)	Turnover	€700,000
(b)	Balance sheet total	€350,000
(c)	Average number of employees	10

A newly incorporated company must meet the qualifying conditions in relation to its first financial year to qualify as a micro company.

In relation to a subsequent financial year (referred to as a 'relevant year') the qualifying conditions must be met by a company (i) in respect of the relevant year and the financial year immediately preceding the relevant year; (ii) in respect of the relevant year and the company qualified as a micro company in relation to the financial year immediately preceding the relevant year; or (iii) in the financial year immediately preceding the relevant year and the company qualified as a micro company in relation to that preceding financial year.

Certain companies are excluded by section 280D of the *Companies Act 2014* from being treated as micro companies, including those excluded from the small companies regime (as set out in sections 280A and 280B), investment undertakings, financial holding undertakings, holding companies voluntarily preparing consolidated financial statements and subsidiaries included in consolidated financial statements. The *Companies Act 2014* should be referred to for a full list of excluded companies.

500 The following heading and table are inserted after paragraph A4.9:

Section 17 *Liabilities and Equity*

	UK references	RoI references
Paragraph	**Act**	**Companies Act 2014**
17.8	Sections 611 to 615	Sections 72 to 75. Reference to ‘merger relief’ encompasses a reference to both section 72 and section 75.

501 The table **Appendix I *Glossary*** is amended as follows:

	UK references	RoI references
Definition	**Act (unless otherwise stated)**	**Companies Act 2014**
‘turnover’ (Footnote [*footnote])	Section 474(1)	Section 275(1)

Approval by the FRC

Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs – Periodic Review 2024 was approved for issue by the Financial Reporting Council on 14 March 2024.

Amendments to Bases for Conclusions

Amendments to Basis for Conclusions FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*

Amendments to Part A – Development and overarching issues

1 The following amendments are made to Part A *Development and overarching issues* of the Basis for Conclusions FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (inserted text is underlined).

2 Paragraph A.2A is inserted immediately after the heading 'Development of FRS 102' as follows:

A.2A This part of the Basis for Conclusions sets out the development of FRS 102 in chronological order. Whilst accurate at the time of writing, some of the facts and circumstances discussed have since been superseded. In general, the FRC does not seek to update extant paragraphs of Part A, but instead to leave them in situ as a record of the development of the standard.

3 Sub-headings and paragraphs A.65 to A.84 are inserted as follows:

Periodic Review 2024

A.65 FRSs are subject to periodic reviews to consider stakeholder feedback, changes in IFRS Accounting Standards and the *IFRS for SMEs* Accounting Standard, and other issues. These periodic reviews take place approximately every five years, to allow time for experience of the most recent edition of FRS 102 to develop before seeking stakeholder feedback and to provide a period of stability between substantial changes.

A.66 A periodic review focuses primarily on FRS 102 and FRS 105, but amendments are proposed to other FRSs when applicable, including when consequential amendments are required. The FRC also carries out an annual review of FRS 101 as IFRS Accounting Standards evolve and to respond to stakeholder feedback about other possible improvements; a periodic review is separate from and independent of these annual reviews.

A.67 As a result of the second periodic review, *Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs – Periodic Review 2024* was issued in March 2024, and is referred to subsequently as the *Periodic Review 2024 amendments*.

A.68 The *Periodic Review 2024 amendments* made a number of amendments, primarily to FRS 102 and FRS 105. These amendments focused on updating accounting requirements, particularly with respect to revenue and leases, and making other incremental improvements and clarifications.

Development of the amendments

A.69 The *Periodic Review 2024 amendments* arose from proposals exposed in FRED 82 *Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Periodic Review* in December 2022, and FRED 84 *Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Supplier finance arrangements* in September 2023.

A.70 The amendments were informed by recent changes in IFRS Accounting Standards and the proposed changes set out in the IASB's exposure draft IASB/ED/2022/1 *Draft third edition of the IFRS for SMEs Accounting Standard*.

A.71 The amendments were also informed by significant stakeholder feedback from UK and Republic of Ireland stakeholders.

Updating accounting requirements

A.72 The most significant changes in the *Periodic Review 2024 amendments* are the introduction of fully-rewritten sections Section 20 *Leases* and Section 23 *Revenue from Contracts with Customers*. In each case, the amendments were based on international accounting principles, modified where appropriate to make them suitable and proportionate for FRS 102 preparers. Further information can be found in Part B of this Basis for Conclusions.

A.73 These changes reflect the FRC's principle, as set out in paragraph A.2, of seeking IFRS-based solutions. Stakeholder feedback during the Periodic Review 2024 indicated continued support for this approach.

Incremental improvements and clarifications

A.74 A number of incremental improvements and clarifications were made throughout FRS 102.

A.75 Stakeholder feedback indicated that the standards, as amended by the Triennial Review 2017, are generally working well. There was no indication that stakeholders generally found the extant standards to be burdensome or were looking for reductions in the cost of applying them.

A.76 Throughout FRS 102, some changes to drafting were made to provide incremental improvements and clarifications as a result of stakeholder feedback and matters identified by the FRC. Whenever possible, these drafting changes also promoted convergence with IFRS-based solutions.

A.77 Section 2 *Concepts and Pervasive Principles* has also been rewritten, and a new Section 2A *Fair Value Measurement* has been introduced, replacing the previous appendix *Fair value measurement* to Section 2. In each case, the amendments were based on international principles, modified where appropriate to make them suitable and proportionate for FRS 102 preparers. Further information can be found in Part B of this Basis for Conclusions.

Small entities in the UK

A.78 Financial statements prepared in accordance with FRS 102 are required to provide sufficient disclosure to give a true and fair view. However, prior to the Periodic Review 2024, Section 1A *Small Entities* reflected the requirements of the EU Accounting Directive which preclude Member States from imposing specific disclosure requirements on small entities besides the limited disclosures set out in company law. As a result, small entities were required to apply significant judgement in determining which additional disclosures needed to be provided in order to give a true and fair view.

A.79 Those requirements of the EU Accounting Directive had not been written into UK company law, but had acted as a constraint in developing Section 1A. As a result, following the UK's exit from the European Union, the FRC identified an opportunity to specify, for UK small entities, additional disclosures which are expected to be required in order to give a true and fair view, thereby reducing the amount of judgement required of preparers.

A.80 In practice, as the requirement to give a true and fair view is unchanged, it is expected that the disclosures provided by UK small entities may not change, but that the process of deciding which disclosures to provide should be simplified.

A.81 The legal position for Irish small entities is unchanged. Section 1A cannot, and does not, require specific disclosures of Irish small entities besides those set out in Irish company law.

Effective date of the Periodic Review 2024 amendments

A.82 In general, the *Periodic Review 2024 amendments* to FRS 102 are effective for accounting periods beginning on or after 1 January 2026, with early application permitted provided all the amendments are applied together.

A.83 The exception is the supplier finance arrangement disclosure requirements added in paragraphs 7.20B and 7.20C, which are effective for accounting periods beginning on or after 1 January 2025, with early application permitted.

A.84 Transitional arrangements have been provided.

Amendments to Part B – Technical issues by section

4 The following amendments are made to Part B *Technical issues by section* of the Basis for Conclusions FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (inserted text is underlined, deleted text is struck through).

B1 Section 1 *Scope*

5 A sub-heading and paragraph B1.8 are inserted as follows:

Supplier finance arrangements

B1.8 In March 2024, as part of introducing disclosure requirements related to supplier finance arrangements into Section 7 *Statement of Cash Flows*, paragraph 1.12(b) was amended to make the exemption from these requirements for qualifying entities conditional on the inclusion of equivalent disclosures in the consolidated financial statements in which the entity is included. This approach provides a proportionate solution to users' information needs by ensuring that all entities with supplier finance arrangements will provide disclosure, whether on a group basis or for the individual company.

