CHANGES IN EXISTING DECOMMISSIONING, RESTORATION AND SIMILAR LIABILITIES (IFRIC-1)

ISSUE

3 This Interpretation addresses how the effect of the following events that change the measurement of an existing decommissioning, restoration or similar liability should be accounted for:

(a) a change in the estimated outflow of resources embodying economic benefits (e.g. cash flows) required to settle the obligation;

(b) a change in the current market-based discount rate of IAS 37 (this includes changes in the time value of money and the risks specific to the liability); and

(c) an increase that reflects the passage of time (also referred to as the unwinding of the discount).

CONSENSUS

4 Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or a change in the discount rate, shall be accounted for as follows: -

5 If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability shall be added to, or deducted from, the cost of the related asset in the current period.

(b) the amount deducted from the cost of the asset shall not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess shall be recognized immediately in profit or loss.

(c) if the adjustment results in an addition to the cost of an asset, the entity shall consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the entity shall test the asset for impairment by estimating its recoverable amount, and shall account for any impairment loss, in accordance with IAS 36.

6 If the related asset is measured using the revaluation model:

(a) changes in the liability alter the revaluation surplus or deficit previously recognized on that asset, so that:

(i) a decrease in the liability shall (subject to (b)) be credited directly to revaluation surplus in equity, except that it shall be recognized in profit or loss to the extent that it reverses a revaluation deficit on the asset that was previously recognized in profit or loss;

(ii) an increase in the liability shall be recognized in profit or loss, except that it shall be debited directly to revaluation surplus in equity to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

(b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognized had the asset been carried under the cost model, the excess shall be recognized immediately in profit or loss.

(c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. Any such revaluation shall be taken into account in determining the amounts to be taken to profit or loss and equity under (a). If a revaluation is necessary, all assets of that class shall be revalued.

(d) IAS 1 requires disclosure on the face of the statement of changes in equity of each item of income or expense that is recognized directly in equity. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability shall be separately identified and disclosed as such.

7 The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability shall be recognized in profit or loss as they occur. This applies under both the cost model and the revaluation model.

8 The periodic unwinding of the discount shall be recognized in profit or loss as a finance cost as it occurs. The allowed alternative treatment of capitalization under IAS 23 is not permitted.

RIGHTS TO INTEREST ARISING FROM DECOMMISSIONING, RESTORATION AND ENVIRONMENTAL REHABILITATION FUNDS (IFRIC-5)

BACKGROUND

1 The purpose of decommissioning, restoration and environmental rehabilitation funds, hereafter referred to as 'decommissioning funds' or 'funds', is to segregate assets to fund some or all of the costs of decommissioning plant (such as a nuclear plant) or certain equipment (such as cars), or in undertaking environmental rehabilitation (such as rectifying pollution of water or restoring mined land), together referred to as 'decommissioning'.

2 Contributions to these funds may be voluntary or required by regulation or law. The funds may have one of the following structures:

(a) funds that are established by a single contributor to fund its own decommissioning obligations, whether for a particular site, or for a number of geographically dispersed sites.

(b) funds that are established with multiple contributors to fund their individual or joint decommissioning obligations, when contributors are entitled to reimbursement for decommissioning expenses to the extent of their contributions plus any actual earnings on those contributions less their share of the costs of administering the fund. Contributors may have an obligation to make additional contributions, for example, in the event of the bankruptcy of another contributor.

(c) funds that are established with multiple contributors to fund their individual or joint decommissioning obligations when the required level of contributions is based on the current activity of a contributor and the benefit obtained by that contributor is based on its past activity. In such cases there is a potential mismatch in the amount of contributions made by a contributor (based on current activity) and the value realisable from the fund (based on past activity).

SCOPE

4 This Interpretation applies to accounting in the financial statements of a contributor for interests arising from decommissioning funds that have both of the following features:

(a) the assets are administered separately (either by being held in a separate legal entity or as segregated assets within another entity); and

(b) a contributor's right to access the assets is restricted.

5 A residual interest in a fund that extends beyond a right to reimbursement, such as a contractual right to distributions once all the decommissioning has been completed or on winding up the fund, may be an equity instrument within the scope of IAS 39 and is not within the scope of this Interpretation.

Issues

6 The issues addressed in this Interpretation are:

(a) how should a contributor account for its interest in a fund?

(b) when a contributor has an obligation to make additional contributions, for example, in the event of the bankruptcy of another contributor, how should that obligation be accounted for?

CONSENSUS

Accounting for an interest in a fund

7 The contributor shall recognize its obligation to pay decommissioning costs as a liability and recognize its interest in the fund separately unless the contributor is not liable to pay decommissioning costs even if the fund fails to pay.

8 The contributor shall determine whether it has control, joint control or significant influence over the fund by reference to IAS 27, IAS 28, IAS 31 and SIC-12. If it does, the contributor shall account for its interest in the fund in accordance with those Standards.

9 If a contributor does not have control, joint control or significant influence over the fund, the contributor shall recognize the right to receive reimbursement from the fund as a reimbursement in accordance with IAS 37. This reimbursement shall be measured at the lower of:

(a) the amount of the decommissioning obligation recognized; and

(b) the contributor's share of the fair value of the net assets of the fund attributable to contributors.

Changes in the carrying value of the right to receive reimbursement other than contributions to and payments from the fund shall be recognized in profit or loss in the period in which these changes occur.

Accounting for obligations to make additional contributions

10 When a contributor has an obligation to make potential additional contributions, for example, in the event of the bankruptcy of another contributor or if the value of the investment assets held by the fund decreases to an extent that they are insufficient to fulfill the fund's reimbursement obligations, this obligation is a contingent liability that is within the scope of IAS 37. The contributor shall recognize a liability only if it is probable that additional contributions will be made.

DISCLOSURE

11 A contributor shall disclose the nature of its interest in a fund and any restrictions on access to the assets in the fund.

12 When a contributor has an obligation to make potential additional contributions that is not recognized as a liability (see paragraph 10), it shall make the disclosures required by paragraph 86 of IAS 37.

13 When a contributor accounts for its interest in the fund in accordance with paragraph 9, it shall make the disclosures required by paragraph IAS 37

IFRIC-7

BACKGROUND

1 This Interpretation provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies* the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period, and the entity therefore restates its financial statements in accordance with IAS 29.

