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COMPANIES ACT
(CHAPTER 50)

COMPANIES (ACCOUNTING STANDARDS) REGULATIONS 2002

ARRANGEMENT OF REGULATIONS

Regulation
1. Citation and commencement
2. Accounting Standards applicable to companies

The Schedules

In exercise of the powers conferred by section 200A (1) of the Companies Act, the Accounting Standards Committee (known as the Council on Corporate Disclosure and Governance), with the approval of the Minister for Finance, hereby makes the following Regulations:

Citation and commencement

1. These Regulations may be cited as the Companies (Accounting Standards) Regulations 2002 and shall come into operation on 1st January 2003.

Accounting Standards applicable to companies

2. The Accounting Standards applicable to companies shall be known as the Financial Reporting Standards and shall comprise —

(*a*) the matters set out in the First, Fourth and Fifth Schedules; and

(*b*) the International Accounting Standards or International Financial Reporting Standards set out in the second column of the Third Schedule, as modified by the Second Schedule and the third column of the Third Schedule.

FIRST SCHEDULE

Regulation 2 (*a*)

PREFACE TO THE FINANCIAL REPORTING STANDARDS

1. The Council on Corporate Disclosure and Governance (hereafter referred to as "CCDG") was established on 16th August 2002 to prescribe accounting standards for Singapore-incorporated companies, and to review and recommend corporate governance and disclosure practices on a continuing basis. The accounting standards prescribed by the CCDG are known as Financial Reporting Standards (hereafter referred to as "FRSs"), which are closely modelled after the International Accounting Standards and International Financial Reporting Standards issued by the International Accounting Standards Board. The CCDG could also issue guidelines on accounting, disclosure and corporate governance matters.

2. FRSs set out recognition, measurement, presentation and disclosure requirements dealing with transactions and events that are important in general purpose financial statements. They also set out such requirements for transactions and events that arise mainly in specific industries. FRSs are based on the FRS Framework, which addresses the concepts underlying the information presented in general purpose financial statements. The objective of the FRS Framework is to facilitate the consistent and logical formulation of FRSs. The FRS Framework also provides a basis for the use of judgement in resolving accounting issues.

3. FRSs apply to all general purpose financial statements. Such financial statements are directed towards the common information needs of a wide range of users, for example, shareholders, creditors, employees and the public at large. The objective of financial statements is to provide information about the financial position, performance and cash flows of an entity that is useful to those users in making economic decisions.

4. A complete set of financial statements includes a balance sheet, an income statement, a statement showing either all changes in equity or changes in equity other than those arising from capital transactions with owners and distributions to owners, a cash flow statement, and accounting policies and explanatory notes. In the interest of timeliness and cost considerations and to avoid repeating information previously reported, a company may provide less information in its interim financial statements than in its annual financial statements. FRS 34, Interim Financial Reporting, prescribes the minimum content of complete or condensed financial statements for an interim period. The term "financial statements" includes a complete set of financial statements prepared for an interim or annual period, and condensed financial statements for an interim period.

5. In some cases, the CCDG permitted different treatments for given transactions and events. Usually, one treatment is identified as the 'benchmark treatment' and the other as the 'allowed alternative treatment'. The financial

statements of an entity may appropriately be described as being prepared in accordance with FRSs whether they use the benchmark treatment or the allowed alternative treatment.

6. The CCDG's objective is to require like transactions and events to be accounted for and reported in a like way and different transactions and events to be accounted for and reported differently, both within an entity over time and among entities.

7. Standards approved by the CCDG include paragraphs in bold type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles. An individual standard should be read in the context of the objective stated in that standard and this Preface.

8. Interpretations of FRSs (hereafter referred to as "INT FRSs") are prepared by the CCDG to give authoritative guidance on issues that are likely to receive divergent or unacceptable treatment, in the absence of such guidance.

9. Any limitation of the scope of an FRS is made clear in the standard.

10. If there are references made to FRSs and INT FRSs that have not been prescribed by the CCDG, these references will not take effect. However, the preparer of financial statements should take into consideration the applicability of the FRS Framework, all existing FRSs and all existing INT FRSs when preparing a financial statement.

Timing of application of Financial Reporting Standards

11. Companies are required to comply with the provisions of the Companies (Accounting Standards) Regulations 2002 in preparing their financial statements covering periods beginning on or after 1st January 2003.

12. Where the operative date of an FRS is before 1st January 2003, the FRS and any relevant transitional provision contained therein shall apply in relation to periods before 1st January 2003 only to determine the carried forward balances of financial statements covering periods beginning on or after 1st January 2003.

13. In respect of an FRS which becomes operative for financial statements covering periods beginning on or after 1st January 2003, it shall apply from the operative date as specified in the FRS.

14. Exposure drafts of new FRSs may be issued for comment and proposals contained therein may be subject to revision. Until the effective date of a new FRS, the requirements of any existing FRS that would be affected by proposals in an exposure draft will remain in force.

