FINANCIAL REPORTING STANDARDS FOR SMALL ENTITIES (FRSSE)

Table of Contents

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FINANCIAL REPORTING STANDARDS FOR SMALL ENTITIES ISSUED BY THE FINANCIAL REPORTING COUNCIL PURSUANT TO SECTION S72 OF THE FINANCIAL REPORTING ACT

1.0 Introduction

One of the main objects of the Financial Reporting Council (FRC) is to promote the provision of high quality financial and non-financial reporting by entities falling under its purview.

Pursuant to Section 72(1) of the Financial Reporting Act, FRC is publishing the Financial Reporting Standards for Small Entities (FRSSE) for Statutory Bodies specified in Part II Second Schedule of the Statutory Bodies (Accounts and Audit) Act (As amended). This FRSSE is replacing the Financial Reporting Standards (FRS) issued in 2010.

In the year 2010, FRC issued a set of Financial Reporting Standards for small Statutory Bodies and was published in the Government gazette GN1942 of 2010. FRC has reviewed the set of Financial Reporting Standards and has extended the **SCOPE** of application.

The revised FRSSE could also be adopted by Small Entities falling into these categories:

1. Small private companies pursuant to Section 211(3) of the Companies Act 2001
2. Small limited partnership pursuant to Section 48(3) of the Limited Partnership Act 2011
3. Co-operatives including Co-operative credit unions falling under the Ministry of Business and Cooperatives and
4. Small entities having an annual revenue of less than Rs50 million, which are presently preparing Accounts without following a proper Financial Reporting Framework.

The FRSSE sets out the basic principles of accounting and the application of best accounting practices for the preparation of a set of Financial Statements. The FRSSE is in two parts, namely Parts I and II.

Part I relates to the Financial Reporting Framework which sets out the basic principles to be followed in the preparation and presentation of Financial Statements. In some instances, relevant sections of the International Financial Reporting Standards (IFRS) have been replicated in this Framework.

The purpose of this Framework is to:

(i) assist the preparers of Financial Statements in producing meaningful Financial Statements within a framework which will allow for consistency and comparability; and

(ii) assist the users of Financial Statements in interpreting the information contained in the Financial Statements prepared in conformity with the Framework.

Part II of the document contains the Financial Reporting Standards in respect of the following:

FRS 1 - Revenue Recognition
FRS 2 - Government Grant / Government Assistance
FRS 3 - Property, Plant and Equipment
FRS 4 - Inventories
FRS 5 - Leases
FRS 6 - Related Parties Disclosures
FRS 7 - Employee Benefits
FRS 8 - Provisions & Contingencies
FRS 9 - Financial Assets and Financial Liabilities
FRS 10 - Investment Property
FRS 11 - Intangible assets other than goodwill
FRS 12 - Impairment of assets
FRS 13 - Income tax
FRS 14 - Foreign Currency translation

In adopting these FRSs, the small private entities or the small limited partnerships will be able to produce Financial Statements that are less costly and will be following a set of standards which are less complex and more easily understood.

The definitions and accounting treatments recommended in the set of FRS are in line with international norms of accounting principles. FRC wishes to draw the attention of users of the FRS that some paragraphs from IFRS for SMEs issued by IASB have been reproduced in these FRSs. In this context an agreement has been signed by FRC and the IASB to allow the reproduction. The users may note that the disclosures requirement have been simplified, taking into account the size of the entities.

PART 1

FINANCIAL REPORTING

FRAMEWORK

CHAPTER 1.0: Concepts and Pervasive Principles

1.1 Financial Statements shall be prepared under the **three main fundamental concepts,** namely Going Concern, Accruals and Prudence Concepts.

(i) Going concern

Small entities are presumed to be carrying business as a going concern basis. However, if there are circumstances known to management, where an entity cannot continue to stay in operation, or has no realistic alternative but to cease trading, management shall disclose this fact and the Financial Statements shall not be prepared on a going concern basis.

(ii) Accrual Basis

All Financial Statements, except for cash flow information, shall be prepared under the accrual basis. Under this basis, the effects of the transactions are recognised when they occur.

The transactions are accounted for in the periods to which they relate and recorded in the Financial Statements.

Accrual basis records the obligations and rights of the entity of any transactions incurred in that particular period.

The effects of any transactions are recognised as and when they occur **irrespective of whether cash has been received or not.**

All transactions are recorded and reported in the Financial Statements of the period to which they relate **and not reported at a later date**.

(iii) Prudence

Prudence is the inclusion of a degree of caution in the exercise of the judgments needed in making the estimates required under conditions of uncertainty, **such that assets or income are not overstated and liabilities or expenses are not understated.**

However, the exercise of prudence does not allow the deliberate understatement of assets or income, or the deliberate overstatement of liabilities or expenses.

1.2 Qualitative characteristics of information in financial reporting

The financial reporting shall also be in adherence to the underlying qualitative principles as follows:

(a) Understandability

The information provided in Financial Statements shall be presented in a way that makes it comprehensible to users who have a reasonable knowledge of business and economic activities and accounting and are willing to study the information.

However, 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.

(b) Relevance

The information provided in Financial Statements must be relevant to the decision-making needs of users.

Information has the quality of relevance when it influences the economic decisions of users by helping them to evaluate past, present or future events or confirming, or correcting, their past evaluations.

(c) Materiality

Information is material if **its omission or misstatement** could influence the economic decisions of users made on the basis of the Financial Statements.

Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement.

(d) Reliability

The information provided in Financial Statements must be reliable. Information is reliable when it is free from material error and bias and represents faithfully that which it either purports to represent or could reasonably be expected to represent.

(e) Substance over form

Transactions and other events and conditions should be accounted for and presented in accordance with their substance and economic reality and not merely their legal form. **This enhances the reliability of Financial Statements.**

(f) Completeness

To be reliable, the information in Financial Statements must be complete within the bounds of materiality and cost.

An omission can cause information to be false or misleading and thus unreliable and deficient in terms of its relevance.

(g) Comparability

Users must be able to compare the Financial Statements of an entity through time in order to identify trends in its financial position and performance.

Users must also be able to compare the Financial Statements of different entities in order to evaluate their relative financial position, performance and cash flows.

In addition, users must be informed 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.

(h) Timeliness

To be relevant, financial information must be able to influence the economic decisions of users. Timeliness involves providing the information at the right time.

If there is undue delay in the reporting of information it may lose its relevance. Management may need to balance the relative merits of timely reporting and the provision of reliable information.

1.3 Frequency of reporting

An entity shall present a complete set of Financial Statements (including comparative information) at least annually. When the end of an entity's reporting period changes and the annual Financial Statements are presented for a period longer or shorter than one year, the entity shall disclose:

(a) This fact; and

(b) The reason for using a longer or shorter period.

1.4 Consistency of presentation

An entity shall retain the consistency of presentation and classification of items in the Financial Statements from one period to the next ***unless it is apparent, following a significant change in the nature of the entity's operations or a review of its Financial Statements, that another presentation or classification would be more appropriate.***

The measurement and display of the financial effect of like transactions and other events and conditions must be carried out in a consistent way throughout an entity and over time for that entity and in a consistent way for different entities.

1.5 Change in presentation or classification

When the presentation or classification of items in the Financial Statements is changed, an entity shall reclassify comparative amounts unless the reclassification is impracticable. When comparative amounts are reclassified, an entity shall disclose:

(a) the nature of the reclassification;

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

(c) the reason for the reclassification.

When it is impracticable to reclassify comparative amounts, an entity shall disclose:

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

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

1.6 Identification of the Financial Statements

An entity should clearly identify each figure disclosed on the face of the financial statement to the notes to distinguish them from other information in the financial statement.

In addition, an entity shall display the following information prominently, and repeat it when necessary for an understanding of the information presented:

- The name of the reporting entity and any change in its name since the end of the preceding reporting period;
- The date of the end of the reporting period and the period covered by the Financial Statements;
- The presentation currency; and
- The level of rounding, if any, used in presenting amounts in the Financial Statements.

CHAPTER 2.0: FINANCIAL STATEMENTS

Financial Statements are prepared in order to provide information to users of accounts on the financial performance for the year ended and the financial position at the end of the financial year. Financial Statements also show the results of the management's stewardship of the resources entrusted to it.

A complete set of Financial Statements comprises of:-

- Statement of Financial Position at the end of the year;
- Statement of Financial Performance;
- Statement of Changes in equity;
- Statement of Cash Flows; and
- Notes, comprising a summary of significant accounting policies and other explanatory information.

2.1 Statement of Financial Position

The financial position of an entity is its assets, liabilities and shareholders' equity at a point in time. These are defined as follows:

(a) **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.

The future economic benefit of an asset is its potential to contribute directly or indirectly, to the flow of cash and cash equivalents to the entity. Those cash flows may come from using the asset or from disposing of it.

Many assets, for example property, plant and equipment, have a physical form.

However, the physical form is not essential to the existence of an asset. Some assets are intangible by nature.

In determining the existence of an asset, the right of ownership is not essential but the future economic benefit expected to flow from the asset is important.