ISSUES

2 The questions addressed in this Interpretation are:

(a) how should the requirement '… stated in terms of the measuring unit current at the balance sheet date' in paragraph 8 of IAS 29 be interpreted when an entity applies the Standard?

(b) how should an entity account for opening deferred tax items in its restated financial statements?

CONSENSUS

3 In the reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, not having been hyperinflationary in the prior period, the entity shall apply the requirements of IAS 29 as if the economy had always been hyperinflationary. Therefore, in relation to non-monetary items measured at historical cost, the entity's opening balance sheet at the beginning of the earliest period presented in the financial statements shall be restated to reflect the effect of inflation from the date the assets were acquired and the liabilities were incurred or assumed until the closing balance sheet date of the reporting period. For non-monetary items carried in the opening balance sheet at amounts current at dates other than those of acquisition or incurrence, that restatement shall reflect instead the effect of inflation from the dates those carrying amounts were determined until the closing balance sheet date of the reporting period.

4 At the closing balance sheet date, deferred tax items are recognised and measured in accordance with IAS 12. However, the deferred tax figures in the opening balance sheet for the reporting period shall be determined as follows:

(a) the entity remeasures the deferred tax items in accordance with IAS 12 after it has restated the nominal carrying amounts of its non-monetary items at the date of the opening balance sheet of the reporting period by applying the measuring unit at that date.

(b) the deferred tax items remeasured in accordance with (a) are restated for the change in the measuring unit from the date of the opening balance sheet of the reporting period to the closing balance sheet date of that period.

The entity applies the approach in (a) and (b) in restating the deferred tax items in the opening balance sheet of any comparative periods presented in the restated financial statements for the reporting period in which the entity applies IAS 29.

5 After an entity has restated its financial statements, all corresponding figures in the financial statements for a subsequent reporting period, including deferred tax items, are restated by applying the change in the measuring unit for that subsequent reporting period only to the restated financial statements for the previous reporting period.

IFRIC-8

BACKGROUND

1 IFRS 2 applies to share-based payment transactions in which the entity receives or acquires goods or services. 'Goods' includes inventories, consumables, property, plant and equipment, intangible assets and other non-financial assets (IFRS 2, paragraph 5). Consequently, except for particular transactions excluded from its scope, IFRS 2 applies to all transactions in which the entity receives non-financial assets or services as consideration for the issue of equity instruments of the entity. IFRS 2 also applies to transactions in which the entity incurs liabilities, in respect of goods or services received, that are based on the price (or value) of the entity's shares or other equity instruments of the entity.

2 In some cases, however, it might be difficult to demonstrate that goods or services have been (or will be) received. For example, an entity may grant shares to a charitable organisation for nil consideration. It is usually not possible to identify the specific goods or services received in return for such a transaction. A similar situation might arise in transactions with other parties.

3 IFRS 2 requires transactions in which share-based payments are made to employees to be measured by reference to the fair value of the share-based payments at grant date (IFRS 2, paragraph 11).* Hence, the entity is not required to measure directly the fair value of the employee services received.

4 For transactions in which share-based payments are made to parties other than employees, IFRS 2 specifies a rebuttable presumption that the fair value of the goods or services received can be estimated reliably. In these situations, IFRS 2 requires the transaction to be measured at the fair value of the goods or services at the date the entity obtains the goods or the counterparty renders service (IFRS 2, paragraph 13). Hence, there is an underlying presumption that the entity is able to identify the goods or services received from parties other than employees. This raises the question of whether the IFRS applies in the absence of identifiable goods or services. That in turn raises a further question: if the entity has made a share-based payment and the identifiable consideration received (if any) appears to be less than the fair value of the share-based payment, does this situation indicate that goods or services have been received, even though they are not specifically identified, and therefore that IFRS 2 applies?

5 It should be noted that the phrase 'the fair value of the share-based payment' refers to the fair value of the particular share-based payment concerned. For example, an entity might be required by government legislation to issue some portion of its shares to nationals of a particular country, which may be transferred only to other nationals of that country. Such a transfer restriction may affect the fair value of the shares concerned, and therefore those shares may have a fair value that is less than the fair value of otherwise identical shares that do not carry such restrictions. In this situation, if the question in paragraph 4 were to arise in the context of the restricted shares, the phrase 'the fair value of the share-based payment' would refer to the fair value of the restricted shares, not the fair value of other, unrestricted shares.

SCOPE

6 IFRS 2 applies to transactions in which an entity or an entity's shareholders have granted equity instruments* or incurred a liability to transfer cash or other assets for amounts that are based on the price (or value) of the entity's shares or other equity instruments of the entity. This Interpretation applies to such transactions when the identifiable consideration received (or to be received) by the entity, including cash and the fair value of identifiable non-cash consideration (if any), appears to be less than the fair value of the equity instruments granted or liability incurred. However, this Interpretation does not apply to transactions excluded from the scope of IFRS 2 in accordance with paragraphs 3–6 of that IFRS.

ISSUE

7 The issue addressed in the Interpretation is whether IFRS 2 applies to transactions in which the entity cannot identify specifically some or all of the goods or services received.

CONSENSUS

8 IFRS 2 applies to particular transactions in which goods or services are received, such as transactions in which an entity receives goods or services as consideration for equity instruments of the entity. This includes transactions in which the entity cannot identify specifically some or all of the goods or services received.

9 In the absence of specifically identifiable goods or services, other circumstances may indicate that goods or services have been (or will be) received, in which case IFRS 2 applies. In particular, if the identifiable consideration received (if any) appears to be less than the fair value of the equity instruments granted or liability incurred, typically this circumstance indicates that other consideration (ie unidentifiable goods or services) has been (or will be) received.

10 The entity shall measure the identifiable goods or services received in accordance with IFRS 2.

11 The entity shall measure the unidentifiable goods or services received (or to be received) as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received).

12 The entity shall measure the unidentifiable goods or services received at the grant date. However, for cash-settled transactions, the liability shall be remeasured at each reporting date until it is settled.

IFRIC-9

BACKGROUND

1 IAS 39 paragraph 10 describes an embedded derivative as 'a component of a hybrid (combined) instrument that also includes a non-derivative host contract— with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.'

2 IAS 39 paragraph 11 requires an embedded derivative to be separated from the host contract and accounted for as a derivative if, and only if:

(a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;

(b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

(c) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss (ie a derivative that is embedded in a financial asset or financial liability at fair value through profit or loss is not separated).