SECOND SCHEDULE

Regulation 2 (*b*)

MODIFICATION OF CERTAIN TERMS USED IN THE INTERNATIONAL ACCOUNTING STANDARDS OR INTERNATIONAL FINANCIAL REPORTING STANDARDS

Any reference in an International Accounting Standard or International Financial Reporting Standard to —

(*a*) ''International Accounting Standard'' or ''International Financial Reporting Standard'' shall be read as ''Financial Reporting Standard'';

(*b*) ''IAS'' or ''IFRS'' shall be read as ''FRS'';

(*c*) ''Interpretation of the Standing Interpretations Committee'' or ''Interpretation of the International Financial Reporting Interpretations Committee'' shall be read as ''Interpretation of the Financial Reporting Standard'';

(*d*) ''SIC'', ''SIC Interpretation'' or ''IFRIC Interpretation'' shall be read as ''INT FRS'';

(*e*) ''International Accounting Standards Committee Framework'' or ''International Accounting Standards Board Framework'' shall be read as ''Financial Reporting Standards Framework''; and

(*f*) ''IASC Framework'' or ''IASB Framework'' shall be read as ''FRS Framework''.

THIRD SCHEDULE

Regulation 2 (*b*)

ADOPTION AND MODIFICATION OF INTERNATIONAL ACCOUNTING STANDARDS OR INTERNATIONAL FINANCIAL REPORTING STANDARDS

First column *Financial Reporting Standard (“FRS”)*	*Second column* *International Accounting Standard/ International Financial Reporting Standard*	*Third column* *Modification of International Accounting Standard/ International Financial Reporting Standard for the purposes of FRS*
FRS 1 Presentation of Financial Statements	IAS 1 (revised 1997) Presentation of Financial Statements	Delete paragraphs 103 and 104 of IAS 1 and substitute the following paragraph: “103. FRS 1, Presentation of Financial Statements, is operative for financial statements covering periods beginning on or after ***1st January 2000***.”.
FRS 2 Inventories	IAS 2 (revised 1993) Inventories	(i) Delete paragraphs 2, 23, 24 and 36 of IAS 2. (ii) Delete paragraph 41 of IAS 2 and substitute the following paragraph: “41. FRS 2, Inventories, is operative for financial statements covering periods beginning on or after ***1st July 1997***.”.
FRS 7 Cash Flow Statements	IAS 7 (revised 1992) Cash Flow Statements	(i) Delete paragraph 2 of IAS 7. (ii) Delete paragraph 53 of IAS 7 and substitute the following paragraph: “53. FRS 7, Cash Flow Statements, is operative for financial statements covering periods beginning on or after ***1st January 1995***.”.

THIRD SCHEDULE — *continued*

First column *Financial Reporting Standard ("FRS")*	*Second column* *International Accounting Standard/ International Financial Reporting Standard*	*Third column* *Modification of International Accounting Standard/ International Financial Reporting Standard for the purposes of FRS*
FRS 8 Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies	IAS 8 (revised 1993) Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies	(i) Delete paragraph 2 of IAS 8. (ii) Delete paragraph 58 of IAS 8 and substitute the following paragraph: "58. FRS 8, Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies, is operative for financial statements covering periods beginning on or after ***1st July 2000***.".
FRS 10 Events after the Balance Sheet Date	IAS 10 (revised 1999) Events after the Balance Sheet Date	Delete paragraphs 22 and 23 of IAS 10 and substitute the following paragraph: "22. FRS 10, Events after the Balance Sheet Date, is operative for financial statements covering periods beginning on or after ***1st October 2000***.".
FRS 11 Construction Contracts	IAS 11 (revised 1993) Construction Contracts	(i) Delete paragraph 2 of IAS 11. (ii) Delete paragraph 46 of IAS 11 and substitute the following paragraph: "46. FRS 11, Construction Contracts, is operative for financial statements covering periods beginning on or after ***1st January 1997***.".

THIRD SCHEDULE — *continued*

First column *Financial Reporting Standard (“FRS”)*	*Second column* *International Accounting Standard/ International Financial Reporting Standard*	*Third column* *Modification of International Accounting Standard/ International Financial Reporting Standard for the purposes of FRS*
FRS 12 Income Taxes	IAS 12 (revised 2000) Income Taxes	Delete paragraphs 89, 90 and 91 of IAS 12 and substitute the following paragraph: “89. FRS 12, Income Taxes, is operative for financial statements covering periods beginning on or after ***1st April 2001***.”.
FRS 14 Segment Reporting	IAS 14 (revised 1997) Segment Reporting	Delete paragraph 84 of IAS 14 and substitute the following paragraph: “84. FRS 14, Segment Reporting, is operative for financial statements covering periods beginning on or after ***1st January 2000***.”.
FRS 15 Information Reflecting the Effects of Changing Prices	IAS 15 (1981) (reformatted 1994) Information Reflecting the Effects of Changing Prices	(i) Insert, immediately before paragraph 1 under “*Scope*” of FRS 15, the following paragraph: “**Foreword** Enterprises need not disclose the information required by this Standard in order that their financial statements conform with the FRS. Enterprises are encouraged to present such information and to disclose the items required by this Standard.”. (ii) Delete paragraph 2 of IAS 15.