B1A Section 1A *Small Entities*

6 Paragraph B1A.2 is amended as follows:

B1A.2 ~~A key feature of the new small companies regime is that it specifies the maximum disclosure that can be mandated for inclusion in a small company's financial statements. However, the~~ The financial statements of a small company must ~~still~~ give a true and fair view of the financial performance and financial position of the entity; this has been emphasised in Section 1A. The directors of a small company will need to consider whether additional disclosures are necessary to give a true and fair view and, if so, provide those additional disclosures.

7 Paragraphs B1A.3A to B1A.3C are inserted as follows:

B1A.3A Section 1A was developed to reflect company law requirements as well as an additional requirement of the EU Accounting Directive, which precludes Member States from imposing specific disclosure requirements on small entities besides the limited disclosures set out in company law.

B1A.3B Following the UK's exit from the EU, the FRC is able to specify additional disclosure requirements for UK small entities. As part of the Periodic Review 2024, the FRC made changes to Section 1A to reduce the amount of judgement that preparers of UK small entity financial statements are required to exercise in determining whether certain disclosures need to be provided in order to give a true and fair view. Appendix C *Disclosure requirements for small entities in the UK* to Section 1A was expanded to specify additional disclosures which the FRC considers are required in order to give a true and fair view.

B1A.3C As the EU Accounting Directive remains applicable for Irish small entities, the changes described in paragraph B1A.3B apply only to UK small entities. Additional information on the small entities regime in the Republic of Ireland is set out in paragraphs A.53 to A.56. As part of the Periodic Review 2024, Appendix D *Disclosure requirements for small entities in the Republic of Ireland* to Section 1A was largely unchanged.

8 Paragraph B1A.4 is amended as follows:

B1A.4 There are a small number of additional non-mandatory disclosures considered to be useful to users of the financial statements of a small entity; these are set out in Appendix E *Additional disclosures encouraged for small entities in the Republic of Ireland* to Section 1A, which paragraph 1A.16C~~. Section 1A~~ encourages Irish small entities to apply~~ provide these disclosures~~.

9 Paragraph B1A.5 is amended as follows:

B1A.5 The disclosures required by FRS 102 of larger entities are those that are usually considered necessary (but not necessarily sufficient) for them to give a true and fair view. Whilst a small entity may have fewer, or simpler, transactions than a larger entity, a small entity may need to provide~~, therefore small entities are encouraged to consider these disclosures in order to determine the~~ additional disclosures that are relevant to its material transactions, other events or conditions in order to meet the requirement to give a true and fair view~~ necessary in their own circumstances~~.

10 Paragraph B1A.6 is amended as follows:

B1A.6 Another feature of the small companies regime, as set out in the EU Accounting Directive, is that additional 'statements' may not be required of small companies. This includes a statement of comprehensive income, a statement of changes in equity and the cash flow statement. Section 1A makes it clear that such statements are not generally required of small entities, but that a statement of comprehensive income and a statement of changes in equity (or statement of income and retained earnings) may be required in some cases in order to provide a true and fair view as set out in paragraph 1A.9~~ will be useful to users of the financial statements of a small entity in explaining the financial performance for the reporting period and the effect that this has had on financial position. Section 1A encourages small entities to provide these statements~~.

11 Paragraph B1A.8 is amended as follows:

B1A.8 Small entities are required to follow the same recognition and measurement requirements of FRS 102 as larger entities; this continues the application of the principle of consistency in accounting policies between those entities that are smaller and those that are larger that applied when the FRSSE was originally developed.~~ This improved financial reporting by small entities by requiring, for example, the recognition of financial instruments that the FRSSE did not require, such as derivatives like interest rate swaps and forward foreign currency contracts.~~ Whilst a small entity may have fewer, or simpler, transactions than a larger entity, the FRC believes that the accounting for a given transaction should not be dependent on whether the entity meets the definition of a small entity.

12 Paragraph B1A.10 is amended as follows:

B1A.10 ~~Following the implementation of the EU Accounting Directive, company~~ Company law, ~~restricts the disclosures that can be required of small companies~~ in relation to the related party transactions~~. Specifically, disclosure can only be required~~ of small companies, requires disclosure of transactions not conducted under normal market conditions. Respondents noted that it could be burdensome for a small entity to identify those related party transactions that were not conducted under normal market conditions, because a significant degree of judgement would be involved. For UK small entities, following the *Periodic Review 2024 amendments,* disclosure is now required of all related party transactions (subject to the exemptions applicable to all entities). For both UK and Irish small entities, it should be noted that ~~Instead,~~ disclosure of all transactions with the specified related parties would meet the legal disclosure requirement. ~~It was noted that the~~ The Accounting Regulatory Committee reached a conclusion in 2007 that disclosing all related party transactions would comply with the requirement to disclose those not conducted under normal market conditions (as previously set out in paragraph 36 of Appendix IV to FRS 8 *Related Party Disclosures*). Therefore additional guidance is included in ~~Appendix C~~ paragraph A3.11F of Appendix III *Note on legal requirements* and paragraph 1AD.51 of Appendix D to Section 1A to this effect.

13 The sub-heading and paragraphs B1A.11 to B1A.13 are deleted as follows:

~~***Transitional arrangements for small entities***~~

B1A.11 ~~It was noted that FRS 102 already includes Section 35 *Transition to this FRS*, which applies to any first-time adopter of FRS 102, which has a significant number of optional exemptions from full retrospective application of FRS 102 that are designed to reduce the burden of first-time adoption. This is particularly useful when it may be difficult to restate historical transactions on the basis otherwise required by FRS 102 because the relevant data would not have been obtained at the time the transaction occurred.~~[Deleted]

B1A.12 ~~A small number of respondents suggested that some additional transitional arrangements should be made available to small entities. These suggestions related to areas where additional burdens may be incurred in applying FRS 102 for the first time because an entity's transition date to FRS 102 occurred before these amendments were finalised.~~[Deleted]

B1A.13 ~~Consequently, additional transitional exemptions for all small entities applying FRS 102 for the first time for an accounting period that commences before 1 January 2017 were given. These related to equity-settled share-based payment arrangements, financial instruments measured at fair value and financing transactions with related parties. On first-time application they provided relief from the full application of FRS 102 in the comparative period.~~[Deleted]

B2 Section 2 *Concepts and Pervasive Principles*

14 Paragraph B2.1 is amended as follows:

B2.1 ~~In December 2017, as part of the Triennial review 2017 amendments, the fair value guidance from Section 11 Basic Financial Instruments was moved to an appendix to Section 2 *Concepts and Pervasive Principles* (see section B11 Section 11 *Basic Financial Instruments*).~~As part of the *Periodic Review 2024 amendments*, Section 2 *Concepts and Pervasive Principles* was entirely rewritten to align with the IASB's *Conceptual Framework for Financial Reporting*, issued in 2018. As FRS 102 is an IFRS-based solution, the FRC decided it was appropriate for FRS 102 to reflect the concepts and pervasive principles that underlie IFRS Accounting Standards. A similar approach was proposed by the IASB for the third edition of the *IFRS for SMEs* Accounting Standard. To avoid unintended consequences, the extant definition of:

(a) an asset is retained for Section 18 *Intangible Assets other than Goodwill*, consistent with the approach taken in IAS 38 *Intangible Assets*, upon which Section 18 is based;

(b) a liability is retained for Section 21 *Provisions and Contingencies*, consistent with the approach taken in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, upon which Section 21 is based; and

(c) a liability is retained for Section 22 *Liabilities and Equity*, consistent with the approach taken in IAS 32 *Financial Instruments: Presentation*, upon which Section 22 is based.