SCOPE

3 Subject to paragraphs 4 and 5 below, this Interpretation applies to all embedded derivatives within the scope of IAS 39.

4 This Interpretation does not address re-measurement issues arising from a reassessment of embedded derivatives.

5 This Interpretation does not address the acquisition of contracts with embedded derivatives in a business combination nor their possible reassessment at the date of acquisition.

ISSUES

6 IAS 39 requires an entity, when it first becomes a party to a contract, to assess whether any embedded derivatives contained in the contract are required to be separated from the host contract and accounted for as derivatives under the Standard. This Interpretation addresses the following issues:

(a) Does IAS 39 require such an assessment to be made only when the entity first becomes a party to the contract, or should the assessment be reconsidered throughout the life of the contract?

(b) Should a first-time adopter make its assessment on the basis of the conditions that existed when the entity first became a party to the contract, or those prevailing when the entity adopts IFRSs for the first time?

CONSENSUS

7 An entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. An entity determines whether a modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract or both have changed and whether the change is significant relative to the previously expected cash flows on the contract.

8 A first-time adopter shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative on the basis of the conditions that existed at the later of the date it first became a party to the contract and the date a reassessment is required by paragraph 7.

IFRIC-10

BACKGROUND

1 An entity is required to assess goodwill for impairment at every reporting date, to assess investments in equity instruments and in financial assets carried at cost for impairment at every balance sheet date and, if required, to recognise an impairment loss at that date in accordance with IAS 36 and IAS 39. However, at a subsequent reporting or balance sheet date, conditions may have so changed that the impairment loss would have been reduced or avoided had the impairment assessment been made only at that date. This Interpretation provides guidance on whether such impairment losses should ever be reversed.

2 The Interpretation addresses the interaction between the requirements of IAS 34 and the recognition of impairment losses on goodwill in IAS 36 and certain financial assets in IAS 39, and the effect of that interaction on subsequent interim and annual financial statements.

ISSUE

3 IAS 34 paragraph 28 requires an entity to apply the same accounting policies in its interim financial statements as are applied in its annual financial statements. It also states that 'the frequency of an entity's reporting (annual, half-yearly, or quarterly) shall not affect the measurement of its annual results. To achieve that objective, measurements for interim reporting purposes shall be made on a year-to-date basis.'

4 IAS 36 paragraph 124 states that 'An impairment loss recognised for goodwill shall not be reversed in a subsequent period.'

5 IAS 39 paragraph 69 states that 'Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale shall not be reversed through profit or loss.'

6 IAS 39 paragraph 66 requires that impairment losses for financial assets carried at cost (such as an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured) should not be reversed.

7 The Interpretation addresses the following issue:

Should an entity reverse impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost if a loss would not have been recognised, or a smaller loss would have been recognised, had an impairment assessment been made only at a subsequent balance sheet date?

CONSENSUS

8 An entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.

9 An entity shall not extend this consensus by analogy to other areas of potential conflict between IAS 34 and other standards.

IFRIC 14

Background

IAS 19 limits the measurement of a defined benefit asset to 'the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan' plus un-recognized gains and losses.

Questions have arisen about when refunds or reductions in future contributions should be regarded as available, particularly when a minimum funding requirement exists.

Further, the limit on the measurement of a defined benefit asset may cause a minimum funding requirement to be onerous. Normally, a requirement to make contributions to a plan would not affect the measurement of the defined benefit asset or liability. This is because the contributions, once paid, will become plan assets and so the additional net liability is nil. However, a minimum funding requirement may give rise to a liability if the required contributions will not be available to the entity once they have been paid.

Scope

This Interpretation applies to all post-employment defined benefits and other long-term employee defined benefits.

For the purpose of this Interpretation, minimum funding requirements are any requirements to fund a post-employment or other long-term defined benefit plan.

Issues

The issues addressed in this Interpretation are:

(a) When refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19.
(b) How a minimum funding requirement might affect the availability of reductions in future contributions.
(c) When a minimum funding requirement might give rise to a liability.

Consensus

Availability of a refund or reduction in future contributions

An entity shall determine the availability of a refund or a reduction in future contributions in accordance with the terms and conditions of the plan and any statutory requirements in the jurisdiction of the plan.

An economic benefit, in the form of a refund or a reduction in future contributions, is available if the entity can realize it at some point during the life of the plan or when the plan liabilities are settled.

The economic benefit available as a refund

The right to a refund

A refund is available to an entity only if the entity has an unconditional right to a refund:

(a) during the life of the plan, without assuming that the plan liabilities must be settled in order to obtain the refund
(b) assuming the gradual settlement of the plan liabilities over time until all members have left the plan; or
(c) assuming the full settlement of the plan liabilities in a single event.

If the entity's right to a refund of a surplus depends on the occurrence or non-occurrence of one or more uncertain future events not wholly within its control, the entity does not have an unconditional right and shall not recognize an asset.

Measurement of the economic benefit

An entity shall measure the economic benefit available as a refund as the amount of the surplus at the end of the reporting period (being the fair value of the plan assets less the present value of the defined benefit obligation) that the entity has a right to receive as a refund, less any associated costs. For instance, if a refund would be subject to a tax other than income tax, an entity shall measure the amount of the refund net of the tax.

The effect of a minimum funding requirement on the economic benefit available as a reduction in future contributions

An entity shall analyse any minimum funding requirement at a given date into contributions that are required to cover: -

(a) any existing shortfall for past service on the minimum funding basis and
(b) future service.

If there is a minimum funding requirement for contributions relating to future service, the economic benefit available as a reduction in future contributions is the sum of:

(a) any amount that reduces future minimum funding requirement contributions for future service because the entity made a prepayment; and
(b) the estimated future service cost in each period in accordance, less the estimated minimum funding requirement contributions that would be required for future service in those periods if there were no prepayment as described in (a).

An entity shall estimate the future minimum funding requirement contributions for future service taking into account the effect of any existing surplus determined using the minimum funding basis but excluding the prepayment described in above paragraph.

If an entity has an obligation under a minimum funding requirement to pay contributions to cover an existing shortfall on the minimum funding basis in respect of services already received, the entity shall determine whether the contributions payable will be available as a refund or reduction in future contributions after they are paid into the plan.

To the extent that the contributions payable will not be available after they are paid into the plan, the entity shall recognize a liability when the obligation arises. The liability shall reduce the defined benefit asset or increase the defined benefit liability so that no gain or loss is expected to result from applying asset ceiling of IAS 19 when the contributions are paid. An entity shall apply paragraph 58A of IAS 19 before determining the liability.