(b) **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.

The obligation may be either a legal obligation or a constructive obligation.

A legal obligation is legally enforceable as a consequence of a binding contract or statutory requirement.

A constructive obligation is an obligation that derives from an entity's actions where:

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

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

The settlement of a present obligation usually involves the payment of cash; transfer of other assets; provision of services; the replacement of that obligation with another obligation.

An obligation may also be settled by other means, such as a creditor waiving or forfeiting his rights.

(c) **Equity and reserves** is the residual interest in the assets of the entity after deducting all its liabilities.

2.2 Statement of Profit or Loss

Performance is the relationship of the income and expenses of an entity as reported in its Statement of Profit or Loss.

Surplus or shortfall of income over expenses, is used as a measure of financial performance.

Definition of Income and Expenses

(a) **Income** is increase in economic benefits during the reporting period in the form of inflows or enhancements of assets.

The definition of income encompasses both revenue and gains.

(i) Revenue is income that arises in the course of the ordinary activities of an entity and is referred to by a variety of names including grant, fees, interest, royalties and rent. Each source of revenue shall be disclosed separately in the Statement of Profit or Loss.

(ii) Gains are other items that meet the definition of income but are not revenue. **When gains are recognised in the Statement of Profit or Loss, they shall be displayed separately because knowledge of them is useful for making economic decisions.**

(b) **Expenses** are decreases in economic benefits during the reporting period in the form of outflows of cash or depletions of assets or incurrence of liabilities.

The definition of expenses encompasses expenses that arise in the course of the ordinary activities of the entity as well as any losses:

(i) Expenses that arise in the course of ordinary activities of the entity include: administrative costs, salaries and wages, depreciation, and provision for pension.

(ii) Losses are other items that meet the definition of expenses and may or may not arise in the course of the ordinary activities of the entity.

When losses are recognised in the Statement of Profit or Loss, they shall be displayed separately because knowledge of them is useful for making economic decisions.

2.3 Statement of Changes in Equity

Statement of Changes in Equity should include the following:

(a) The profit or loss for the period;

(b) Each item of income and expense, gain or loss that, is recognised directly in equity, and the total of these items;

(c) The cumulative effect of changes in accounting policy and the correction of prior period errors; and

(d) The balance of accumulated reserves at the beginning of the period and at the balance sheet date, and the movements for the period.

2.4 Statement of Cash Flows

The Statement of Cash Flows provides information about the historical changes in cash and cash equivalents of an entity, showing separately changes during the period from operating, investing and financing activities.

Cash equivalents are held to meet short-term cash commitments rather than for investment or other purposes.

Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition.

Bank overdrafts are normally considered financing activities similar to borrowings. However, if they are repayable on demand and form an integral part of an entity's cash management, bank overdrafts are a component of cash and cash equivalents.

2.4.1 Content

An entity shall present a Statement of Cash Flows that reports cash flows for a period classified by:

- Operating activities;
- Investing activities; and
- Financing activities.

Other issues that an entity has to consider when preparing a Statement of Cash Flows are:

- Non-cash transactions; and
- Components of cash and cash equivalents.

2.4.1.1 Operating activities

Cash flows from operating activities are primarily derived from the main trading activities of the entity. Therefore, they generally result from the transactions and other events and conditions that generate 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 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 taxes, unless they can be specifically identified with financing and investing activities; and

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

2.4.1.2 Investing activities

Cash flows arising from investing activities represent expenditures made for resources intended to generate future income and cash flows. Examples of cash flows arising from investing activities are:

(a) cash payments to acquire property, plant and equipment (including self-constructed property, plant and equipment), intangible assets (including capitalised development costs), and other long-term assets;

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

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

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

2.4.1.3 Financing activities

Cash flows arising from financing activities represent the different sources of finance that support the business activities and their associated costs. Examples of cash flows arising from financing activities are:

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

(b) cash repayments of amounts borrowed; and

(c) cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.

An entity may classify interest paid and interest received as operating cash flows because they are included in the determination of profit or loss.

Alternatively, the entity may classify interest paid and interest as financing cash flows, because they are costs of obtaining financial resources or returns on investments.

2.4.1.4 Non-cash transactions

An entity shall exclude from the Statement of Cash Flows investing and financing transactions that do not require the use of cash or cash equivalents. An entity shall disclose such transactions elsewhere in the Financial Statements in a way that provides all the relevant information about these investing and financing activities.

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 transaction is the acquisition of assets either by assuming directly related liabilities or by means of a finance lease, or a gift of an asset.

2.4.1.5 Components of cash and cash equivalents

An entity shall disclose the components of cash and cash equivalents and shall present a reconciliation of the amounts reported in the statement cash flows to the equivalent items reported in the Statement of Financial Position.

An entity shall disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the entity.

Cash and cash equivalents held by an entity may not be available for use by the entity because of foreign exchange controls or legal restrictions, among other reasons.

CHAPTER 3.0: Recognition and Measurement in Financial Statements

3.1 Assets

An entity shall recognise an asset in the Statement of Financial Position when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.

An asset is not recognised in the Statement of Financial Position when expenditure has been incurred for which it is considered improbable that economic benefits will flow to the entity beyond the current reporting period. Instead such a transaction results in the recognition of an expense in the Statement of Profit or Loss.

3.2 Liabilities

An entity shall recognise a liability in the Statement of Financial Position when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the settlement amount can be measured reliably.

3.3 Revenue

Revenue is the inflow of economic benefits arising in the ordinary course of activities during a particular period.

Revenue may arise either:-

(a) sales of goods;

(b) investment income;

(c) income derived through grants, collection of fees etc; and

(d) through rendering of services.

An entity shall disclose the amount of each category of revenue recognised during the period.

Revenues shall be recognised on accruals basis (please refer to Chapter 1).

Sales of goods (which may be described as ‘sales’ in a seller’s Financial Statements) is the revenue resulting from exchange transactions under which a seller supplies to customers the goods or services that it is in business to provide.

Investment income consists of dividends, interest and rents receivable for the period.

Dividends are recorded as revenue on the ex-dividend date.

Interest income is recognised as it accrues.

Rental income is recognised on an accruals basis.

A gain or loss on a financial investment is only realised on disposal or transfer, and is the difference between the proceeds received, net of transaction costs, and its original cost or amortised cost, as appropriate.

Government grants known as revenue grant shall be recognised in the Statement of Profit or Loss so as to match them with the expenditure towards which they are intended.

If the government grant is made as a contribution towards expenditure on a fixed asset, the grant amount is deferred and shall be treated as deferred income over the life time of the asset.

Contracts for services

Where there are distinguishable phases of a single contract it may be appropriate to account for the contract as two or more separate transactions, provided the value of each phase can be reliably estimated. Contracts for services should not be accounted for as long-term contracts unless they involve the provision of a single service, or a number of services that constitute a single project.

A contract for services should be accounted for as a long-term contract where contract activity falls into different accounting periods and it is concluded that the effect is material. In determining whether contracts should be accounted for as long-term contracts, the aggregate effect of all such contracts on the Financial Statements as a whole should be considered.

Where the substance of a contract is that the seller's contractual obligations are performed gradually over time, revenue should be recognised as contract activity progresses to reflect the seller's partial performance of its contractual obligations. The amount of revenue should reflect the accrual of the right to consideration as contract activity progresses by reference to value of the work performed.

Where the substance of a contract is that a right to consideration does not arise until the occurrence of a critical event, revenue is not recognised until that event occurs. This only applies where the right to consideration is conditional or contingent on a specified future event or outcome, the occurrence of which is outside the control of the seller.

The amount of revenue recognised on any contract for services should reflect any uncertainties as to the amount that the customer will accept and pay.

3.4 Expenses

Expenses shall be recognised as it is incurred. The accrual concept shall be applied.

3.5 Profit or loss

Profit or loss is the arithmetical difference between revenue and expenses.

3.6 Offsetting

An entity shall not offset assets and liabilities, or income and expenses.

CHAPTER 4.0: Presentation of Financial Statements

4.1 Statement of Financial Position

Purpose

The Statement of Financial Position presents an entity's assets, liabilities and reserves at a point in time.

Information to be presented on the face of the Statement of Financial Position

An entity shall include, on the face of the **Statement of Financial Position**, line items that present the following amounts:

(a) Property, plant and equipment;

(b) Intangible assets;

(c) Investment in Equity;

(d) Investment Property;

(e) Cash and cash equivalents;

(f) Inventories;

(g) Trade and other receivables;

(h) Cash in hand and at bank;

(i) Trade and other payables;

(j) Provisions; and

(k) Lease Obligations.

An entity shall present additional line items, headings and subtotals on the face of the Statement of Financial Position when such presentation is relevant to an understanding of the entity's financial position.

4.1.1 Current/non-current distinction

An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its Statement of Financial Position.

4.1.2 Current assets

An entity shall classify an asset as current when:

(a) it expects to realise the asset, or intends to sell or consume it, in the entity's **normal operating cycle**;

(b) it holds the asset primarily for the purpose of trading;

(c) it expects to realise the asset within twelve months after the end of the reporting period; or

(d) the asset is cash or a cash equivalent, unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the end of the reporting period.