15 Paragraph B2.2 is inserted as follows:

B2.2 The purpose of Section 2 is to assist preparers in developing accounting policies for a transaction, other event or condition that is not specifically addressed by FRS 102. In the event of an inconsistency with another section of FRS 102, that section takes precedence. As a result, the changes to Section 2 are not expected to result in significant changes to existing practice. However, the updated concepts and pervasive principles will provide a basis for future standard-setting, and for the future development by preparers of accounting policies for a transaction, other event or condition that is not specifically addressed by FRS 102.

B2A Section 2A *Fair Value Measurement*

16 A heading and paragraphs B2A.1 to B2A.3 are inserted as follows:

B2A Section 2A *Fair Value Measurement*

B2A.1 As part of the Triennial Review 2017, the fair value guidance from Section 11 *Basic Financial Instruments* was moved to an appendix *Fair value measurement* to Section 2 *Concepts and Pervasive Principles*. The FRC considered amending the fair value guidance for greater consistency with IFRS 13 *Fair Value Measurement*. Respondents' feedback at that time highlighted that incorporating the IFRS 13 definition of fair value could lead to changes that would be particularly significant for certain entities that had only recently implemented the FRS 102 fair value requirements. Consequently, the FRC did not make such changes to FRS 102 at that time.

B2A.2 In 2018, the IASB completed its post-implementation review of IFRS 13, concluding that it was working as intended. As a result, the IASB proposed in IASB/ED/2022/1 *Draft third edition of the IFRS for SMEs Accounting Standard* to align the *IFRS for SMEs* Accounting Standard with the definition of fair value and guidance on fair value measurement from IFRS 13. In light of these developments, and the passage of time since the fair value requirements were implemented, the FRC made amendments to this FRS as part of the Periodic Review 2024 to align the definition of fair value, and the guidance on fair value measurement, with that in IFRS 13.

B2A.3 At the same time, the guidance on fair value measurement was moved from the Appendix to Section 2 to form a new Section 2A *Fair Value Measurement*.

B3 Section 3 *Financial Statement Presentation*

17 A sub-heading and paragraph B3.3 are inserted as follows:

Going concern

B3.3 In response to feedback from respondents during the Periodic Review 2024, the FRC added paragraph 3.8A which introduced a specific requirement to disclose the fact that the financial statements have been prepared on a going concern basis, and highlighted the extant requirement of paragraph 8.6 to disclose significant judgements involved in preparing the financial statements.

B7 Section 7 *Statement of Cash Flows*

18 A sub-heading and paragraph B7.3 are inserted as follows:

Supplier finance arrangements

B7.3 As part of the *Periodic Review 2024 amendments*, disclosure requirements were introduced in Section 7 based on the IASB's May 2023 *Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)*.

B7.4 The key difference from the IASB's requirements is that Section 7 does not require disclosure of amounts settled by finance providers with suppliers. Respondents had mixed views on whether this requirement would be cost-beneficial so the FRC concluded on proportionality grounds that it should be omitted.

B7.5 Prior to the *Periodic Review 2024 amendments*, qualifying entities were exempt from all the requirements of Section 7. However, in response to stakeholder feedback, qualifying entities are only exempt from the supplier finance arrangements disclosure requirements if equivalent disclosures are included in the consolidated financial statements.

B11 Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instruments Issues*

19 Paragraph B11.5A is inserted as follows:

B11.5A As part of the *Periodic Review 2024 amendments*, the ability to newly-adopt the IAS 39 option was restricted to situations in which adopting this option was necessary to achieve consistency with group financial statements (eg in the case of an entity which had not previously applied the IAS 39 option being acquired by a group that already applies the IAS 39 option). This is in preparation for the expected eventual removal of the IAS 39 option, as described in paragraph B11.5. For the time being, an entity already applying the IAS 39 option may continue to do so.

20 Paragraphs B11.42 to B11.46 are amended as follows:

B11.42 As these paragraphs are of general application, rather than relevant only to financial instruments, and illustrate a measurement basis described in Section 2 *Concepts and Pervasive Principles*, they were moved to a new appendix to Section 2 as part of the *Triennial review 2017 amendments*. This did not change the scope and application of the guidance, although some improvements were made to the guidance.

B11.43 ~~The Consultation Document suggested that key definitions in FRS 102 relating to fair value and paragraph 11.27 (now paragraph 2A.1), which sets out the process for estimating fair values, may be amended for greater consistency with IFRS 13 *Fair Value Measurement*.~~As part of the Periodic Review 2024, amendments were made to align FRS 102 with the definition of fair value and guidance on fair value measurement from IFRS 13, as described further in paragraphs B2A.1 to B2A.3. The appendix *Fair value measurement* to Section 2 was deleted and replaced by a new Section 2A *Fair Value Measurement*.

B11.44 ~~Respondents' feedback highlighted that incorporating the IFRS 13 definition of fair value may lead to unintended consequences. That definition, anchored as it is in the market approach, may lead to changes that would be particularly significant for certain entities that have only recently implemented the FRS 102 fair value requirements.~~[Deleted]

B11.45 ~~Stakeholders have previously provided feedback that although the fair value measurement guidance hierarchy in FRS 102 is not identical to the disclosure hierarchy for financial institutions and retirement benefit plans, a change to paragraph 11.27 was not essential as it simply provides a methodology for approaching fair value measurement.~~[Deleted]

B11.46 ~~As a result, the definition of fair value was not amended, and only minor changes were made to paragraph 11.27, for example to emphasise that it is a methodology and give further practical guidance.~~[Deleted]

21 Paragraph B11.49ZA is inserted immediately below paragraph B11.49 as follows:

B11.49ZA As part of the Periodic Review 2024, the FRC made no amendment to incorporate the expected credit loss model into FRS 102. The FRC intends to reconsider this matter in due course, taking into account the IASB's third edition of the *IFRS for SMEs* Accounting Standard when finalised. New disclosure requirements were inserted in paragraphs 11.48ZA and 11.48ZB for entities already applying the expected credit loss model from IFRS 9.

22 Paragraph B11.49I is inserted as follows:

B11.49I As part of the Periodic Review 2024, the FRC did not remove the temporary amendments relating to interest rate benchmark reform, but it expects to do so in due course.

23 Paragraph B11.79A is inserted as follows:

B11.79A As part of the Periodic Review 2024, the FRC did not remove the temporary amendments relating to interest rate benchmark reform, but it expects to do so in due course.

B16 Section 16 *Investment Property*

24 Paragraph B16.4 is amended as follows:

B16.4 A small number of respondents were concerned about the impact of the change on the small number of properties for which a reliable measure of fair value is not available. The FRC notes that prior to the introduction of FRS 102 such properties were required to be measured at open market value and that ~~the Appendix to Section 2 *Concepts and Pervasive Principles*~~ Section 2A *Fair Value Measurement* provides guidance on situations when a reliable measure of fair value is not available.

25 A sub-heading and paragraph B16.5 are inserted as follows:

Investment property held under a lease

B16.5 Prior to the *Periodic Review 2024 amendments*, Section 16 *Investment Property* applied to property held by a lessee under a finance lease and could be applied to property held under an operating lease, if certain criteria were met. As part of the *Periodic Review 2024 amendments*, the FRC introduced an on-balance sheet lease accounting model based on IFRS 16 *Leases,* which removed the distinction between finance leases and operating leases for a lessee, amongst other changes (see B20 Section 20 *Leases*). Consequential amendments were made to Section 16 that bring all leases for which right-of-use assets are recognised in scope of Section 16 if the other criteria for accounting for the property as investment property are met. This approach is similar to the approach taken in IAS 40 *Investment Property*.