The liability in respect of the minimum funding requirement and any subsequent re-measurement of that liability shall be recognized immediately in accordance with the entity's adopted policy for recognizing the effect of the limit in IAS 19 on the measurement of the defined benefit asset.

In particular:

(a) an entity that recognizes the effect of the limit in profit or loss, shall recognize the adjustment immediately in profit or loss.
(b) an entity that recognizes the effect of the limit in other comprehensive income, shall recognize the adjustment immediately in other comprehensive income.

Effective date

An entity shall apply this Interpretation for annual periods beginning on or after 1 January 2008. Earlier application is permitted.

Q-1

An entity has a funding level on the minimum funding requirement basis of 82 per cent in Plan A. Under the minimum funding requirements, the entity is required to increase the funding level to 95 per cent immediately. As a result, the entity has a statutory obligation at the end of the reporting period to contribute 200 to Plan A, immediately. The plan rules permit a full refund of any surplus to the entity at the end of the life of the plan. Currently the plan has assets of fair value of $ 1,100 and present value of liability at $ 1,000.

Required: - Discuss the application of IFRIC 14

Q-2

An entity has a funding level on the minimum funding requirement basis of 77 per cent in Plan B. Under the minimum funding requirements, the entity is required to increase the funding level to 100 per cent immediately. As a result, the entity has a statutory obligation at the end of the reporting period to pay additional contributions of 300 to Plan B. The plan rules permit a maximum refund of 60 per cent of the IAS 19 surplus to the entity and the entity is not permitted to reduce its contributions below a specified level which happens to equal the IAS 19 service cost. Currently the plan has assets of fair value of $ 1,000 and present value of liability at $ 1,100.

IFRIC 15

IFRIC 15 standardizes accounting practice across jurisdictions for the recognition of revenue by real estate developers for sales of units, such as apartments or houses, 'off plan' – that is, before construction is complete.

Fundamental issue

The fundamental issue is whether the developer is selling a product (goods) – the completed apartment or house – or is selling a service – a construction service as a contractor engaged by the buyer. Revenue from selling products is normally recognized at delivery. Revenue from selling services is normally recognized on a percentage-of-completion basis as construction progresses.

IAS 11 or IAS 18?

IFRIC 15 provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of IAS 11 Construction Contracts or IAS 18 Revenue and, accordingly, when revenue from the construction should be recognized:

- An agreement for the construction of real estate is a construction contract within the scope of IAS 11 only when the buyer is able to specify the major structural elements of the design of the real estate before construction begins and/or specify major structural changes once construction is in progress (whether it exercises that ability or not).
- If the buyer has that ability, IAS 11 applies.
- If the buyer does not have that ability, IAS 18 applies.

If IAS 11 applies, what is the accounting?

If IAS 11 applies, revenue is recognized on a percentage-of-completion basis provided that reliable estimates of construction progress and future costs can be made.

If IAS 18 applies, service or goods?

Even if IAS 18 applies, the agreement may be to provide construction services rather than goods. This would likely be the case, for instance, if the entity is not required to acquire and supply construction materials. If the entity is required to provide services together with construction materials in order to perform its contractual obligation to deliver real estate to the buyer, the agreement is accounted for as the sale of goods under IAS 18.

Impact of IFRIC 15

The main expected change in practice is a shift for some entities from recognizing revenue as construction progresses to recognizing revenue at a single time – at completion upon or after delivery. Agreements that will be affected will be mainly those currently accounted for in accordance with IAS 11 that do not meet the definition of a construction contract as interpreted by the IFRIC and do not transfer to the buyer control and the significant risks and rewards of ownership of the work in progress in its current state as construction progresses.

IFRIC 17 Distributions of Non-cash Assets to Owners applies to the entity making the distribution, not to the recipient. It applies when non-cash assets are distributed to owners or when the owner is given a choice of taking cash in lieu of the non-cash assets.

IFRIC 17

IFRIC 17 clarifies that:

- a dividend payable should be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity
- an entity should measure the dividend payable at the fair value of the net assets to be distributed
- an entity should re-measure the liability at each reporting date and at settlement, with changes recognized directly in equity
- an entity should recognize the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss, and should disclose it separately
- an entity should provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation

IFRIC 17 applies to pro rata distributions of non-cash assets (all owners are treated equally) but does not apply to common control transactions.

IFRIC 18 clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant, and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). In some cases, the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant, and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both).

The basic principle of IFRIC 18 is that when the item of property, plant and equipment transferred from a customer meets the definition of an asset under the IASB Framework from the perspective of the recipient, the recipient must recognize the asset in its financial statements. If the customer continues to control the transferred item, the asset definition would not be met even if ownership of the asset is transferred to the utility or other recipient entity.

The deemed cost of that asset is its fair value on the date of the transfer.

If there are separately identifiable services received by the customer in exchange for the transfer, then the recipient should split the transaction into separate components as required by IAS 18. If there is only one component identified, revenue is recognized when the service is performed (which could, for example, be as soon as access to a utility network is provided). IFRIC 18 provides guidance on how to identify the entity's obligation to provide one or more separately identifiable services in exchange for the transferred asset – and, therefore, how to recognize revenue:

- If the entity has only one service obligation, it would recognize revenue when the service is performed.
- If the entity has more than one separately identifiable service obligation, it should allocate the fair value of the total consideration received to each service and recognize revenue from each service separately in accordance with IAS 18.
- If the entity has an obligation to provide ongoing services, the period over which revenue is recognized is generally determined by the terms of the agreement with the customer. If the agreement does not specify a period, the revenue shall be recognized over a period no longer than the useful life of the transferred asset used to
- provide the ongoing service.

IFRIC 18

IFRIC 18 also provides guidance on how to account for transfers of cash from customers. While IFRIC 18 is particularly relevant for entities in the utility sector, it applies to all entities that prepare IFRS financial statements.