An entity shall classify all other assets as non-current.

When the entity's normal operating cycle is not clearly identifiable, its duration is **assumed to be twelve months.**

4.1.3 Current liabilities

An entity shall classify a liability as current when:

(a) it expects to settle the liability in the entity's normal operating cycle;

(b) it holds the liability primarily for the purpose of trading;

(c) the liability is due to be settled within twelve months after the end of the reporting period; or

(d) the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

An entity shall classify all other liabilities as non-current.

Information to be presented either on the face of the Statement of Financial Position or in the notes

An entity shall disclose, either on the face of the Statement of Financial Position or in the notes, the following sub classifications of the line items presented:

(a) classes of items of property, plant and equipment;

(b) amounts receivable from trade customers, receivables from related parties, prepayments and other amounts;

(c) classes of inventories such as merchandise, production supplies, materials, work in progress and finished goods; and

(d) provisions for employee benefits and other provisions.

4.2 Statement of Financial Performance

Purpose

The Statement of Profit or Loss presents the income and expenses of an entity for a period.

The Statement of Profit or Loss shall include all items of income and expense recognised in a period when they arise.

Information to be presented on the face of the Statement of Financial Performance

An entity shall include, on the face of the Statement of Financial Performance, line items that present the following amounts for the period:

(a) Revenue;

(b) Administrative Costs;

(c) Finance costs;

(d) Tax expense; and

(e) Profit or Loss.

An entity shall present additional line items, headings and subtotals on the face of the Statement of Financial Performance when such presentation is relevant to an understanding of the entity's financial performance.

An entity shall not present or describe any items of income and expense as 'extraordinary items', either on the face of the Statement of Profit or Loss or in the notes.

Information to be presented either on the face of the Statement of Financial Performance or in the notes

An entity shall disclose separately the nature and amount of material components of income and expense. Such disclosures shall include:

(a) write-downs of inventories to selling price less costs to complete and sell, and the reversal of such write-downs;

(b) restructuring of the activities of an entity and reversals of any provisions for the costs of restructuring;

(c) gains or losses on disposals of items of property, plant and equipment;

(d) litigation settlements; and

(e) the reversal of any provisions.

4.3 Disclosure of Accounting Policies and notes to the Financial Statements

A: Selection of accounting policies

In Part II of the document, the Financial Reporting Standards highlight the accounting policies to be adopted for relevant transactions. The accounting principles will result in information that is:

(a) Relevant and reliable to the economic decision-making needs of the users; and

(b) The Financial Statements should:

 (i) reflect the economic substance of transactions and not merely the legal form;

 (ii) represent faithfully the financial position, financial performance and cash flows of the entity;

 (iii) are neutral, i.e. free from bias;

 (iv) are prudent; and

 (v) are complete in all material respects.

B: Disclosures of Accounting Policies

An entity normally presents the notes in the following order:

(a) a general description of the constitution of the small private entities and small limited partnership and the nature of its operations and activities;

(b) a summary of significant accounting policies applied;

(c) supporting information for each item presented on the face of the Financial Statements, in the order in which each statement and each line item is presented;

(d) contingent liabilities and contingent assets and unrecognised contractual commitments; and

(e) any non-financial disclosures.

Notes contain information in addition to that presented on the face of the Financial Statements.

Notes provide narrative description or disaggregation of items presented in those statements and information about items that do not qualify for recognition in those statements.

An entity shall, as far as practicable, present the notes in a systematic manner. **An entity shall cross-reference each item on the face of the Financial Statements to any related information in the notes.**

CHAPTER 5.0: Templates of Financial Statements

5.1 Statement of Financial Position

	Year 2 Rs	Year 1 Rs
ASSETS		
Non-Current Assets	**XX**	XX
Property, plant and equipment	**XX**	XX
Intangible assets	**XX**	XX
Investment in Equity and Bonds	**XX**	XX
Investment Property	**XX**	XX
Total Non-Current Assets	**XXX**	XXX
Current Assets		
Inventories	**XX**	XX
Trade and other receivables	**XX**	XX
Cash and cash equivalents	**XX**	XX
Total Current Assets	**XXX**	XXX
TOTAL ASSETS	**XXXX**	XXXX
FINANCED BY		
EQUITY AND LIABILITIES		
EQUITY and Reserves		
Share Capital	**XX**	XX
Retained Earnings	**XX**	XX
Other Reserves	**XX**	XX
Total Equity	**XXX**	XXX
LIABILITIES		
Non-Current Liabilities		
Long Term Loans repayable after 1 year	**XX**	XX
Employee's Benefits	**XX**	XX
Lease Obligations repayable after 1 year	**XX**	XX
Total Non-Current Liabilities	**XXX**	XXX
Current Liabilities		
Bank Overdraft	**XX**	XX
Trade and Other Payables	**XX**	XX
Provisions	**XX**	XX
Lease Obligations repayable within 1 year	**XX**	XX
Loans repayable within 1 year	**XX**	XX
	XXX	XXX
Total Liabilities	**XXX**	XXX
TOTAL EQUITY AND LIABILITIES	**XXXX**	XXXX

The Financial Statements have been prepared in accordance with the provisions for small private companies within Part XXl and Section 211(3) of the Companies Act 2001(as amended).

Approved by the Board on ………………………… and signed on its behalf by:

……………………………….
Director

5.2 Statement of Financial Performance

The Statement of Financial Performance shall include items that present the following:-

	Year 2 Rs	**Year 1 Rs**
Revenue		
Revenue	**XX**	XX
Cost of Sales	**XX**	XX
	XX	XX
Other income	**XX**	XX
	XX	XX
Expenses		
• Administrative Expenses	**XX**	XX
• Distribution cost	**XX**	XX
• Operating Expenses	**XX**	XX
• Finance Cost	**XX**	XX
	XX	XX
Profit before tax	**XX**	XX
Income tax expense	**(XX)**	(XX)
Profit after tax	XX	XX

5.3 Statement of Cash Flows

There are two methods of presentation of cash flow which are the direct method of cash flow statement or the indirect method of cash flow statement.

The direct method of cash flow statement, in a format similar to an entity's own cash forecasts and management accounts, may provide a link between management's cash projections and the Financial Statements. However, the indirect method is helpful in understanding the connection between the cash generated during a period and the resulting profit.

It is be preferable to advocate only one method of cash flow presentation, for consistency and comparability. The presentation of a cash flow statement using the indirect method is encouraged in the FRSSE as it is generally held to be more useful and better understood by many users of Financial Statements, as well as less costly to prepare.

An example of a presentation of an **indirect method** of cash flow statement is given below.

The Statement of Cash Flows shall include items that present the following:

Statement of Cash Flows for the year ended Year 2

	Year 2 Rs	Year 1 Rs
OPERATING ACTIVITIES		
Profit/(Loss) for the year	**XX**	XX
Adjustment for items not involving Cash		
Provisions	**XX**	XX
Depreciation	**XX**	XX
NET CASH GENERATED FROM OPERATING ACTIVITIES	**A**	A
WORKING CAPITAL CHANGES		
(Increase)/Decrease in Accounts Receivables	**(XX)/XX**	(XX)/XX
(Decrease) /Increase in Accounts Payable	**(XX)/XX**	(XX)/XX
NET MOVEMENT IN WORKING CAPITAL	**B**	B
INVESTING ACTIVITIES		
Purchase of property, plant and Equipment	**(XX)**	(XX)
Sale of Property, plant and equipment	**XX**	XX
NET CASH USED IN INVESTING ACTIVITIES	**C**	C
FINANCING ACTIVITIES		
Capital Grant	**XX**	XX
Loan contracted	**XX**	XX
Issue of shares	**XX**	XX
Loan repayment	**(XX)**	(XX)
NET CASH USED IN FINANCING ACTIVITIES	**D**	D
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**A+B+C +D**	A+B+C +D
Cash and cash equivalents at previous year	XX	XX
CASH AND CASH EQUIVALENT FOR THE YEAR ENDED	**XX**	XX

5.4 Statement of Changes in Equity for the year ended

	Year 2 Rs	Year 1 Rs
Opening Balance	**XX**	XX
Profit or Loss for the year	**XX**	XX
Movement in Share Capital	**XX**	XX
Movement in Reserve	**XX**	XX
Closing Balance	**XX**	XX

5.5 Notes to the Financial Statements

1) <u>Accounting Policies</u>

The principal accounting policies may include the following:

a) Basis of preparation

The Financial Statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standards for Small Entities. The going concern basis has been adopted.

b) Revenue Recognition

Sales of goods

A seller recognises revenue under an exchange transaction with a customer when, and to the extent that, it obtains the right to consideration in exchange for its performance. At the same time, it typically recognises a new asset, usually a debtor.

When a seller receives payment from a customer in advance of performance, it recognises a liability equal to the amount received, representing its obligation under the contract. When the seller obtains the right to consideration through its performance, that liability is reduced and the amount of the reduction in the liability is simultaneously reported as revenue.