B19 Section 19 *Business Combinations and Goodwill*

26 Paragraph B19.5 is inserted as follows:

B19.5 As part of the *Periodic Review 2024 amendments*, in order to support high-quality reporting and for increased alignment with IFRS Accounting Standards, amendments were made to Section 19 to:

(a) add a new appendix to Section 19 to assist with the process of identifying the acquirer in a business combination;

(b) add guidance to highlight the importance of distinguishing contingent consideration from remuneration for ongoing services;

(c) make certain other minor amendments to clarify the application of the existing requirements of the purchase method; and

(d) add limited new disclosure requirements in order to provide relevant information to users in respect of business combinations.

B20 Section 20 *Leases*

27 Paragraphs B20.3 to B20.12 and all sub-headings, and the sequentially numbered footnote to paragraph B20.10, are deleted and paragraphs B20.3 to B20.17 and sub-headings are inserted as follows:

~~***Lease disclosures***~~

~~B20.3 As part of the triennial review 2017, the Consultation Document proposed that lease disclosures in FRS 102 were enhanced, in advance of any revised requirements based on IFRS 16 *Leases*. The aim was to improve the information available to users.~~

~~B20.4 Respondents did not support this approach. It would be difficult for entities to provide more information about obligations arising from operating leases without first determining a detailed approach to updating FRS 102 for IFRS 16, and IFRS 16 itself does not require enhanced disclosure in the run up to implementation.~~

~~B20.5 Having considered this further, FRS 102 was not amended in this respect. Further evidence-gathering and analysis will be undertaken before a decision is made on reflecting the principles of IFRS 16 in FRS 102, if at all.~~

~~***COVID-19-related rent concessions***~~

~~B20.6 In October 2020, FRS 102 was amended to require entities to recognise changes in operating lease payments that occur as a direct consequence of the COVID-19 pandemic, and meet specified conditions, on a systematic basis over the periods that the change in lease payments is intended to compensate.~~

~~B20.7 This was to address concerns about how the relevant requirements of FRS 102 should be applied to temporary rent concessions granted in response to the COVID-19 pandemic. Specifically, there were differences of opinion over how the previous requirements of FRS 102 should be applied to forgiven payments in operating lease agreements. If this had led to different accounting treatments for changes in lease payments that had arisen under similar circumstances it would have been unhelpful to users of financial statements.~~

~~B20.8 Although concerns about the treatment of forgiven lease payments were raised predominantly from the perspective of lessees, because of the~~

~~similarities between the relevant recognition requirements of FRS 102, the accounting by both lessees and lessors was addressed.~~

~~B20.9 The amendments were intended to reflect the particular circumstances that had resulted in these changes in lease payments occurring, where there had typically been a temporary reduction in the lessee's benefit from the use of the leased asset. Requiring entities to recognise the impact of changes in lease payments over the periods that the change is intended to compensate was considered to generally reflect the economic substance of the intended benefit of these concessions and their temporary nature, and provide more relevant information for users. The requirements were based on the accrual model for government grants as set out in Section 24 *Government Grants*.~~

~~B20.10 The criteria for applying the requirements were intended to restrict the treatment to those concessions when it was generally considered to be reflective of the substance of the concession. This minimises the risk of the requirements being applied when it may be more appropriate to recognise changes in lease payments on another basis. The requirements apply only to rent concessions that occur as a direct consequence of the COVID-19 pandemic and:~~

~~(a) result in revised consideration for the lease that is less than the consideration for the lease immediately preceding the change. Deferred lease payments do not change the consideration for the lease but change only the timing of individual payments. The requirements therefore do not apply to changes in lease payments that result from rent deferrals. These changes are accounted for under the existing requirements of FRS 102, which are considered to provide useful information to users of financial statements.~~

~~(b) result in a reduction to only lease payments originally due on or before 30 June 2022[*footnote]. A related increase in lease payments that extends beyond 30 June 2022 would not prevent a rent concession from meeting this condition. In contrast, if reductions in lease payments extend beyond 30 June 2022, the rent concession in its entirety would not be within scope. The economic effects of the COVID-19 pandemic could continue for some time. If the requirements were not limited to a particular timeframe, an entity could conclude that many future changes in lease payments are a consequence of the COVID-19 pandemic. The chosen timeframe was intended to limit the requirements to apply to those concessions where the treatment is expected to be reflective of the substance of the concession and achieve consistency over this period.~~

~~(c) introduce no significant change to other terms and conditions of the lease. A concession that incorporates significant changes to a lease agreement which are unrelated to the COVID-19 pandemic, but negotiated at the same time as those related changes, would not meet this condition.~~

~~[*footnote] Amendments to *FRS 102* and *FRS 105 – COVID-19-related rent concessions beyond 30 June 2021* was issued in June 2021 which amended the date in paragraph 20.15D of FRS 102 from 30 June 2021 to 30 June 2022 (see paragraph B20.11A).~~

~~*COVID-19-related rent concessions beyond 30 June 2021*~~

~~B20.11A In June 2021, FRS 102 was amended to extend the requirements of paragraphs 20.15C and 20.25B so that they apply to rent concessions for which any reduction in lease payments affects only payments originally due~~

~~on or before 30 June 2022, provided the other conditions in paragraph 20.15D are met. Extending the time condition by 12 months was necessary to allow the requirements to be applied consistently to concessions that are similar in substance to those covered by the original requirements, reflecting the continued impact of the COVID-19 pandemic on operating lease agreements. The extended timeframe was considered to be sufficient to cover those periods where concessions will be granted in circumstances similar to those that existed when the original requirements were developed.~~

~~*Interest rate benchmark reform (Phase 2)*~~

~~B20.12 The FRC assessed whether specific reliefs were needed for lease accounting when there is a change in the basis for determining future lease payments or receipts required by interest rate benchmark reform. The FRC would not expect that changes to future lease payments or receipts required by interest rate benchmark reform would alter the carrying amounts of receivables recognised by a lessor or payables recognised by a lessee arising under a finance lease. The FRC also believes that the existing requirements for operating leases are not onerous to apply and will provide useful information in the context of interest rate benchmark reform. The FRC notes that the IASB made changes to IFRS 16 *Leases* as part of its Phase 2 amendments to IFRS (see paragraph B11.49D), but they relate to specific lease modification requirements that do not exist in FRS 102. The FRC therefore decided that no specific amendments to FRS 102 were needed. A consequential amendment was made to paragraph 20.11 to reflect changes made to Section 11 *Basic Financial Instruments*.~~

Reflecting IFRS 16 in FRS 102

B20.3 As part of the *Periodic Review 2024 amendments*, extant Section 20 *Leases*, which was consistent with the principles of IAS 17 *Leases*, was entirely replaced with a new Section 20, with an on-balance sheet lease accounting model based on that in IFRS 16 *Leases*.

B20.4 A key focus of the Periodic Review 2024 was whether and, if so, how to align Section 20 of FRS 102 with the principles of IFRS 16. IFRS 16 was developed to provide a single framework for lessee accounting that provides a more faithful representation of leasing transactions and therefore provides more useful information to users of financial statements about the assets and liabilities arising from an entity's leasing transactions. For lessee accounting, IFRS 16 removed the classification of leases as either operating or finance leases by introducing a single model for all leases (subject to recognition exemptions for short-term leases and leases of low-value assets) requiring them to be presented on the balance sheet in the form of a right-of-use asset and a lease liability. Lessor accounting was not changed significantly.

B20.5 Stakeholder feedback received by the FRC during the Periodic Review 2024 indicated that many stakeholders supported the principle of bringing operating leases on-balance sheet. However, stakeholders identified challenges in making the IFRS 16 model proportionate for the broad range of preparers which apply FRS 102.

B20.6 Some entities applying FRS 102 may be members of a group that applies IFRS Accounting Standards in its consolidated financial statements. Some stakeholders commented that minimising mandatory differences between the requirements of FRS 102 and those of IFRS 16 would therefore be beneficial to preparers and users, particularly for groups with entities that report under both FRS 102 and IFRS Accounting Standards, and would help aid comparability. The FRC therefore sought to introduce simplifications that would be optional rather than mandatory; an entity choosing not to take the simplifications would be expected to arrive at a lease accounting outcome which is comparable with that of IFRS 16.