- If a debtor issues equity instruments to a creditor to extinguish all or part of a financial liability, those equity instruments are 'consideration paid' in accordance with IAS 39.41. Accordingly, the debtor should de-recognize the financial liability fully or partly.
- The debtor should measure the equity instruments issued to the creditor at fair value, unless fair value is not reliably determinable, in which case the equity instruments issued are measured at the fair value of the liability extinguished.
- If only part of a liability is extinguished, the debtor must determine whether any part of the consideration paid relates to modification of the terms of the remaining liability. If it does, the debtor must allocate the fair value of the consideration paid between the liability extinguished and the liability retained.
- The debtor recognizes in profit or loss the difference between the carrying amount of the financial liability (or part) extinguished and the measurement of the equity instruments issued.
- When only part of the liability is extinguished, the debtor must determine whether the terms of the remaining debt have been substantially modified (taking into account any portion of the consideration paid that was allocated to the remaining debt). If there has been a substantial modification, the debtor should account for an extinguishment of the old remaining liability and the recognition of a new liability (see IAS 39.40).

IFRIC 19

IFRIC 19 addresses only the accounting by the entity that issues equity instruments in order to settle, in full or in part, a financial liability. It does not address the accounting by the creditor (lender).

The following situations are explicitly excluded from the scope of IFRIC 19:

- the creditor is also a direct or indirect shareholder and is acting in its capacity as direct or indirect shareholder;
- the creditor and the entity are controlled by the same party or parties before and after the transaction, and the substance of the transaction includes an equity distribution from, or contribution to, the entity; or
- extinguishing the financial liability by issuing equity shares is in accordance with the original terms of the financial liability.

IFRIC 19 must be applied in annual periods beginning on or after 1 July 2010. Earlier application is permitted. It must be applied retrospectively from the beginning of the earliest comparative period presented.

- If a debtor issues equity instruments to a creditor to extinguish all or part of a financial liability, those equity instruments are 'consideration paid' in accordance with IAS 39.41. Accordingly, the debtor should de-recognize the financial liability fully or partly.
- The debtor should measure the equity instruments issued to the creditor at fair value, unless fair value is not reliably determinable, in which case the equity instruments issued are measured at the fair value of the liability extinguished.
- If only part of a liability is extinguished, the debtor must determine whether any part of the consideration paid relates to modification of the terms of the remaining liability. If it does, the debtor must allocate the fair value of the consideration paid between the liability extinguished and the liability retained.
- The debtor recognizes in profit or loss the difference between the carrying amount of the financial liability (or part) extinguished and the measurement of the equity instruments issued.
- When only part of the liability is extinguished, the debtor must determine whether the terms of the remaining debt have been substantially modified (taking into account any portion of the consideration paid that was allocated to the remaining debt). If there has been a substantial modification, the debtor should account for an extinguishment of the old remaining liability and the recognition of a new liability (see IAS 39.40).

IFRIC 19 addresses only the accounting by the entity that issues equity instruments in order to settle, in full or in part, a financial liability. It does not address the accounting by the creditor (lender).

The following situations are explicitly excluded from the scope of IFRIC 19:

- the creditor is also a direct or indirect shareholder and is acting in its capacity as direct or indirect shareholder;
- the creditor and the entity are controlled by the same party or parties before and after the transaction, and the substance of the transaction includes an equity distribution from, or contribution to, the entity; or
- extinguishing the financial liability by issuing equity shares is in accordance with the original terms of the financial liability.

IFRIC 19 must be applied in annual periods beginning on or after 1 July 2010. Earlier application is permitted. It must be applied retrospectively from the beginning of the earliest comparative period presented.

IFRIC 20

Background

In surface mining operations, entities may find it necessary to remove mine waste materials ('overburden') to gain access to mineral ore deposits. This waste removal activity is known as 'stripping'. There can be two benefits accruing to the entity from the stripping activity: usable ore that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods.

IFRIC 20 considers when and how to account separately for these two benefits arising from the stripping activity, as well as how to measure these benefits both initially and subsequently.

IFRIC 20 only deals with waste removal costs that are incurred in surface mining activity during the production phase of the mine ('production stripping costs').

Overview of requirements

IFRIC 20 requires:

- The costs of stripping activity to be accounted for in accordance with the principles of IAS 2Inventories to the extent that the benefit from the stripping activity is realised in the form of inventory produced
- The costs of stripping activity which provides a benefit in the form of improved access to ore is recognised as a non-current 'stripping activity asset' where the following criteria are met:
  - it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity
  - the entity can identify the component of the ore body for which access has been improved
  - the costs relating to the stripping activity associated with that component can be measured reliably
- When the costs of the stripping activity asset and the inventory produced are not separately identifiable, production stripping costs are allocated between the inventory produced and the stripping activity asset by using an allocation basis that is based on a relevant production measure
- A stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset and classified as tangible or intangible according to the nature of the existing asset of which it forms part
- A stripping activity asset is initially measured at cost and subsequently carried at cost or its revalued amount less depreciation or amortization and impairment losses
- A stripping activity asset is depreciated or amortized on a systematic basis, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity. The units of production method are used unless another method is more appropriate.

SIC -12

Issue

1 An entity may be created to accomplish a narrow and well-defined objective (eg to effect a lease, research and development activities or a securitization of financial assets). Such a special purpose entity ('SPE') may take the form of a corporation, trust, partnership or unincorporated entity. SPEs often are created with legal arrangements that impose strict and sometimes permanent limits on the decision-making powers of their governing board, trustee or management over the operations of the SPE. Frequently, these provisions specify that the policy guiding the ongoing activities of the SPE cannot be modified, other than perhaps by its creator or sponsor (ie they operate on so-called 'autopilot').

2 The sponsor (or entity on whose behalf the SPE was created) frequently transfers assets to the SPE, obtains the right to use assets held by the SPE or performs services for the SPE, while other parties ('capital providers') may provide the funding to the SPE. An entity that engages in transactions with an SPE (frequently the creator or sponsor) may in substance control the SPE.

3 A beneficial interest in an SPE may, for example, take the form of a debt instrument, an equity instrument, a participation right, a residual interest or a lease. Some beneficial interests may simply provide the holder with a fixed or stated rate of return, while others give the holder rights or access to other future economic benefits of the SPE's activities. In most cases, the creator or sponsor (or the entity on whose behalf the SPE was created) retains a significant beneficial interest in the SPE's activities, even though even though it may own little or none of the SPE's equity.

4 IAS 27 requires the consolidation of entities that are controlled by the reporting entity. However, the Standard does not provide explicit guidance on the consolidation of SPEs. 5 The issue is under what circumstances an entity should consolidate an SPE.