A seller may obtain a right to consideration when some, but not all, of its contractual obligations have been fulfilled. Where a seller has partially performed its contractual obligations, it recognises revenue to the extent that it has obtained the right to consideration through its performance.

Government grants

Recurrent government grants are recognised on a cash basis as income and are matched against the recurrent expenses of the entity.

Investment income

Interests and other income are recognised on an accrual basis.

Contracts for services

Contracts for services should not be accounted for as long-term contracts unless they involve the provision of a single service, or a number of services that constitute a single project.

A contract for services should be accounted for as a long-term contract where contract activity falls into different accounting periods and it is concluded that the effect is material. In determining whether contracts should be accounted for as long-term contracts, the aggregate effect of all such contracts on the Financial Statements as a whole should be considered.

Where the substance of a contract is that the seller's contractual obligations are performed gradually over time, revenue should be recognised as contract activity progresses to reflect the seller's partial performance of its contractual obligations. The amount of revenue should reflect the accrual of the right to consideration as contract activity progresses by reference to value of the work performed.

Where the substance of a contract is that a right to consideration does not arise until the occurrence of a critical event, revenue is not recognised until that event occurs. This only applies where the right to consideration is conditional or contingent on a specified future event or outcome, the occurrence of which is outside the control of the seller.

The amount of revenue recognised on any contract for services should reflect any uncertainties as to the amount that the customer will accept and pay.

c) Inventories

Inventories have been measured at the lower of cost and net realisable value. Net realisable value means the net amount that the entity will realise from sale of the inventories.

Cost shall comprise of all costs incurred in bringing the inventories to its location and condition. Such costs include purchase costs, conversion costs, and other costs.

Costs of conversion - direct labour costs and overheads.

Other costs - transport costs and overheads

d) Property, plant and equipment

Property, Plant and Equipment are stated at cost or valuation, net of accumulated depreciation.

Depreciation is the systematic allocation of funds representing the use of an asset over its useful life.

The useful life is the period over which the entity is expected to use the asset. The useful life of each asset shall be determined.

The residual value is defined as the amount that an entity would currently obtain from disposing the asset:

- ***(i) after deducting the estimated costs of disposals; or***
- ***(ii) if it was at the age and condition expected at the end of its useful life.***

The residual value of the asset shall be estimated as an entity does not normally depreciate to zero.

The depreciation charged for each item and for each period shall be recognised in the Statement of Profit or Loss for the period.

Depreciation is provided on the straight line basis so as to write off the depreciable value of the assets over their expected useful economic lives.

The annual rates of depreciation used for the purpose are as follows:

Office furniture	x %
Equipment	x %
Computer & Accessories	x %
Motor Vehicles	x %

e) Cash and cash equivalents

Cash and Cash Equivalents comprise cash at bank and cash in hand.

f) Provisions

A provision is recognised when there is a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

g) Comparative Figures

Figures of last year conform to the current year’s presentation.

h) Employee Benefits

(i) Provisions for retirement benefits for the entity are made in accordance with the Statutory Bodies Pension Act 1978 as amended, or the Employment Rights Act 2008 as amended (as applicable)

(ii) Assets in a defined benefit plan should be measured at their fair value at the balance sheet date.

(iii) Defined benefit plan liabilities should be measured on an actuarial basis using the projected unit method. (actuarial valuation undertaken every five years). The Defined benefit plan liabilities comprise both any benefits promised under the formal terms of the scheme and any constructive obligations for further benefits.

(iv) The assumptions underlying the valuation should be mutually compatible and lead to the best estimate of the future cash flows that will arise under the scheme liabilities.
The assumptions are ultimately the responsibility of the directors (or equivalent) but should be set upon advice given by an actuary. Any assumptions that are affected by economic conditions (financial assumptions) should reflect market expectations at the balance sheet date.

(v) Retirement benefits are all forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either:

- an employer's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

2) Property, Plant and Equipment

Cost	**Office Furniture Rs**	**Equipment Rs**	**Computer & Acc Rs**	**Motor Vehicles Rs**	**Total Rs**
At 31 December Year 1	XX	XX	XX	XX	XX
Additions	XX	XX	XX	XX	XX
Disposal	(XX)	(XX)	(XX)	(XX)	(XX)
At 31 December Year 2	**XX**	**XX**	**XX**	**XX**	**XX**
Accumulated Depreciation					
At 31 December Year 1	XX	XX	XX	XX	XX
Charge for the year	XX	XX	XX	XX	XX
Disposal	(XX)	(XX)	(XX)	(XX)	(XX)
At 31 December Year 2	**XX**	**XX**	**XX**	**XX**	**XX**
31 December Year 2	XX	XX	XX	XX	XX
31 December Year 1	XX	XX	XX	XX	XX

An entity shall disclose the existence and amounts of restrictions on title, as well as property, plant and equipment pledged as security separately for:

(a) the entity's liabilities; and

(b) another entity's liabilities.

3) Inventories

	Year 2 Rs	Year 1 Rs
Categories of inventories	**XX**	XX

4) Accounts Receivables

	Year 2 Rs	Year 1 Rs
Short term Staff Loan	**XX**	XX
Deposits	**XX**	XX
Prepayments	**XX**	XX
Other Receivables	**XX**	XX
At 31 December Year 2	**XX**	XX

5) Shareholders' Equity

	Year 2 Rs	Year 1 Rs
At 31 December Year 1	**XX**	XX
Profit or loss for the year	**XX**	XX
Other changes	**XX**	XX
At 31 December Year 2	**XX**	XX

6) Grants – Capital

	Year 2 Rs	Year 1 Rs
At 31 December Year 1	**XX**	XX
Received during the year	**XX**	XX
Transfer to Statement of Profit or Loss	**XX**	XX
At 31 December Year 2	**XX**	XX

7) Grants – Recurrent

	Year 2 Rs	Year 1 Rs
Amount received during the year	**XX**	XX
Less: amount devoted to capital expenditure	**XX**	XX
At 31 December Year 2	**XX**	XX

8) Employee Benefits

For a defined benefit plan, report of the actuary need to be disclosed. Movement of provisions is shown in the Financial Statements.

9) Accounts Payables

	Year 2 Rs	Year 1 Rs
Creditors	**XX**	XX
Accruals	**XX**	XX
Other employee benefits	**XX**	XX
Other Payables	**XX**	XX
At 31 December Year 2	**XX**	XX

10) Related Parties Transactions

All related party transactions, representing a transfer of resources or obligations between the related parties, have to be disclosed in the notes to the accounts and accounted for as normal transactions in the Financial Statements.

A party is related to an entity if that party:

(a) has control over the entity; or

(b) has an interest in the entity.

11) Investment

Investment represents an investment in an equity linked note with a term of six months and its return is dependent on the performance of a single security.

	Year 2 **Rs**	Year 1 Rs
Investments	**XX**	XX

12) Intangible Assets

	Year 2 **Rs**	Year 1 Rs
Cost		
1 January	**XX**	XX
Accumulated Depreciation and Amortisation		
1 January	**XX**	XX
Amortisation for the year	**XX**	XX
At 31 December	**XX**	XX
Net Carrying Amount (current Year)	**XX**	XX
Net Carrying Amount (Previous Year)	**XX**	XX

13) Income tax expense:

Tax has been provided at the rate of X % on the estimated assessable profits arising during the year.

	Year 2 **Rs**	Year 1 Rs
Tax Charge on adjusted profit for the year	**XX**	XX
(Over)/under provision in prior years	**XX**	XX
Tax charge/(credit) for the year	**XX**	XX

Tax reconciliation	**Year 2 Rs**	Year 1 Rs
Profit before tax	**XX**	XX
Tax calculated at X% (Year 1: X%)	**XX**	XX
Income not subject to tax	**XX**	XX
Expenses not deductible for tax purposes	**XX**	XX
(Over)/under provision in prior years	**XX**	XX
Tax charge / (credit) for the year	**XX**	XX

14) Impairment

	Year 2 Rs	Year 1 Rs
1 January	**XX**	XX
Accumulated Depreciation and Amortisation		
1 January	**XX**	XX
Accumulated Depreciation and impairment losses	**XX**	XX
Depreciation for the year	**XX**	XX
At 31 December	**XX**	XX
Net Carrying Amount (current Year)	**XX**	XX
Net Carrying Amount (Previous Year)	**XX**	XX

15) Obligation under finance lease

The present value of the lease payments under finance lease are as follows:

	Year 2 Rs	Year 1 Rs
Not later than one year	**XX**	XX
Later than Year	**XX**	XX
	XX	XX

16) Investment Property

	Year 2 Rs	Year 1 Rs
Cost		
1 January	**XX**	XX
Additions	**XX**	XX
Fair value gain or loss	**XX**	XX
Transfer from Property, Plant and Equipment	**XX**	XX
At 31 December	**XX**	XX

PART II

FINANCIAL REPORTING

STANDARDS

FOR

SMALL ENTITIES

Financial Reporting Standard 1: Revenue Recognition

1.0 Scope

This Standard shall be applied to entities which obtain revenue from various sources. Each source of revenue shall be clearly identified and recognised separately. Sources of revenue are from the following:

(a) Sale of goods (whether produced by the entity for the purpose of sale or purchased for resale);

(b) Services rendered;

(c) Dividend receivable; and

(d) Any other source of revenue.