B20.7 To promote efficiency within groups, the transitional arrangements permit both first-time adopters applying Section 35 *Transition to this FRS*, and existing FRS 102 preparers applying Section 1, to use lease liabilities and right-of-use assets previously calculated under IFRS 16 for group reporting purposes as opening balances at the date of transition (when applying Section 35) or on initial application (when applying Section 1).

Simplifications

Leases of low-value assets

B20.8 As exceptions to the general on-balance sheet accounting model, FRS 102, like IFRS 16, provides recognition exemptions for short-term leases and leases of low-value assets. The FRC concluded that a key contributor to making the on-balance sheet model proportionate for FRS 102 preparers would be to take a more permissive approach to defining low-value assets. As a result, Section 20 focuses on ensuring that the most significant leased assets (examples of which are listed in paragraph 20.11) are recognised on-balance sheet, but allows some flexibility for preparers to determine whether or not other assets are of low value. An entity wishing to set the threshold at a lower level (eg for consistency with a group accounting policy) is able to do so.

B20.9 Like IFRS 16, Section 20 defines low-value assets in absolute terms, not in relation to what is material to the lessee. Similarly, like IFRS 16, Section 20 permits the recognition exemption to be applied to low-value assets regardless of whether the total of those low-value assets is material to the lessee.

B20.10 Because Section 20 focuses on highlighting examples of assets which are not of low value, no list of examples of low-value assets has been provided. However, IFRS 16 states that examples of low-value assets can include tablet and personal computers, small items of office furniture and telephones. Application of the recognition exemption to, at least, leases of such assets under Section 20 would therefore be acceptable.

B20.11 The FRC expects that, as a result of this greater flexibility in defining low-value assets, FRS 102 preparers will be able to apply the on-balance sheet lease accounting model to a smaller proportion of their leases, substantively reducing the impact of applying this new model.

Other simplifications

B20.12 Other areas where optional simplifications were introduced compared to the requirements of IFRS 16 are:

(a) Introduction of the lessee's obtainable borrowing rate as an alternative to the lessee's incremental borrowing rate. Whilst representing a broadly similar concept, the lessee's obtainable borrowing rate is expected to be simpler to determine and therefore represents a proportionate simplification. For public benefit entities, a further simplification is offered: on the basis that some public benefit entities may not borrow, a public benefit entity that is unable readily to determine either the interest rate implicit in the lease, or its incremental borrowing rate or obtainable borrowing rate, shall use the rate of interest otherwise obtainable by the public benefit entity on deposits held with financial institutions.

(b) Reducing the number of situations in which a lease modification requires the determination of a revised discount rate.

(c) Offering the option of a simpler approach to recognising gains and losses on sale and leaseback transactions, similar to the approach in the previous edition of FRS 102.

Leases containing a non-exchange component

B20.13 FRS 102, unlike IFRS Accounting Standards, contains guidance for public benefit entities on accounting for incoming resources from non-exchange transactions. Stakeholders identified that some arrangements might contain both a lease and a non-exchange component.

B20.14 One such class of arrangements have the legal form of a lease, but with nil or nominal consideration (eg 'peppercorn leases'). The FRC considered that if the consideration was not substantive, it was unlikely that the arrangement contained a lease as defined in FRS 102. In such cases, the arrangement would not be in scope of Section 20 and the requirements of Section 34 *Specialised Activities* regarding incoming resources from non-exchange transactions would apply as for other donations.

B20.15 Another such class of arrangements meet the definition of a lease, but with lease payments significantly below market rates. This might be the case, for example, if the lessor chooses to accept lower rent for the philanthropic intention of providing a benefit to a public benefit entity. A government grant could also be provided in the form of a lease at below-market rates; in this case the lessee may or may not be a public benefit entity. However, other situations which at face value might appear to be 'below market' would not indicate a non-exchange component, for example if a lessor discounted the rentals on a retail premises for the primary reason of keeping the premises occupied, regardless of whether or not the lessee was a public benefit entity.

B20.16 Section 20 requires a lessee to use the information readily available to it to identify whether a lease contains a non-exchange component. The FRC expects that such situations may not be common in practice. When such a non-exchange component is identified, the lessee is required to account for the incoming resources in accordance with the requirements of Section 34, recognising the income as a contribution to the cost of the right-of-use asset. This represents that, because of the non-exchange component, the value of the right-of-use asset will be higher than the contractual lease payments would imply.

Transition requirements

B20.17 A lessee applying IFRS 16 for the first time was permitted to make an accounting policy choice between fully-retrospective application or modified retrospective application (with two measurement options). In the interests of simplicity, FRS 102 requires a lessee (both on transition to the new requirements for existing preparers, and for first-time adopters) to apply the modified retrospective approach and set the right-of-use asset equal to the liability (adjusted for any previously-recognised prepayment or accrual of lease payments), unless it chooses the option to use balances previously calculated for group reporting purposes under IFRS 16.

B23 Section 23 *Revenue*

28 Sub-section B23 is retitled from Section 23 *Revenue* to Section 23 *Revenue from Contracts with Customers*.

29 Paragraphs B23.1 to B23.3 and all sub-headings are deleted and paragraphs B23.1 to B23.12 and sub-headings are inserted as follows:

~~*Transactions including separately identifiable goods and services*~~

~~B23.1 Amendments to FRS 102 were proposed as part of the triennial review 2017 to provide greater clarity to the requirements for the recognition of revenue from separately identifiable goods and services provided under a single transaction. Respondents did not support this approach noting that Section 23 *Revenue* was not causing any notable implementation issues to date and the section should be considered in more detail when the incorporation of IFRS 15 *Revenue from Contracts with Customers* is considered. Consequently, FRS 102 was not amended in this respect.~~

~~B23.2 It was also confirmed that further evidence-gathering and analysis will be undertaken before a decision is made on reflecting the principles of IFRS 15 in FRS 102, if at all.~~

~~*Agent and principal*~~

~~B23.3 As part of the *Triennial review 2017 amendments*, further guidance on how to determine whether an entity is acting as an agent or a principal was inserted into Section 23 following feedback that the standard was not sufficiently clear. The additional guidance is based on the guidance included in IAS 18 *Revenue*.~~

Reflecting IFRS 15 in FRS 102

B23.1 As part of the *Periodic Review 2024 amendments*, extant Section 23 *Revenue*, which included revenue recognition requirements based on IAS 11 *Construction Contracts* and IAS 18 *Revenue* was entirely replaced with a new Section 23 *Revenue from Contracts with Customers*, providing a new five-step revenue recognition model based on IFRS 15 *Revenue from Contracts with Customers*.

B23.2 A key focus of the Periodic Review 2024 was whether and, if so, how to align Section 23 of FRS 102 with the principles of IFRS 15. The revenue recognition model in IFRS 15 was developed to provide a single comprehensive framework for revenue recognition and to remove certain inconsistencies and weaknesses in the previous revenue standards that IFRS 15 replaced. It was also developed to provide more useful information to users of financial statements about the nature, amount and timing of revenue and cash flows arising from an entity's contracts with customers.

B23.3 Stakeholder feedback received by the FRC supported the principle of incorporating the revenue recognition model from IFRS 15 into FRS 102, providing this was done in a proportionate manner.

B23.4 In 2022, the IASB proposed an approach for updating the *IFRS for SMEs* Accounting Standard to reflect the principles of IFRS 15. The IASB's proposed requirements were simpler than IFRS 15, containing fewer disclosure requirements, more succinct drafting, and simpler language. The FRC considered those proposals to be an appropriate basis for proposing amendments to FRS 102 to reflect the revenue recognition model in IFRS 15.