6 This Interpretation does not apply to post-employment benefit plans or equity compensation plans other long-term employee benefit plans to which IAS 19 applies. A transfer of assets from an entity to an SPE may qualify as a sale by that entity. Even if the transfer does qualify as a sale, the provisions of IAS 27 and this Interpretation may mean that the entity should consolidate the SPE. This Interpretation does not address the circumstances in which sale treatment should apply for the entity or the elimination of the consequences of such a sale upon consolidation.

Consensus

8 An SPE shall be consolidated when the substance of the relationship between an entity and the SPE indicates that the SPE is controlled by that entity.

9 In the context of an SPE, control may arise through the predetermination of the activities of the SPE (operating on 'autopilot') or otherwise. IAS 27.13 indicates several circumstances which result in control even in cases where an entity owns one half or less of the voting power of another entity. Similarly, control may exist even in cases where an entity owns little or none of the SPE's equity.

The application of the control concept requires, in each case, judgment in the context of all relevant factors.

10 In addition to the situations described in IAS 27.13, the following circumstances, for example, may indicate a relationship in which an entity controls an SPE and consequently should consolidate the SPE (additional guidance is provided in the Appendix to this Interpretation):

(a) in substance, the activities of the SPE are being conducted on behalf of the entity according to its specific business needs so that the entity obtains benefits from the SPE's operation;

(b) in substance, the entity has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an 'autopilot' mechanism, the entity has delegated these decision-making powers;

(c) in substance, the entity has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE; or

(d) in substance, the entity retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

SIC-13
ISSUE

1 IAS 31refers to both contributions and sales between a venturer and a joint venture as follows: 'When a venturer contributes or sells assets to a joint venture, recognition of any portion of a gain or loss from the transaction shall reflect the substance of the transaction'. In addition, IAS 31.24 says that 'a jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest'. There is no explicit guidance on the recognition of gains and losses resulting from contributions of non-monetary assets to jointly controlled entities ('JCEs').

2 Contributions to a JCE are transfers of assets by venturers in exchange for an equity interest in the JCE. Such contributions may take various forms. Contributions may be made simultaneously by the venturers either upon establishing the JCE or subsequently. The consideration received by the venturer(s) in exchange for assets contributed to the JCE may also include cash or other consideration that does not depend on future cash flows of the JCE ('additional consideration').

3 The issues are:

(a) when the appropriate portion of gains or losses resulting from a contribution of a non-monetary asset to a JCE in exchange for an equity interest in the JCE should be recognised by the venturer in the income statement;

(b) how additional consideration should be accounted for by the venturer; and

(c) how any unrealised gain or loss should be presented in the consolidated financial statements of the venturer.

4 This Interpretation deals with the venturer's accounting for non-monetary contributions to a JCE in exchange for an equity interest in the JCE that is accounted for using either the equity method or proportionate consolidation.

CONSENSUS

5 In applying IAS 31.48 to non-monetary contributions to a JCE in exchange for an equity interest in the JCE, a venturer shall recognise in profit or loss for the period the portion of a gain or loss attributable to the equity interests of the other venturers except when:

(a) the significant risks and rewards of ownership of the contributed non-monetary asset(s) have not been transferred to the JCE; or

(b) the gain or loss on the non-monetary contribution cannot be measured reliably; or

(c) the contribution transaction lacks commercial substance, as that term is described in IAS 16 Property, Plant and Equipment. If exception (a), (b) or (c) applies, the gain or loss is regarded as unrealised and therefore is not recognised in profit or loss unless paragraph 6 also applies.

6 If, in addition to receiving an equity interest in the JCE, a venturer receives monetary or non-monetary assets, an appropriate portion of gain or loss on the transaction shall be recognised by the venturer in profit or loss.

7 Unrealised gains or losses on non-monetary assets contributed to JCEs shall be eliminated against the underlying assets under the proportionate consolidation method or against the investment under the equity method. Such unrealized gains or losses shall not be presented as deferred gains or losses in the venturer's consolidated balance sheet.

SIC -15 OPERATING LEASE INCENTIVES

ISSUE

1 In negotiating a new or renewed operating lease, the lessor may provide incentives for the lessee to enter into the agreement. Examples of such incentives are an up-front cash payment to the lessee or the reimbursement or assumption by the lessor of costs of the lessee (such as relocation costs, leasehold improvements and costs associated with a pre-existing lease commitment of the lessee). Alternatively, initial periods of the lease term may be agreed to be rent-free or at a reduced rent.

2 The issue is how incentives in an operating lease should be recognized in the financial statements of both the lessee and the lessor.

CONSENSUS

3 All incentives for the agreement of a new or renewed operating lease shall be recognized as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the incentive's nature or form or the timing of payments.

4 The lessor shall recognize the aggregate cost of incentives as a reduction of rental income over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern over which the benefit of the leased asset is diminished.

5 The lessee shall recognize the aggregate benefit of incentives as a reduction of rental expense over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

6 Costs incurred by the lessee, including costs in connection with a pre-existing lease (for example costs for termination, relocation or leasehold improvements), shall be accounted for by the lessee in accordance with the Standards applicable to those costs, including costs which are effectively reimbursed through an incentive arrangement.

Example application of SIC-15

Example 1

An entity agrees to enter into a new lease arrangement with a new lessor. The lessor agrees to pay the lessee's relocation costs as an incentive to the lessee for entering into the new lease. The lessee's moving costs are 1,000. The new lease has a term of 10 years, at a fixed rate of 2,000 per year.

The accounting is:

The lessee recognizes relocation costs of 1,000 as an expense in Year 1. Net consideration of 19,000 consists of 2,000 for each of the 10 years in the lease term, less a 1,000 incentive for relocation costs. Both the lessor and lessee would recognize the net rental consideration of 19,000 over the 10 year lease term using a single amortization method in accordance with paragraphs 4 and 5 of this Interpretation.

Example 2

An entity agrees to enter into a new lease arrangement with a new lessor. The lessor agrees to a rent-free period for the first three years as incentive to the lessee for entering into the new lease. The new lease has a term of 20 years, at a fixed rate of 5,000 per annum for years 4 through 20.

The accounting is:
Net consideration of 85,000 consists of 5,000 for each of 17 years in the lease term. Both the lessor and lessee would recognize the net consideration of 85,000 over the 20 year lease term using a single amortization method in accordance with paragraphs 4 and 5 of this Interpretation.