1.1 Definition

Revenue is the inflow of economic benefits arising in the ordinary course of activities during a particular period.

1.2 Recognition and Measurement

Revenue should be measured on an accrual basis and measured at the fair value of the consideration received or receivable.

1.2.1 Sale of goods

An entity shall recognise revenue from the sale of goods when all the following conditions are satisfied:

(a) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods.

(b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

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

(d) it is probable that the economic benefits associated with the transaction will flow to the entity.

(e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

1.2.2 Rendering of services

An entity shall recognise revenue associated with a transaction involving the rendering of services by reference to the stage of completion of the transaction at the end of the reporting period. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

(a) the amount of revenue can be measured reliably.

(b) it is probable that the economic benefits associated with the transaction will flow to the entity.

(c) the stage of completion of the transaction at the end of the reporting period can be measured reliably.

(d) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

1.2.3 Interest Receivable

An entity shall recognise revenue arising from interest when:

(a) it is probable that the economic benefits associated with the transaction will flow to the entity; and

(b) the amount of the revenue can be measured reliably.

1.2.4 Dividends Receivable

Dividends shall be recognised when the shareholder's right to receive payment is established.

1.3 Disclosures

An entity shall disclose:

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

(b) the amount of each category of revenue recognised during the period, if they are material, showing separately, revenue arising from:

(i) The sale of goods.

(ii) The rendering of services.

(iii) Interest receivable.

(iv) Dividends receivable.

(v) Any other revenue.

Financial Reporting Standard 2: Government grant / government assistance

2.0 Scope

This Standard shall be applied in accounting for, and in the disclosure of, government grants and other forms of Government assistance.

2.1 Definition

Government grant means funds received from Government to meet the recurrent expenditures or for any capital project.

Government assistance is action by Government designed to provide an economic benefit specific to entities qualifying under certain criteria.

2.2 Recognition and measurement

An entity shall recognise Government grants as follows:

(a) Grant used to meet recurrent expenditure shall be recognised in the Statement of Profit or Loss so as to match them with the expenditure towards which they are intended to.

(b) Grant used to acquire assets shall be released to the Statement of Financial Position item and be amortised over the useful lives of the assets.

(c) If the Government grant is made as a contribution towards expenditure on any capital project, the grant amount is deferred and shall be treated as deferred income over the life time of the asset.

(d) Potential liabilities to repay grants either in whole or in part in specified circumstances shall be provided for only to the extent that repayment is probable. The repayment of a Government grant shall be accounted for by setting off the repayment against any unamortized deferred income relating to the grant. Any excess shall be charged immediately to the Statement of Profit or Loss.

2.3 Disclosures

The following information shall be disclosed in the Financial Statements:

(a) the nature and amounts of Government grants recognised in the Financial Statements;

(b) when Government gives assistance as government grants, there may be conditions attached to the grant. The entity has to recognise these conditions disclosing them in the Financial Statements;

(c) the effects of Government grants on the results for the period and/or the financial position of entity and where the results of the period are affected materially by the receipt of forms of Government assistance other than grants (for example, staff on secondment; expert assistance, training), the nature of that assistance and, to the extent that the effects on the Financial Statements can be measured, an estimate of those effects; and

(d) unfulfilled conditions and other contingencies attaching to Government grants that have not been recognised.

Financial Reporting Standard 3: Property, Plant and Equipment (PPE)

3.0 Scope

PPE are tangible fixed assets that are held in an organisation for more than one period.

3.1 The following definitions are:

Carrying amount is the amount at which an asset is recognised after deducting any accumulated depreciation.

Cost is the amount of cash or cash equivalents paid or payable to acquire an asset.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

The *residual value* of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Useful life is the period over which the entity is expected to use the asset.

The objective of this Standard is to prescribe the accounting treatment for property, plant and equipment (PPE) so that users of the Financial Statements can identify information about an entity's investment in its property, plant and equipment and the changes in such investment.

The principal issues in accounting for property, plant and equipment are the recognition of the assets, the determination of their carrying amounts and the depreciation charges to be recognised in relation to them.

The following information must be provided for all property plant and equipment:

(a) the cost or valuation at the beginning and the end of the year; and

(b) the effect of any;

  (i) revaluation made during the year;

  (ii) Acquisitions made during the year;

  (iii) Disposals during the year; or

  (iv) Transfers during the year.

The following information must be provided in respect of provisions for depreciation or diminution in value:

(a) The cumulative amount of such provisions as at beginning and end of the year;

(b) The amount of any such provisions made during the year;

(c) The amount of any adjustments made on disposal during the year; and

(d) The amount of any other adjustments made during the year.

PPE shall initially be measured at its cost, then written down to its recoverable amount if necessary. The initial carrying amount of a tangible fixed asset received as a gift or donation by a charity shall be its current value, i.e. the lower of replacement cost and recoverable amount, at the date it is received.

Where there is no record of the purchase price or production cost of an asset, or any such record cannot be obtained without unreasonable expense or delay, the value ascribed must be at the earliest available record of its value.

Particulars must be given of any case where the purchase price or production cost of any asset is for the first time determined in this way.

Costs that are directly attributable to bringing the tangible fixed asset into working condition for its intended use shall be included in its measurement. Other costs shall not be included. An entity may adopt an accounting policy of capitalising finance costs (such as interest). Where such a policy is adopted, finance costs that are directly attributable to the construction of tangible fixed assets shall be capitalised as part of the cost of those assets. The total amount of finance costs capitalised during a period shall not exceed the total amount of finance costs incurred during that period.

Where applicable, the notes to the accounts must disclose that finance costs are included in determining the cost of the asset and the amount of finance costs so included.

Capitalisation of directly attributable costs, including finance costs, shall be suspended during extended periods in which active development is interrupted. Capitalisation shall cease when substantially all the activities that are necessary to get the tangible fixed asset ready for use are complete, even if the asset has not yet been brought into use.

Subsequent expenditure shall be capitalised only if:

(a) it enhances the economic benefits of a tangible fixed asset in excess of the previously assessed standard of performance (i.e. if it is an ‘improvement’); or

(b) it replaces or restores a component that has been separately depreciated over its useful economic life.

Otherwise it shall be recognised in the Statement of profit or loss as it is incurred.

3.2 Revaluation

Where an entity adopts an accounting policy of revaluation in respect of a tangible fixed asset, it shall be in line with IFRS for SME.

3.3 Depreciation

An entity shall select a depreciation method that reflects the pattern in which it expects to consume the asset's future economic benefits. The possible depreciation methods include:

(a) the straight-line method; and

(b) the diminishing balance method.

3.4 Profit or loss on disposal

The profit or loss on the disposal of an asset shall be accounted for in the Statement of Profit or Loss of the period in which the disposal occurs as the difference between the net sale proceeds and the net carrying amount, whether carried at historical cost (less any provisions made) or at a valuation.

3.5 Recognition

(a) An entity shall recognise the cost of an item of PPE as an asset if, and only if:

  (i) it is **probable** that future economic benefits associated with the item will flow to the entity; and

  (ii) the cost of the item can be measured reliably.

(b) The cost of an item of PPE is the price paid or payable to acquire the assets.

(c) Each separate item of PPE shall be depreciated.

(d) The useful life of each class of asset shall be determined.

(e) The residual value of the asset shall be estimated as an entity does not normally depreciate to zero.

(f) The depreciation charge for each item and for each period shall be recognised in the Statement of Profit or Loss for the period.

3.6 Measurement at initial recognition

An entity shall measure an item of property, plant and equipment at initial recognition at its cost.

3.7 Measurement after initial recognition

After initial recognition, the PPE shall be measured at cost less any accumulated depreciation.

Land is not depreciated.

3.8 Disclosures

The entity shall disclose

(a) The useful life of the asset.

(b) The depreciation policy used.

(c) Reconciliation of the carrying amount at the beginning and at the end of the reporting period showing:

  (i) additions

  (ii) disposals

  (iii) accumulated depreciation

  (iv) depreciation charge for the period

(d) The rate of depreciation for each class of asset.

(e) The residual value of each class of asset.

(f) The depreciation method used.

(g) The existence and amounts of assets pledged to secure loans.

Financial Reporting Standard 4: Inventories

4.0 Scope

Inventories (also known as stocks) are assets:

(a) held for sale in the ordinary course of business; or

(b) partly finished goods

4.1 Measurement

Inventories are valued at the lower of costs and net realisable value.

Net realisable value means the net amount that the entity will realise from sale of the inventories.

(i) Cost of inventories

Cost shall comprise of all costs incurred in bringing the inventories to their location and condition. Such costs include purchase costs, costs of conversion, and other costs.

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.

(ii) Cost formula

The First in First Out (FIFO) or Weighted Average Cost formula shall be used for inventories.