B23.5 In FRED 82 the FRC proposed making amendments to Section 23 of FRS 102 that were based on IASB/ED/2022/1 *Draft third edition of the IFRS for SMEs Accounting Standard*, but with adaptations:

(a) intended to allow, but not require, an entity applying FRS 102 to have accounting policies that are equivalent to those that would meet the requirements of IFRS 15; and

(b) to address matters relevant to the fact that FRS 102 is applied by a broader group of entities compared to the *IFRS for SMEs* Accounting Standard.

B23.6 Most respondents were in favour of the proposal to introduce the five-step revenue recognition model from IFRS 15. Many respondents thought that certain requirements should be more closely aligned with the requirements of IFRS 15 (and therefore may diverge from the *IFRS for SMEs* Accounting Standard).

B23.7 FRS 102 aims to be simpler than IFRS Accounting Standards. Therefore, Section 23 is clearly structured around the five-step revenue recognition model in IFRS 15; includes a more straightforward description of the requirements for licensing; and includes a rewording of the constraint on estimates of variable consideration in the positive so it is easier to understand but generally has the same effect. The FRC has also simplified language in response to feedback; for example, the requirements for discounts and variable consideration have been combined into a single requirement.

B23.8 Following stakeholder feedback the FRC concluded that many topics in Section 23 should be more closely aligned to the corresponding requirements in IFRS 15 than the proposals set out in FRED 82. This included retaining the defined term 'performance obligation' and aligning the requirements for contract modifications, determining whether an entity is a principal or an agent, and determining whether an entity transfers control of a good or service over time or at a point in time. The FRC also concluded that the proposed expedient from accounting for an option that provides a material right to a customer as a separate performance obligation when the effect of doing so is not significant to the accounting for the individual contract was unnecessary because the entity can rely on the general concept of materiality to simplify the accounting for those items, when appropriate.

B23.9 The FRC concluded that, whilst the requirements should allow an entity to use an accounting policy for revenue that meets the requirements of both FRS 102 and IFRS 15 to promote efficiency within groups, it is appropriate to offer accounting simplifications compared to IFRS 15 to provide proportionate and practical solutions that are cost effective to apply. These simplifications include:

(a) not requiring an entity to adjust for the effects of time value of money on payments received in advance (paragraph 23.59);

(b) flexibility in allocating discounts or variable consideration to the contract (paragraph 23.74);

(c) an accounting policy choice on whether an entity capitalises its costs to obtain a contract with a customer (paragraph 23.113); and

(d) greater use of hindsight when estimating variable consideration and evaluating contract modifications when an entity applies the *Periodic Review 2024 amendments* for the first time (paragraphs 1.62 and 1.65) or when an entity adopts FRS 102 for the first time (paragraph 35.10(y)).

B23.10 The FRC also concluded that the disclosure requirements in Section 23 should be based on those in IASB/ED/2022/1 rather than IFRS 15 to provide proportionate and practical solutions that are cost effective to apply. The FRC will also consider whether the disclosure requirements are delivering their intent at the next periodic review.

B23.11 Some respondents noted that IFRS 15 required disclosure of significant judgements made in applying the standard, and that equivalent requirements did not appear in Section 23. The FRC notes that Section 8, and paragraph 8.6 in particular, would also apply to the judgements applied in respect of Section 23.

Transition

B23.12 Transitional requirements allow entities to apply the revised Section 23 retrospectively in accordance with Section 10 *Accounting Policies, Estimates and Errors*, or retrospectively with the cumulative effect of initially applying the revised section recognised in the current year. The latter approach is similar to the 'cumulative catch-up' transition method in IFRS 15, but as a proportionate simplification also allows greater scope to use hindsight when estimating variable consideration and evaluating contract modifications on transition.

B24 Section 24 *Government Grants*

30 Paragraph B24.3A is inserted as follows:

B24.3A As part of the Periodic Review 2024, the FRC considered this issue again. The two models available in FRS 102 align to the two IFRS-based solutions: IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* (which requires the accrual model) and the *IFRS for SMEs* Accounting Standard (which requires the performance model). No changes are expected in the medium-term to those IFRS-based solutions, and hence international consistency is not imminent. Therefore, the FRC decided not to remove either of the models at this time.

31 A sub-heading and paragraph B24.6 are inserted as follows:

Government assistance delivered through the corporation tax system

B24.6 As part of the Periodic Review 2024, amendments were made to paragraph 24.3 to refine the description of the forms of government assistance delivered through the corporation tax system that are excluded from the scope of Section 24.

B26 Section 26 *Share-based Payment*

32 Paragraph B26.12 is inserted as follows:

B26.12 As part of the Periodic Review 2024, the FRC considered whether to make changes to the application of Section 26 by UK small companies but did not do so. In general, the recognition and measurement requirements for small entities are the same as for larger entities entering into transactions of the same substance and the FRC has not considered it appropriate to depart from this approach for share-based payments. However, changes in UK law have enabled the FRC to make changes to Section 1A to reduce the amount of judgement that preparers of UK small entity financial statements are required to exercise in determining whether certain disclosures need to be provided in order to give a true and fair view. Paragraph 1AC.31D has been inserted, which requires a small entity to provide some, but not all, of the disclosures set out in Section 26.

33 A sub-heading and paragraph B26.13 are inserted as follows:

Definition of fair value

B26.13 As part of the Periodic Review 2024, amendments were made to align FRS 102 generally with the definition of fair value from IFRS 13 *Fair Value Measurement.* To avoid unintended consequences, the extant definition of fair value is retained for Section 26. This approach is consistent with the approach taken in IFRS 2, upon which Section 26 is based.

B28 Section 28 *Employee Benefits*

34 A sub-heading and paragraph B28.18 are inserted as follows:

Disclosure of the basis used to determine the limit on recognising a plan surplus

B28.18 As part of the Periodic Review 2024, amendments were made to require an entity to disclose, when applicable, the basis used to determine the limit on recognising a plan surplus (see paragraph 28.41(l)). The FRC considered that such disclosure would provide useful information to users of financial statements, in the context of changing economic conditions which mean that more defined benefit pension schemes have been reporting a surplus. This disclosure requirement is in addition to any disclosure about judgements or key sources of estimation uncertainty made in accordance paragraphs 8.6 or 8.7.

B29 Section 29 *Income Tax*

35 A sub-heading and paragraph B29.22 are inserted as follows:

Uncertain tax treatments

B29.22 As part of the Periodic Review 2024, amendments were made to explain how to account for uncertain tax treatments. The requirements are based on those in IFRIC 23 *Uncertainty over Income Tax Treatments*. To support entities that could only apply the new requirements with the use of hindsight, an entity may apply the new requirements with the cumulative effect of doing so recognised at the beginning of the reporting period in which the amendments are first applied.

B33 Section 33 *Related Party Disclosures*

36 Paragraph B33.2 is amended as follows:

B33.2 Some respondents raised the issue of a possible exemption from the disclosure of outstanding balances as well as transactions. However, it was noted that there is a separate legal requirement, in relation to the format of the balance sheet, which requires disclosure of outstanding balances in aggregate for group undertakings and, separately, for undertakings in which the company has a participating interest. ~~As Section 33 *Related Party Disclosures* requires disclosure in aggregate for a category of related parties, one of which is 'entities over which the entity has control, joint control or significant influence', this~~ This should be met by compliance with the requirements of Section 4 *Statement of Financial Position*. As a result, the exemption in paragraph 33.1A does not extend to the requirements of Section 4, and it was not possible to provide an effective exemption from the disclosure, in aggregate, of outstanding balances with group undertakings.