SIC-21

ISSUE

1 Under IAS 12.51, the measurement of deferred tax liabilities and assets should reflect the tax consequences that would follow from the manner in which the entity expects, at the balance sheet date, to recover or settle the carrying amount of those assets and liabilities that give rise to temporary differences.

2 IAS 12.20 notes that the revaluation of an asset does not always affect taxable profit (tax loss) in the period of the revaluation and that the tax base of the asset may not be adjusted as a result of the revaluation. If the future recovery of the carrying amount will be taxable, any difference between the carrying amount of the revalued asset and its tax base is a temporary difference and gives rise to a deferred tax liability or asset.

3 The issue is how to interpret the term 'recovery' in relation to an asset that is not depreciated (non-depreciable asset) and is revalued in accordance with paragraph 31 of IAS 16.

4 This Interpretation also applies to investment properties that are carried at revalued amounts under IAS 40.33 but would be considered non-depreciable if IAS 16 were to be applied.

CONSENSUS

5 The deferred tax liability or asset that arises from the revaluation of a non-depreciable asset in accordance with IAS 16.31 shall be measured on the basis of the tax consequences that would follow from recovery of the carrying amount of that asset through sale, regardless of the basis of measuring the carrying amount of that asset. Accordingly, if the tax law specifies a tax rate applicable to the taxable amount derived from the sale of an asset that differs from the tax rate applicable to the taxable amount derived from using an asset, the former rate is applied in measuring the deferred tax liability or asset related to a non-depreciable asset.

EVALUATING THE SUBSTANCE OF TRANSACTION INVOLVING THE LEGAL FORM OF A LEASE (SIC-27)

ISSUE

1 An Entity may enter into a transaction or a series of structured transactions (an arrangement) with an unrelated party or parties (an Investor) that involves the legal form of a lease. For example, an Entity may lease assets to an Investor and lease the same assets back, or alternatively, legally sell assets and lease the same assets back. The form of each arrangement and its terms and conditions can vary significantly. In the lease and leaseback example, it may be that the arrangement is designed to achieve a tax advantage for the Investor that is shared with the Entity in the form of a fee, and not to convey the right to use an asset.

2 When an arrangement with an Investor involves the legal form of a lease, the issues are:

(a) how to determine whether a series of transactions is linked and should be accounted for as one transaction;

(b) whether the arrangement meets the definition of a lease under IAS 17; and, if not,

(i) whether a separate investment account and lease payment obligations that might exist represent assets and liabilities of the Entity (eg consider the example described in paragraph A2(a) of Appendix A);

(ii) how the Entity should account for other obligations resulting from the arrangement; and

(iii) how the Entity should account for a fee it might receive from an Investor.

CONSENSUS

3 A series of transactions that involve the legal form of a lease is linked and shall be accounted for as one transaction when the overall economic effect cannot be understood without reference to the series of transactions as a whole. This is the case, for example, when the series of transactions are closely interrelated, negotiated as a single transaction, and takes place concurrently or in a continuous sequence.

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

5 IAS 17 applies when the substance of an arrangement includes the conveyance of the right to use an asset for an agreed period of time. Indicators that individually demonstrate that an arrangement may not, in substance, involve a lease under IAS 17 include:

(a) an Entity retains all the risks and rewards incident to ownership of an underlying asset and enjoys substantially the same rights to its use as before the arrangement;

(b) the primary reason for the arrangement is to achieve a particular tax result, and not to convey the right to use an asset; and

(c) an option is included on terms that make its exercise almost certain (e.g. a put option that is exercisable at a price sufficiently higher than the expected fair value when it becomes exercisable).

6 The definitions and guidance in Framework shall be applied in determining whether, in substance, a separate investment account and lease payment obligations represent assets and liabilities of the Entity. Indicators that collectively demonstrate that, in substance, a separate investment account and lease payment obligations do not meet the definitions of an asset and a liability and shall not be recognized by the Entity include:

(a) the Entity is not able to control the investment account in pursuit of its own objectives and is not obligated to pay the lease payments. This occurs when, for example, a prepaid amount is placed in a separate investment account to protect the Investor and may only be used to pay the Investor, the Investor agrees that the lease payment obligations are to be paid from funds in the investment account, and the Entity has no ability to withhold payments to the Investor from the investment account;

(b) the Entity has only a remote risk of reimbursing the entire amount of any fee received from an Investor and possibly paying some additional amount, or, when a fee has not been received, only a remote risk of paying an amount under other obligations (e.g. a guarantee). Only a remote risk of payment exists when, for example, the terms of the arrangement require that a prepaid amount is invested in risk-free assets that are expected to generate sufficient cash flows to satisfy the lease payment obligations; and

(c) other than the initial cash flows at inception of the arrangement, the only cash flows expected under the arrangement are the lease payments that are satisfied solely from funds withdrawn from the separate investment account established with the initial cash flows.

7 Other obligations of an arrangement, including any guarantees provided and obligations incurred upon early termination, shall be accounted for under IAS 37, IAS 39 or IFRS 4, depending on the terms.

8 The IAS 18 shall be applied to the facts and circumstances of each arrangement in determining when to recognize a fee as income that an Entity might receive. Factors such as whether there is continuing involvement in the form of significant future performance obligations necessary to earn the fee, whether there are retained risks, the terms of any guarantee arrangements, and the risk of repayment of the fee, shall be considered. Indicators that individually demonstrate that recognition of the entire fee as income when received, if received at the beginning of the arrangement, is inappropriate include:

(a) obligations either to perform or to refrain from certain significant activities are conditions of earning the fee received, and therefore execution of a legally binding arrangement is not the most significant act required by the arrangement;

(b) limitations are put on the use of the underlying asset that have the practical effect of restricting and significantly changing the Entity's ability to use (eg deplete, sell or pledge as collateral) the asset;

(c) the possibility of reimbursing any amount of the fee and possibly paying some additional amount is not remote. This occurs when, for example,

(i) the underlying asset is not a specialized asset that is required by the Entity to conduct its business, and therefore there is a possibility that the Entity may pay an amount to terminate the arrangement early; or

(ii) the Entity is required by the terms of the arrangement, or has some or total discretion, to invest a prepaid amount in assets carrying more than an insignificant amount of risk (eg currency, interest rate or credit risk). In this circumstance, the risk of the investment's value being insufficient to satisfy the lease payment obligations is not remote, and therefore there is a possibility that the Entity may be required to pay some amount.