An entity shall use the same cost formula for all inventories having a similar nature and use to the entity.

Different cost formula may be used for different classes of inventories.

4.2 Recognition as an expense

When inventories are sold, the entity shall recognise the carrying amount of those inventories as an expense in the period in which the related revenue is recognised.

4.3 Disclosures

The entity shall disclose:

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

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

(c) the amount of inventories recognised as an expense.

(d) the assumptions used to calculate inventories at net realisable value.

(e) the amount and circumstances that have led to a write down of inventories.

(f) the amount of inventories pledged as security for loans / liabilities.

Financial Reporting Standard 5: Leases

5.0 Scope

This Standard applies when the entity enter into a lease agreement for the use of an asset as a lessee.

5.1 Definitions

A ***lease*** is 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 ***finance lease*** is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

An ***operating lease*** is a lease other than a finance lease.

A ***non-cancellable*** *lease* is a lease that is cancellable only:

(a) upon the occurrence of some remote contingency;
(b) with the permission of the lessor;
(c) if the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or
(d) upon payment by the lessee of such an additional amount that, at inception of the lease, continuation of the lease is reasonably certain.

The inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. As at this date:

(a) a lease is classified as either an operating or a finance lease; and

(b) in the case of a finance lease, the amounts to be recognised at the commencement of the lease term are determined.

The commencement of the lease term is 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 (i.e. the recognition of the assets, liabilities, income or expenses resulting from the lease, as appropriate).

5.2 Recognition and Measurement

The classification of leases is based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. Risks include the possibility of losses from idle capacity or technological obsolescence and of variations in return caused by changing economic conditions. Rewards may be represented by the expectation of profitable operation over the asset’s economic life and of gain from appreciation in value or realisation of a residual value.

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. Following are examples of situations that would normally lead to a lease being classified as a finance lease:

(a) the lease transfers ownership of the asset to the lessee by the end of the lease term;

(b) the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;

(c) the lease term is for the major part of the economic life of the asset, even if title is not transferred;

(d) at the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and

(e) the leased assets are of a specialised nature such that only the lessee can use them without major modifications.

Following are indicators of situations that, individually or in combination, could also lead to a lease being classified as a finance lease:

(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 (for example, 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 substantially lower than market rent.

Finance leases

Lessees should recognise finance leases as assets and liabilities in their balance sheets at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments, the discount factor is the interest rate implicit in the lease, if this is practicable to determine; if not, the lessee's incremental borrowing rate should be used.

Lease payments should be apportioned between the finance charge and the reduction of the outstanding liability. The finance charge should be allocated on a systematic basis to periods during the lease term either by way of the straight-line method, the sum-of-digits methods or a method that produces a constant periodic rate of interest on the remaining balance of the liability for each period.

A finance lease gives rise to a depreciation expense for the asset as well as a finance expense for each accounting period. The depreciation policy for leased assets should be consistent with that for depreciable assets that are owned.

If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset should be fully depreciated over the lease term or its useful life, whichever is shorter.

Operating leases

Lease payments under an operating lease should be recognised as an expense in the income statement on a straight-line basis over the lease term unless another systematic basis is representative of the time pattern of the user's benefit.

All incentives for the agreement of a new or renewed operating lease should be recognised as an integral part of the net consideration agreed for the use of the leased asset. Lessees should recognise the aggregate benefit of incentives as a reduction of rental expense over the lease term.

5.3 Disclosures

(a) Lessees should disclose for finance lease at the balance sheet date the carrying amount of the asset, and the outstanding liability falling due in each of the following periods:

   (i) not later than one year; and

   (ii) later than one year.

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

   (i) not later than one year; and

   (ii) later than one year.

Financial Reporting Standard 6: Related Parties Disclosures

6.0 Scope

This Standard shall be applied in:

(a) identifying related party relationships and transactions;

(b) identifying outstanding balances between an entity and its related parties;

(c) identifying the circumstances in which disclosure of the items in (a) and (b) is required; and

(d) determining the disclosures to be made about those items.

6.1 Definition

A related party is a person or entity that is related to the entity that is preparing its Financial Statements (the reporting entity).

(a) A **person** or a close member of that person's family is related to a reporting entity if that person:

  (i) is a member of the key management personnel of the reporting entity; or

  (ii) has control over the reporting entity.

Control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities. This is presumed to be more than half of the issued shares of the company, other than shares that carry no right to participate beyond a specified amount in a distribution of either profits or capital, is held by the other company and companies related to that other company (whether directly or indirectly)

(b) An **entity** is related to a reporting entity if any of the following conditions applies:

  (i) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the plan.

  (ii) the entity is controlled or jointly controlled by a person identified in (a).

  (iii) a person identified in (a) (i) has significant influence over the entity.

  (iv) a person identified in (a) (ii) or a close member of that person's family has significant influence over the entity.

  (v) a member of the key management personnel of the entity or a close member of that member's family has control over the reporting entity

(c) Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the reporting entity, both executive and non-executive directors.

(d) Only those related party transactions that are material to the reporting entity need be disclosed in the notes to the Financial Statements.

6.2 Recognition

In considering each possible related party relationship, an entity shall assess the substance of the relationship and not merely the legal form.

In the context of this FRSSE, the following are **not** necessarily related parties:

(a) two entities simply because they have a director or other member of key management personnel in common.

(b) any of the following simply by virtue of their normal dealings with an entity (even though they may affect the freedom of action of an entity or participate in its decision making process):

  (i) providers of finance;

  (ii) trade unions;

  (iii) public utilities; and

  (iv) government departments and agencies.

(c) A customer, supplier, franchisor, distributor or general agent with whom an entity transacts a significant volume of business, merely by virtue of the resulting economic dependence.

6.3 Disclosures

1. An entity shall disclose compensation paid to key management personnel.

2. 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. At a minimum, disclosures shall include:

   (a) the amount of the transactions.

   (b) the amount of outstanding balances and:

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

     (ii) details of any guarantee 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.

3. The following are examples of common transactions to 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 under license agreements;

   (f) transfers under finance arrangements (including loans and equity contributions in cash or in kind);

   (g) provision of guarantees or collateral; and

   (h) settlement of liabilities on behalf of the entity or by the entity on behalf of another party.

4. An entity shall not state that related party transactions were made on terms equivalent to those that prevail in arm's length transactions unless such terms can be substantiated.

5. For an entity where there is controlling interest in other entity, the following information need to be disclosed:

   (a) Name;

   (b) Country of incorporation;

   (c) percentage holding of the investee company;

   (d) total asset of the investee company;

   (e) Contingent liability;

   (f) Financial support, borrowing facilities and outstanding balance; and

   (g) Commitment.

Financial Reporting Standard 7: Employee Benefits

7.0 Scope

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees, including directors and management.

7.1 Definitions

Employee benefits covered by this section are of the following four types:

(a) **short-term employee benefits,** are benefits (other than termination benefits) that are wholly due within twelve months after the end of the reporting period in which the employees render the related service.

(b) **post-employment benefits**, are benefits (other than termination benefits) that are payable after the completion of employment.

(c) **other long-term employee benefits,** are benefits (other than post employment benefits and termination benefits) that are not wholly due within twelve months after the end of the reporting period in which the employees render the related service.

(d) **termination benefits**, are benefits payable as a result of either:

   (i) an entity's decision to terminate an employee's employment before the normal retirement date, or

   (ii) an employee's decision to accept voluntary redundancy in exchange for those benefits.

7.2 Recognition and Measurement

7.2.1 Short-term employee benefits

An entity shall recognise as a liability the cost of all employee benefits to which its employees have become entitled as a result of service rendered to the entity during the reporting period.

The liability is to be disclosed after deducting amounts that have been paid either directly to the employees or as a contribution to an employee benefit fund.

If the amount paid exceeds the obligation arising from service before the reporting date, an entity shall recognise that excess as an asset to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

7.2.2 Short-term compensated absences

An entity may compensate employees for absence for various reasons including annual vacation leave and sick leave. Some short-term compensated absences accumulate—

they can be carried forward and used in future periods if the employee does not use the current period's entitlement in full. Examples include annual vacation leave and sick leave.

The entity shall present the amount of the accumulated compensated absences as a **current liability** at the reporting date.

An entity shall recognise the cost of other (non-accumulating) compensated absences when the absences occur. The entity shall measure the cost of non-accumulating compensated absences at the undiscounted amount of salaries and wages paid or payable for the period of absence.

7.2.3 Post-employment benefits: distinction between defined contribution plans and defined benefit plans

Post-employment benefits include, for example:

(c) retirement benefits, such as pensions, and

(c) other post-employment benefits, such as post-employment life insurance and post-employment medical care.

Arrangements whereby an entity provides post-employment benefits are post-employment benefit plans.

An entity shall apply this section to all such arrangements whether or not they involve the establishment of a separate entity to receive contributions and to pay benefits. In some cases, these arrangements are imposed by law.

Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans, depending on their principal terms and conditions.