B34 Section 34 *Specialised Activities*

37 Paragraph B34C.1 is amended as follows:

B34C.1 Respondents raised two main issues relating to the accounting for service concession arrangements. The first was that the requirements of the ~~IFRS for SMEs~~ *IFRS for SMEs* Accounting Standard in relation to the accounting by operators had been over-simplified when compared with IFRIC 12 *Service Concession Arrangements*. Therefore additional clarification of the principles of accounting by operators for service concession arrangements ~~were~~ was developed from IFRIC 12 and added into FRS 102. As part of the Periodic Review 2024, the principles were clarified further in connection with the introduction into Section 23 *Revenue from Contracts with Customers* of FRS 102 of the five-step revenue recognition model based on IFRS 15 *Revenue from Contracts with Customers*, reflecting similar amendments made to IFRIC 12 by IFRS 15.

38 A sub-heading and paragraphs B34F.1 to B34F.2 are inserted as follows:

(F) Heritage Assets

B34F.1 Heritage assets are generally subject to the presentation and disclosure requirements of paragraphs 34.54A to 34.56. However, when an asset with the characteristics of a heritage asset is used by the entity itself, it is accounted for entirely in accordance with the applicable other section of this FRS. This is based on the view that an operational perspective is likely to be most relevant for most users of financial statements.

B34F.2 As part of replacing Section 20 *Leases* of this FRS, consideration was given to whether a right-of-use asset recognised in accordance with that section could be a heritage asset. It was concluded that there is nothing in principle that would prevent a right-of-use asset from meeting the definition of a heritage asset. However, the FRC does not expect right-of-use heritage assets to be common.

39 Paragraphs B34I.4 to B34I.6 are amended as follows:

B34I.4 The FRC noted that when goods are donated for subsequent sale (for example donations to charity shops), it could be argued that the donated goods should be valued only when they are sold. This is not consistent with the accruals concept which requires the financial statements to recognise goods when they are received. However, on pragmatic grounds, FRS 102 requires that ~~donated goods should only be recognised as income on receipt when the item is material, can be measured reliably and if the benefits of recognising the item outweigh the costs~~ when it is impracticable to estimate the value of a resource with sufficient reliability when the resource is received or receivable, the income shall be recognised in the period when the resource is sold or distributed; for example, in the case of high volume, low value second-hand goods donated for resale. Further, the same accounting may be applied by other wholly-owned entities in a public benefit entity group, to eliminate the need to restate goods donated for subsequent sale on consolidation (for example, where a charity operates its shops through a subsidiary that is a non-charitable company).

B34I.5 FRS 102 requires donated services ~~that would otherwise have been purchased~~ to be accounted for at their ~~estimated~~ value to the ~~recipient~~ entity. However, FRS 102 expects that contributions made by volunteers cannot be measured reliably and shall therefore not be recognised. This is a pragmatic solution recognising that there are potential issues in determining a value for volunteer services and their contribution to the organisation and notes that quantifying this type of service may not be practicable. There is an argument to suggest that volunteer services could be measured by reference to a metric such as the minimum wage, however this measure does not take into consideration an organisation's requirements for volunteers. In addition, this would be attributing an arbitrary value to a volunteer's time which may not be reflective of their skills, experience or role and to determine a different method of valuation would be very subjective.

B34I.6 However, when a service is provided voluntarily and its value can be measured reliably, for example a service for which the entity would otherwise have had to pay (eg legal or financial advice), the value to the entity of that service should be recognised in the financial statements ~~when, as will usually be the case, its value can be reasonably quantified~~.

40 Paragraphs B34I.7 to B34I.9 are inserted as follows:

B34I.7 As part of the Periodic Review 2024, amendments were made to incorporate the requirements of extant Appendix B *Guidance on incoming resources from non-exchange transactions (paragraphs PBE34.64 to PBE34.74)* into paragraphs PBE34.64 to PBE34.74 and to delete that appendix. These changes were not intended to alter practice, but to make the standard easier to apply.

B34I.8 The amendments included a clear articulation of whether and when incoming resources from non-exchange transactions shall be recognised and, if so, measured either at the fair value of the resources received or receivable, or the value to the entity. The determination of the value to the entity, which takes into account what the entity would have done had the resources not been donated, was also clarified.

B34I.9 The guidance on legacies was also clarified to focus on the principle that income from a legacy should be recognised when it is probable that the legacy will be received and its value can be measured reliably. As this principle was unchanged, the amendments were not expected to alter existing practice.

41 Paragraphs B34K.1 to B34K.3 are amended as follows:

B34K.1 The two ~~main~~ accounting treatments to consider when determining the basis for the measurement of concessionary loans are the amount paid or received, and ~~fair value~~ the accounting policy choice made for financial instruments under paragraphs 11.2 and 12.2.

B34K.2 Accounting for concessionary loans at the amount paid or received ~~(rather than fair value) is~~ may not be consistent with the accounting requirements set out in Section 11 *Basic Financial Instruments*, adopted IFRS or IPSAS ~~29~~ 41 *Financial Instruments~~: Recognition and Measurement~~* ~~which require that such arrangements are measured and recognised in the financial statements at their fair value~~, for example if measurement under those other requirements would be at fair value.

B34K.3 Nevertheless, due to the difficulties that smaller PBEs may face with ~~determining fair value~~ measuring such transactions, PBEs that make or receive concessionary loans have the option of measuring such loans at ~~either~~ the amount paid or received ~~or at fair value~~. PBEs that make and receive concessionary loans must apply the same measurement method to both. Further, the same accounting may be applied by other wholly-owned entities in a public benefit entity group, to eliminate the need to restate concessionary loans made or received for the purposes of furthering the PBEs objectives on consolidation.

B35 Section 35 *Transition to this FRS*

42 A sub-heading and paragraphs B35.2 and B35.3 are inserted as follows:

Periodic Review 2024

B35.2 As part of the *Periodic Review 2024 amendments*, a number of transitional provisions relating to transitions from superseded accounting frameworks were deleted. A number of new transitional provisions were added, as a result of revisions to Section 20 *Leases* and Section 23 *Revenue from Contracts with Customers*, and of other incremental improvements and clarifications.

B35.3 As part of the *Periodic Review 2024 amendments*, the ability of a first-time adopter to select the 'IAS 39 option' in paragraphs 11.2(b) and 12.2(b) was restricted to situations in which selecting this option was necessary to achieve consistency with group financial statements (eg in the case of an entity which had not previously applied FRS 102 being acquired by a group that already applies the IAS 39 option). This is in preparation for the expected eventual removal of the IAS 39 option, as described in paragraph B11.5.

Amendments to Basis for Conclusions FRS 100 *Application of Financial Reporting Requirements*

43 The following amendments are made to the Basis for Conclusions FRS 100 *Application of Financial Reporting requirements* (inserted text is underlined).

44 A sub-heading and paragraph 36 are inserted as follows:

Periodic Review 2024

36 In March 2024, the FRC issued *Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs – Periodic Review 2024*, which made consequential amendments to this FRS to reflect the amendments made to FRS 102.

Amendments to Basis for Conclusions FRS 101 *Reduced Disclosure Framework*

45 The following amendments are made to the Basis for Conclusions FRS 101 *Reduced Disclosure Framework* (inserted text is underlined).

46 A sub-heading and paragraph 83 are inserted as follows:

Periodic Review 2024

83 In March 2024, the FRC issued *Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs – Periodic Review 2024*, which made editorial amendments to this FRS.

Amendments to Basis for Conclusions FRS 103 *Insurance Contracts*

47 The following amendments are made to the Basis for Conclusions FRS 103 *Insurance Contracts* (inserted text is underlined, deleted text is struck through).