9 The fee shall be presented in the income statement based on its economic substance and nature.

Example

An entity leases an asset to another entity for its entire economic life and leases the same asset back under the same terms and conditions as the original lease. The two entities have a legally enforceable right to set off the amounts owing to one another, and an intention to settle these amounts on a net basis.

In this example described, the terms and conditions and period of each of the leases are the same. Therefore, the risks and rewards incident to ownership of the underlying asset are the same as before the arrangement. Further, the amounts owing are offset against one another, and so there is no retained credit risk. The substance of the arrangement is that no transaction has occurred.

Example

An entity (Entity A) legally sells an asset to another entity (Entity B) and leases the same asset back. Entity B is obligated to put the asset back to Entity A at the end of the lease period at an amount that has the overall practical effect, when also considering the lease payments to be received, of providing Entity B with a yield of LIBOR plus 2 per cent per year on the purchase price.

In the example, Entity A's risks and rewards incident to owning the underlying asset do not substantively change. The substance of the arrangement is that Entity A borrows cash, secured by the underlying asset and repayable in installments over the lease period and in a final lump sum at the end of the lease period. The terms of the option preclude recognition of a sale. Normally, in a sale and leaseback transaction, the risks and rewards incident to owning the underlying asset sold are retained by the seller only during the period of the lease.

SIC-32

ISSUE

1 An entity may incur internal expenditure on the development and operation of its own web site for internal or external access. A web site designed for external access may be used for various purposes such as to promote and advertise an entity's own products and services, provide electronic services, and sell products and services. A web site designed for internal access may be used to store company policies and customer details, and search relevant information.

2 The stages of a web site's development can be described as follows:

(a) Planning – includes undertaking feasibility studies, defining objectives and specifications, evaluating alternatives and selecting preferences.

(b) Application and Infrastructure Development – includes obtaining a domain name, purchasing and developing hardware and operating software, installing developed applications and stress testing.

(c) Graphical Design Development – includes designing the appearance of web pages.

(d) Content Development – includes creating, purchasing, preparing and uploading information, either textual or graphical in nature, on the web site before the completion of the web site's development. This information may either be stored in separate databases that are integrated into (or accessed from) the web site or coded directly into the web pages.

3 Once development of a web site has been completed, the Operating stage begins. During this stage, an entity maintains and enhances the applications, infrastructure, graphical design and content of the web site.

4 When accounting for internal expenditure on the development and operation of an entity's own web site for internal or external access, the issues are:

(a) whether the web site is an internally generated intangible asset that is subject to the requirements of IAS 38; and

(b) the appropriate accounting treatment of such expenditure.

5 This Interpretation does not apply to expenditure on purchasing, developing, and operating hardware (eg web servers, staging servers, production servers and Internet connections) of a web site. Such expenditure is accounted for under IAS 16. Additionally, when an entity incurs expenditure on an Internet service provider hosting the entity's web site, the expenditure is recognised as an expense under IAS 1.78 and the Framework when the services are received.

6 IAS 38 does not apply to intangible assets held by an entity for sale in the ordinary course of business (see IAS 2 and IAS 11) or leases that fall within the scope of IAS 17. Accordingly, this Interpretation does not apply to expenditure on the development or operation of a web site (or web site software) for sale to another entity. When a web site is leased under an operating lease, the lessor applies this Interpretation. When a web site is leased under a finance lease, the lessee applies this Interpretation after initial recognition of the leased asset.

CONSENSUS

7 An entity's own web site that arises from development and is for internal or external access is an internally generated intangible asset that is subject to the requirements of IAS 38.

8 A web site arising from development shall be recognised as an intangible asset if, and only if, in addition to complying with the general requirements described in IAS 38.21 for recognition and initial measurement, an entity can satisfy the requirements in IAS 38.57. In particular, an entity may be able to satisfy the requirement to demonstrate how its web site will generate probable future economic benefits in accordance with IAS 38.57(d) when, for example, the web site is capable of generating revenues, including direct revenues from enabling orders to be placed. An entity is not able to demonstrate how a web site developed solely or primarily for promoting and advertising its own products and services will generate probable future economic benefits, and consequently all expenditure on developing such a web site shall be recognised as an expense when incurred.

9 Any internal expenditure on the development and operation of an entity's own web site shall be accounted for in accordance with IAS 38. The nature of each activity for which expenditure is incurred (eg training employees and maintaining the web site) and the web site's stage of development or post-development shall be evaluated to determine the appropriate accounting treatment (additional guidance is provided in the Appendix to this Interpretation). For example:

(a) the Planning stage is similar in nature to the research phase in IAS 38.54-.56. Expenditure incurred in this stage shall be recognised as an expense when it is incurred.

(b) the Application and Infrastructure Development stage, the Graphical Design stage and the Content Development stage, to the extent that content is developed for purposes other than to advertise and promote an entity's own products and services, are similar in nature to the development phase in IAS 38.57–.64. Expenditure incurred in these stages shall be included in the cost of a web site recognised as an intangible asset in accordance with paragraph 8 of this Interpretation when the expenditure can be directly attributed and is necessary to creating, producing or preparing the web site for it to be capable of operating in the manner intended by management. For example, expenditure on purchasing or creating content (other than content that advertises and promotes an entity's own products and services) specifically for a web site, or expenditure to enable use of the content (eg a fee for acquiring a licence to reproduce) on the web site, shall be included in the cost of development when this condition is met. However, in accordance with IAS 38.71, expenditure on an intangible item that was initially recognised as an expense in previous financial statements shall not be recognised as part of the cost of an intangible asset at a later date (eg if the costs of a copyright have been fully amortised, and the content is subsequently provided on a web site).

(c) expenditure incurred in the Content Development stage, to the extent that content is developed to advertise and promote an entity's own products and services (eg digital photographs of products), shall be recognised as an expense when incurred in accordance with IAS 38.69(c). For example, when accounting for expenditure on professional services for taking digital photographs of an entity's own products and for enhancing their display, expenditure shall be recognised as an expense as the professional services are received during the process, not when the digital photographs are displayed on the web site.

(d) the Operating stage begins once development of a web site is complete. Expenditure incurred in this stage shall be recognised as an expense when it is incurred unless it meets the recognition criteria in IAS 38.18.

10 A web site that is recognised as an intangible asset under paragraph 8 of this Interpretation shall be measured after initial recognition by applying the requirements of IAS 38.72–.87. The best estimate of a web site's useful life should be short.