(a) Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate **entity (a fund) and has no legal or constructive obligation** to pay further contributions or to make direct benefit payments to employees if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

(b) Defined benefit plans are post-employment benefit plans other than defined contribution plans. Under defined benefit plans, the **entity's obligation** is to provide the agreed benefits to current and former employees, and actuarial risk (that benefits will cost more or less than expected) and investment risk (that returns on assets set aside to fund the benefits will differ from expectations) are borne, in substance, by the entity. If actuarial or investment experience is worse than expected, the entity's obligation may be increased, and vice versa if actuarial or investment experience is better than expected.

7.2.3 (A) Post-employment benefits: defined contribution plans

An entity shall recognise the contribution payable for a period as a liability, after deducting any amount already paid. If contribution payments exceed the contribution due for service before the reporting date, an entity shall recognise that **excess as an asset**.

7.2.3 (B) Post-employment benefits: defined benefit plans

For defined benefit plans, an entity shall recognise:

(a) a liability for its obligations under defined benefit plans net of plan assets—its **defined benefit liability.**

(b) the net change in that liability during the period as the cost of its defined benefit plans during the period.

Measurement of the defined benefit liability

An entity shall measure a **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 **minus**

(b) the fair value at the reporting date of **plan assets** (if any) out of which the obligations are to be settled directly.

Remeasurements of net defined benefit liability (asset) comprise:

(a) actuarial gains and losses;

(b) the return on plan assets, excluding amounts included in net defined benefit liability (asset); and

(c) any change in the effect of the asset ceiling, excluding amounts included in net interest benefit liability (asset)

For measurement and remeasurements of the net defined benefit liability (asset), please refer to relevant IAS 19

7.3 Actuarial valuation method

To measure its obligation and cost under defined benefit plans, the entity is required to have a comprehensive actuarial valuation every three years and shall make provisions for changes in its obligations and cost under defined benefit plans.

7.4 Disclosures

7.4.1 Disclosures about defined contribution plans

An entity shall disclose the amount recognised in Statement of Profit or Loss as an expense for defined contribution plans.

7.4.2 Disclosures about defined benefit plans

An entity shall disclose the following information about defined benefit plans

If an entity has more than one defined benefit plan, these disclosures may be made in total, 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.

(b) the entity's accounting policy for recognising actuarial gains and losses in the Statement of Profit or Loss and the amount of actuarial gains and losses recognised during the period.

(c) 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.

(d) a reconciliation of opening and closing balances of the defined benefit obligation showing separately benefits paid and all other changes.

(e) the total cost relating to defined benefit plans for the period, disclosing separately the amounts

  (i) recognised in Statement of Profit or Loss as an expense; and

  (ii) included in the cost of an asset.

7.4.3 Disclosures about other long-term benefits

For each category of other long-term benefits that an entity provides to its employees, the entity shall disclose the nature of the benefit, the amount of its obligation and the extent of funding at the reporting date.

7.4.4 Disclosures about termination benefits

For each category of termination benefits that an entity provides to its employees, the entity shall disclose the nature of the benefit, its accounting policy, and the amount of its obligation and the extent of funding at the reporting date.

Financial Reporting Standard 8: Provisions and Contingencies

8.0 Scope

The scope of this Standard refers to provisions, that is, liabilities of uncertain timing or amount and contingent liabilities. It excludes provisions specified in the other FRS above such as:

(a) leases; and

(b) employee benefit obligations.

and does not cover:

items such as depreciation, and uncollectible receivables. Those are adjustments of the carrying amounts of assets, rather than recognition of liabilities.

8.1 Definitions

Provisions are present obligations which require reasonable estimates of probable outflow of resources.

Contingent liabilities are probable obligations of the entity and the outflow of resources will depend on the confirmation or occurrence of the events.

8.2 Recognition and Measurement

An entity shall recognise a provision only when:

(a) the entity has an obligation at the reporting date as a result of a past event;

(b) it is probable (i.e more likely than not) that the entity will be required to transfer economic benefits in settlement; and

(c) the amount of the obligation can be estimated reliably.

The entity shall recognise the provision as a liability in the statement of financial position and shall recognise the amount of the provision as an expense.

8.2.1 Initial measurement

An entity shall measure a provision at the best estimate of the amount required to settle the obligation at the reporting date. The best estimate is the amount an entity would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time.

When some or the entire amount required to settle a provision may be reimbursed by another party (e.g. through an insurance claim), the entity shall recognise the reimbursement as a separate asset only when it is virtually certain that the entity will receive the reimbursement on settlement of the obligation. The amount recognised for the reimbursement shall not exceed the amount of the provision.

The reimbursement receivable shall be presented in the Statement of Financial Position as an asset and shall not be offset against the provision. In the Statement of Profit or Loss the entity may offset any reimbursement from another party against the expense relating to the provision.

8.2.2 Subsequent measurement

An entity shall charge against a provision only those expenditures for which the provision was originally recognised.

An entity shall review provisions at each reporting date and adjust them to reflect the current best estimate of the amount that would be required to settle the obligation at that reporting date. Any adjustments to the amounts previously recognised shall be recognised in Statement of Profit or Loss unless the provision was originally recognised as part of the cost of an asset.

8.2.3 Contingent liabilities

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 8.2. Disclosure of a contingent liability is required by paragraph 8.5.2 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.

8.2.4 Contingent assets

An entity shall not recognise a contingent asset as an asset. Disclosure of a contingent asset is required by paragraph 8.5.3 when an inflow of economic benefits is probable. However, when the flow of future economic benefits to the entity is virtually certain, then the related asset is not a contingent asset, and its recognition is appropriate.

8.5 Disclosures

8.5.1 Disclosures about provisions

For each class of provision, an entity shall disclose all of the following:

(a) a reconciliation showing:

- (i) the carrying amount at the beginning and end of the period;
- (ii) additions during the period, including adjustments that result from changes measuring the discounted amount;
- (iii) amounts charged against the provision during the period; and

(iv) unused amounts reversed during the period.

(b) a brief description of the nature and legal aspects of the obligation and the expected amount and timing of any resulting payments.

(c) an indication of the uncertainties about the amount or timing of those outflows.

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

8.5.2 Disclosures about contingent liabilities

Unless the possibility of any outflow of resources in settlement is remote, an entity shall disclose, for each class of contingent liability at the reporting date, a brief description of the nature and legal aspects of the contingent liability and, when practicable:

(a) an estimate of its financial effect, measured in accordance with paragraphs 8.2.1 and 8.2.2;

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

(c) the possibility of any reimbursement.

If it is impracticable to make one or more of these disclosures, that fact shall be stated.

8.5.3 Disclosures about contingent assets

If an inflow of economic benefits is probable (more likely than not) but not virtually certain, an entity shall disclose a description of the nature of the contingent assets at the end of the reporting period, and, when practicable without undue cost or effort, an estimate of their financial effect, measured using the principles set out in paragraphs 8.2.1 and 8.2.2. If it is impracticable to make this disclosure, that fact shall be stated.

Financial Reporting Standard 9: Financial Assets and Financial Liabilities

9.0 Scope

This standard applies to investments other than investments in associate, joint arrangements and subsidiaries.

For investment in associate, joint arrangements and subsidiaries, please refer to relevant IFRS for SMEs

9.1 Definitions

Financial asset is any asset that is cash, an equity instrument of another entity (investments) or a contractual right to receive cash or another financial assets from another entity. Financial assets is classified in two categories namely loans and receivables and financial assets at fair value through profit or loss (FVTPL).

Financial liability is any liability that is a contractual obligations to deliver cash or another financial assets to another entity.

9.2 Recognition and Measurement

Investment classified as held for trading are stated at fair value, with any gains arising on remeasurement recognised in profit or loss. Fair value on initial recognition of the investment is indicated by the regular way purchases measured on a trade date basis.

The investment is derecognised only when the entity transfers the investment and substantially all the risks and rewards to another party.

9.2.1 Financial Assets

<u>Financial assets at fair value through profit or loss (FVTPL)</u>

Financial assets at fair value through profit or loss includes any financial assets that is designated on initial recognition as one to be measured at fair value with fair value changes in profit or loss. For instance, Investment in bond, share or other negotiable instrument evidencing debt or ownership) held by an entity for trading, the accretion of wealth through distribution (such as interest and dividends), for capital appreciation or for other benefits to the investing entity such as those obtained through trading relationships is classified under this category. Fair value on initial recognition is indicated by the regular way purchases measured on a trade date basis.

Investment is valued at cost or fair value. Investment shall be valued at cost when fair value cannot be obtained with reliable certainty and tested for impairment on an annual basis.

<u>Loans and receivables</u>

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at cost less impairment. For example, cash, demand and time deposits, commercial paper, accounts receivables and loans receivables are classified as loans and receivables.

Financial assets are derecognised when the entity has transferred the contractual rights to receive cash flows from the assets.

9.2.2 Financial liabilities

<u>Financial liabilities measured at cost</u>

Financial liabilities should be measured at cost on initial recognition by the entity. For example accounts payable, loan payable and bank borrowings are measured at cost.

A financial liability is derecognised from the statement of financial position when and only when it is extinguished, that is, when the obligation is either discharged or cancelled or expires.