48 Paragraph 1 is amended as follows:

1 FRS 103 *Insurance Contracts* and the accompanying non-mandatory implementation guidance consolidate existing financial reporting requirements and guidance for insurance contracts and are based on IFRS 4 *Insurance Contracts* extant in 2013 (except to the extent that it was amended by IFRS 13 *Fair Value Measurement*), the requirements of FRS 27 *Life Assurance* and elements of the Association of British Insurers' *Statement of Recommended Practice on Accounting for Insurance Business* (the ABI SORP). As part of the Periodic Review 2024 (see paragraph 59), amendments made to IFRS 4 by IFRS 13 were reflected in FRS 103.

49 The sub-heading above paragraph 57 is amended as follows:

~~Future development of FRS 103 –~~ FRS 103 and IFRS 17 *Insurance Contracts*

50 Paragraph 57A is inserted as follows:

57A The FRC did not consider whether and how to align its FRSs with IFRS 17 as part of the Periodic Review 2024. IFRS 17 was effective for accounting periods beginning on or after 1 January 2023 and the FRC is likely to wait for several years' implementation experience before considering alignment. In addition, as noted in the Basis for Conclusions to FRS 101, conflicts between IFRS 17 and company law have led the FRC to conclude previously that it is not currently possible to apply IFRS 17 in Companies Act accounts (ie accounts prepared in accordance with the FRC's FRSs) whilst continuing to maintain compliance with company law.

51 Paragraph 57B is inserted as follows:

57B In March 2024, Section 6 *Transition to this FRS* was amended to require an insurer that applies adopted IFRS, or an equivalent financial reporting framework, and transitions to this FRS for the first time to disregard its existing accounting policies for insurance contracts. The provisions in this FRS for an insurer largely to continue with their existing accounting policies for insurance contracts on transition were not intended to provide a mechanism for importing accounting principles from IFRS 17. Such an insurer shall instead apply this FRS as if it were setting accounting policies in relation to insurance contracts for the first time (see paragraphs 18 to 19).

52 A sub-heading and paragraphs 59 to 60 are inserted as follows:

Periodic Review 2024

59 In March 2024, the FRC issued *Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs – Periodic Review 2024*. Amendments were made to this FRS to incorporate the new definition of fair value introduced as part of Section 2A of FRS 102. The amendments are consistent with the consequential amendments made to IFRS 4, upon which FRS 103 is partly based, as a result of the introduction of IFRS 13. Consequential amendments were also made to this FRS to reflect other amendments made to FRS 102.

60 As part of the Periodic Review 2024, the FRC initially proposed consequential amendments to the non-mandatory Implementation Guidance accompanying this FRS as part of proposals to entirely replace Section 23 *Revenue* of FRS 102 with a new five-step revenue recognition model based on IFRS 15 *Revenue from Contracts with Customers.* Feedback from respondents to FRED 82 indicated that those proposed amendments to the Implementation Guidance were unnecessary and potentially unhelpful. The FRC therefore retained the extant Implementation Guidance but made amendments to be clear that the link by analogy to Section 23 of FRS 102 no longer applies.

Amendments to Basis for Conclusions FRS 104 *Interim Financial Reporting*

53 The following amendments are made to the Basis for Conclusions FRS 104 *Interim Financial Reporting* (inserted text is underlined).

54 A sub-heading and paragraph 21 are inserted as follows:

Periodic Review 2024

21 In March 2024, the FRC issued *Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs – Periodic Review 2024*, which made consequential amendments to this FRS to reflect the amendments made to FRS 102.

Amendments to Basis for Conclusions FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime*

55 The following amendments are made to the Basis for Conclusions FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime* (inserted text is underlined, deleted text is struck through).

56 Sub-paragraphs 19(n) and 19(o) are inserted as follows:

19 The key areas where simplifications were made were as follows:

...

(n) Retained the operating lease and finance lease models for accounting for leases, based on FRS 102 prior to the *Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs – Periodic Review 2024* becoming effective, which was itself a simplified version of IAS 17 *Leases* (see paragraph 55).

(o) Simplified requirements for recognising revenue from contracts with customers.

57 The sub-heading and paragraph 42 are deleted as follows:

~~**Revenue – agent and principal**~~

~~42 Amendments were made to include guidance on how to determine whether an entity is acting as an agent or a principal in order to improve clarity. This additional guidance is consistent with FRS 102 and was based on guidance included in IAS 18 *Revenue*.~~[Deleted]

58 A sub-heading and paragraphs 54 to 59 are inserted as follows:

Periodic Review 2024

54 In March 2024, the FRC issued *Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs – Periodic Review 2024*, which amended this FRS. The majority of the amendments were consequential in nature to ensure FRS 105 maintained consistency with FRS 102, except that no amendments were made to Section 15 *Leases*. Other editorial amendments were also made to this FRS.

55 The FRC decided not to maintain consistency between FRS 105 and FRS 102 for the accounting for leases because the costs of aligning Section 15 of FRS 105 with the on-balance sheet model introduced into Section 20 *Leases* of FRS 102 were expected to significantly exceed the benefits at this time. It may be appropriate to revisit this topic for micro-entities in the future in light of the experience of FRS 102 preparers in applying the on-balance sheet model.

Concepts and Pervasive Principles

56 As part of the Periodic Review 2024, Section 2 *Concepts and Pervasive Principles* of FRS 105 was entirely rewritten. The new version is based on the new Section 2 *Concepts and Pervasive Principles* of FRS 102, but abridged, and ultimately therefore based on the IASB's *Conceptual Framework for Financial Reporting*, issued in 2018. The changes to Section 2 are not expected to result in significant changes to existing practice.

Revenue from contracts with customers

57 As part of the Periodic Review 2024, a revised Section 18 *Revenue from Contracts with Customers* was introduced. This is a simplified version of the revised Section 23 *Revenue from Contracts with Customers* of FRS 102, itself a simplified version of the requirements of IFRS 15 *Revenue from Contracts with Customers*. These frameworks all share a single comprehensive five-step model for revenue recognition, which provides a consistent up-to-date model for all entities, ensuring consistency in the accounting for revenue across all financial reporting frameworks in the UK and the Republic of Ireland.

58 Most respondents who commented on the proposals in FRED 82 *Draft amendments to The Financial Reporting Standard applicable in the UK and Republic of Ireland* did not comment on the proposals for Section 18 of FRS 105; however, those that did were mostly opposed to the FRC introducing a five-step model for revenue recognition into this FRS due to concerns that it could be disproportionate for the needs of micro-entities. However, the FRC does not think it would be appropriate to retain the extant, outdated, revenue recognition model in this FRS for the longer term. To respond to those respondents' views, the FRC has further simplified the final amendments compared to the draft proposals. The key areas where the revised revenue recognition requirements in FRS 102 have been adapted to reflect the legal requirements of the micro-entities regime and simplified further to reflect the size and nature of micro-entities are as follows:

(a) Introduction of guidance highlighting that aspects of the requirements may be easier to apply to simple transactions or transactions that are completed within one reporting period.

(b) Restructuring the requirements to move transactions that are less likely to be relevant to a micro-entity to an 'Additional guidance' sub-section at the end of Section 18.

(c) Removing some requirements because micro-entities' contracts with customers are generally expected to be simpler in nature or because the burden created by requiring micro-entities to apply the accounting treatment in FRS 102 is not considered to be outweighed by the benefit.

(d) Requiring a micro-entity to apply the simplest option when FRS 102 provides an accounting policy choice.

(e) Removal of the requirements for the presentation of contract balances. The lack of detail in the format of the statement of financial position and supporting disclosures would result in these requirements having no impact on the information presented in a micro-entity's financial statements.

59 Most respondents that commented on the proposal to require micro-entities to apply the revised revenue recognition requirements prospectively disagreed with it. They cited concerns about comparability issues, especially for entities with long-term contracts. However, the FRC concluded that, given the simpler nature of micro-entities' revenue streams and contracts with customers, comparability issues will be minimal, and the prospective approach will minimise transition costs and be most straightforward for micro-entities to apply.

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