9.3 Disclosures

(a) Accounting policies used in preparing the Financial Statements;

(b) Where investment has been fair valued, the entity shall disclose the valuation technique used;

(c) Where Investment has been valued at cost, the entity shall disclose reasons why fair value cannot be obtained with reliable certainty;

(d) Disclosure about financial assets pledged as collateral;

(e) Reconciliation of allowance for impairment by class of financial assets;

(f) Breaches of terms of loan arrangement; and

(g) Disclosure about credit risk include the maximum amount of exposure, information of financial assets that are neither past due nor impaired, financial assets are past due or impaired.

Financial Reporting Standard 10: Investment Property

10.0 Scope

This section applies to accounting for investments in land or buildings which is held for its investment potential, any rental income being negotiated at arm's length, but excluding:

(a) a property that is owned and occupied by a company for its own purposes; and

(b) a property let to and occupied by another group company.

10.1 Definitions

Investment property is property (land or a building or part of a building or both) held (by the owner or by the lessee under a finance lease) 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.

Owner-occupied property is property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes.

10.2 Recognition and Measurement

An entity shall measure investment property at its cost at initial recognition. Investment property whose fair value can be measured reliably without undue cost or effort may be measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Investment properties shall not be subject to periodic charges for depreciation except for properties held on lease, which shall be depreciated at least over the period when the unexpired term is 20 years or less.

10.3 Disclosures

An entity shall disclose the following for all investment property accounted for at fair value:

(a) the methods and significant assumptions applied in determining the fair value of investment property;

(b) the extent to which the fair value of investment property (as measured or disclosed in the Financial Statements) is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and class of the investment property being valued. If there has been no such valuation, that fact shall be disclosed;

(c) contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements;

(d) a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing separately:

   (i) net gains or losses from fair value adjustments;

   (ii) transfers to and from inventories and owner-occupied property; and

   (iii) other changes**.**

Financial Reporting Standard 11: Intangible assets other than goodwill

11.0 Scope

This section applies to accounting for all intangible assets other than goodwill.

11.1 Definitions

Amortisation is the systematic allocation of the depreciable amount of an intangible asset over its useful life.

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated amortisation and accumulated impairment losses thereon.

11.2 Recognition and Measurement

An entity shall recognise an intangible asset as an 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;

(b) the cost or value of the asset can be measured reliably; and

(c) (c) the asset does not result from expenditure incurred internally on an intangible item.

An entity shall measure an intangible asset initially at cost.

An entity shall subsequently measure intangible assets at cost less any accumulated amortisation and any accumulated impairment losses. (All intangible assets shall be considered to have a finite useful life)

11.3 Disclosures

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

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

(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 Profit or Loss (and in the income statement, if presented) in which any amortisation of intangible assets is included.

(e) a reconciliation of the carrying amount at the beginning and end of the reporting period showing separately:

   (i) additions.

   (ii) disposals.

   (iii) amortisation.

   (iv) impairment losses.

   (v) other changes.

Financial Reporting Standard 12: Income tax

12.0 Scope

Income tax includes all domestic and foreign taxes that are based on taxable profit. Income tax also includes taxes, such as withholding taxes, that are payable by a subsidiary, associate or joint venture on distributions to the reporting entity

12.1 Definitions

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

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

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period.

12.2 Recognition and Measurement

(a) An entity shall recognise a current tax liability for tax payable on taxable profit for the current and past periods. If the amount paid for the current and past periods exceeds the amount payable for those periods, the entity shall recognise the excess as a current tax asset.

(b) An entity shall measure a current tax liability (asset) at the amounts it expects to pay (recover) using the tax rates and laws that have been enacted or substantively enacted by the reporting date. An entity shall regard tax rates as substantively enacted when future events required by the enactment process historically have not affected the outcome and are unlikely to do so.

(c) An entity shall include in the amounts recognised reflecting the effect of the possible outcomes of a review by the tax authorities.

12.3 Disclosures

An entity shall recognise tax expense in the same component of equity as the transaction or other event that resulted in the tax expense.

Financial Reporting Standard 13: Impairment of assets

13.0 Scope

This Standard shall be applied in accounting for the impairment of all assets, other than:

(a) Inventories;

(b) investment property that is measured at fair value; and

(c) assets arising from employee benefits.

13.1 Definitions

Carrying amount is the amount at which an asset is recognised after deducting any accumulated depreciation (amortisation) and accumulated impairment losses thereon.

An ***impairment loss*** is the amount by which the carrying amount of an asset exceeds its recoverable amount.

The ***recoverable amount*** of an asset is the higher of the amounts that can be obtained from selling the asset (i.e. net realisable value) or continuing to use the asset in the business (i.e. value in use). Value in use is calculated as the present value of the future cash flows obtainable as a result of the asset's continued use (including those resulting from its ultimate disposal), or a reasonable estimate thereof.

13.2 Recognition and Measurement

At each balance sheet date, an entity should consider whether there exists any indications of impairment and, if so, estimate the recoverable amount of all assets.

In the event that an asset's carrying amount exceeds its recoverable amount, the carrying amount should be restated to recoverable amount and an impairment loss should be recognised in the Statement of Profit or Loss for the period.

In assessing whether there is any indication that an asset may be impaired, an entity should consider, as a minimum, the following indications:

External sources of information

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

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

Internal sources of information

(c) evidence is available of obsolescence or physical damage of an asset;

(d) significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or the manner in which, an asset is used or is expected to be used. These changes include plans to discontinue or restructure the operation to which an asset belongs or to dispose of an asset before the previously expected date; and

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

The list in paragraph 13.2 is not exhaustive. An entity may identify other indications that an asset may be impaired and these would also require the entity to determine the asset's recoverable amount.

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

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

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

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

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

At each balance sheet date, an entity should assess whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased and, if so, estimate the recoverable amount of that asset. An entity should consider, as a minimum, the following indications:

External sources of information

(a) the asset's market value has increased significantly during the period;

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

Internal sources of information

(c) significant changes with a favourable effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or the manner in which, the asset is used or is expected to be used. These changes include costs incurred during the period to improve or enhance the asset's performance or restructure the operation to which the asset belongs; and

(d) evidence is available from internal reporting that indicates that the economic performance of the asset is, or will be, better than expected.

Indications of a potential decrease in an impairment loss in this paragraph mainly mirror the indications of a potential impairment loss in paragraph 13.2.

In case of a reversal of impairment loss, the increased carrying amount of an asset should not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

It is not always necessary to determine both an asset's net selling price and future net cash flow expected from the continued use of that asset. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount.

13.3 Disclosures

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

(a) the amount of impairment losses recognised in profit or loss during the period and the line item(s) of the statement of Profit or Loss in which those impairment losses are included.

(b) the amount of reversals of impairment losses recognised in profit or loss during the period and the line item(s) of the statement of Profit or Loss in which those impairment losses are reversed.

Financial Reporting Standard 14: Foreign currency translation

14.0 Scope

This Standard shall be applied:

(a) in accounting for transactions and balances in foreign currencies; and

(b) in translating an entity's results and financial position into a functional currency.

14.1 Definitions

Closing rate is the spot exchange rate at the end of the reporting period.

Exchange difference is the difference resulting from translating a given number of units of one currency into another currency at different exchange rates.

Exchange rate is the ratio of exchange for two currencies.

Foreign currency is a currency other than the functional currency of the entity.

Functional currency is the currency of the primary economic environment in which the entity operates. The primary economic environment in which an entity operates is normally the one in which it primarily generates and expends cash.

Spot exchange rate is the exchange rate for immediate delivery.

Monetary items are units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency. Examples include: cash and cash equivalents; marketable debt securities; trade receivables; notes receivable and other receivables; trade payables; accrued expenses and other payables, taxes and withholding taxes payable; borrowings and notes payable.

Non-monetary items are recognisable by the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: amounts prepaid for goods and services; goodwill; intangible assets; inventories; property, plant and equipment; and provisions that are to be settled by the delivery of a non-monetary asset; advances received on sales; deferred income and deferred tax liabilities.

14.2 Recognition and Measurement

A foreign currency transaction should be recorded, on initial recognition in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction.

At each balance sheet date:

(a) foreign currency monetary items should be reported using the closing rate; and

(b) non-monetary items denominated in a foreign currency should be reported using the exchange rate at the date of the transaction or event (for example, the recognition and reversal of an impairment loss).

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

14.3 Disclosures

An entity should disclose:

(a) the accounting policy adopted for foreign currency transactions, including the basis used in the translation of the foreign currency transactions, balances denominated in foreign currencies at the balance sheet date and the basis used in the translation of Financial Statements of foreign branches and the treatment accorded to exchange differences;

(b) the amount of exchange differences included in the statement of Profit or Loss for the period; and

(c) net exchange differences recognised as a separate component of equity, and a reconciliation of the amount of such exchange differences at the beginning and end of the period.

Effective Date

The FRSSE will be effective for the accounting period ending on or after 01 January 2015

Approved by the Council on 18 December 2014.

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