THIRD SCHEDULE — *continued*

First column *Financial Reporting Standard ("FRS")*	*Second column* *International Accounting Standard/ International Financial Reporting Standard*	*Third column* *Modification of International Accounting Standard/ International Financial Reporting Standard for the purposes of FRS*
		(iii) Delete paragraph 27 of IAS 15 and substitute the following paragraph: "27. FRS 15, Information Reflecting the Effects of Changing Prices, is operative for financial statements covering periods beginning on or after ***1st April 2001***.".
FRS 16 Property, Plant and Equipment	IAS 16 (revised 1998) Property, Plant and Equipment	Delete paragraphs 67 and 68 of IAS 16 and substitute the following paragraphs: "67. FRS 16, Property, Plant and Equipment, is operative for financial statements covering periods beginning on or after ***1st January 1997***. For an enterprise which had revalued its property, plant and equipment before 1983 (in accordance with the prevailing accounting standard at that time), there will be no need for the enterprise to revalue its assets in accordance with paragraph 29 of this Standard.".
FRS 17 Leases	IAS 17 (revised 1997) Leases	Delete paragraphs 59 and 60 of IAS 17 and substitute the following paragraph: "59. FRS 17, Leases, is operative for financial statements covering periods beginning on or after ***1st January 2000***.".

THIRD SCHEDULE — *continued*

First column *Financial Reporting Standard ("FRS")*	*Second column* *International Accounting Standard/ International Financial Reporting Standard*	*Third column* *Modification of International Accounting Standard/ International Financial Reporting Standard for the purposes of FRS*
FRS 18 Revenue	IAS 18 (revised 1993) Revenue	(i) Delete paragraph 2 of IAS 18. (ii) Delete paragraph 37 of IAS 18 and substitute the following paragraph: "37. FRS 18, Revenue, is operative for financial statements covering periods beginning on or after ***1st January 1997***.".
FRS 19 Employee Benefits	IAS 19 (revised 2002) Employee Benefits	(i) Delete paragraphs 157 and 158 of IAS 19 and substitute the following paragraph: "157. FRS 19, Employee Benefits, is operative for financial statements covering periods beginning on or after ***1st October 2000***, except as specified in paragraph 159 of this Standard.".

THIRD SCHEDULE — *continued*

First column *Financial Reporting Standard (“FRS”)*	*Second column* *International Accounting Standard/ International Financial Reporting Standard*	*Third column* *Modification of International Accounting Standard/ International Financial Reporting Standard for the purposes of FRS*
		(ii) Delete paragraphs 159 and 159A of IAS 19 and substitute the following paragraphs: “159. The following become operative for annual financial statements* covering periods beginning on or after ***1st April 2001***: (*a*) the revised definition of plan assets in paragraph 7 of this Standard and the related definitions of assets held by a long-term employee benefit fund and qualifying insurance policy; and (*b*) the recognition and measurement requirements for reimbursements in paragraphs 104A, 128 and 129 of this Standard and related disclosures in paragraph 120 (*c*) (vii), (*f*) (iv), (*g*) and (*h*) (iii) of this Standard.

THIRD SCHEDULE — *continued*

First column *Financial Reporting Standard (“FRS”)*	*Second column* *International Accounting Standard/ International Financial Reporting Standard*	*Third column* *Modification of International Accounting Standard/ International Financial Reporting Standard for the purposes of FRS*
		159A. The amendment in paragraph 58A of this Standard becomes operative for annual financial statements* covering periods ending on or after ***1st October 2002***. Earlier adoption is encouraged. If earlier adoption affects the financial statements, an enterprise should disclose that fact. *Paragraphs 159 and 159A of this Standard refer to “annual financial statements” in line with the more explicit language for writing effective dates adopted in 1998. Paragraph 157 of this Standard refers to “financial statements”.”.
FRS 20 Accounting for Government Grants and Disclosure of Government Assistance	IAS 20 (1983) (reformatted 1994) Accounting for Government Grants and Disclosure of Government Assistance	Delete paragraph 41 of IAS 20 and substitute the following paragraph: “41. FRS 20, Accounting for Government Grants and Disclosure of Government Assistance, is operative for financial statements covering periods beginning on or after ***1st January 1985***.”.

THIRD SCHEDULE — *continued*

First column *Financial Reporting Standard (“FRS”)*	*Second column* *International Accounting Standard/ International Financial Reporting Standard*	*Third column* *Modification of International Accounting Standard/ International Financial Reporting Standard for the purposes of FRS*
FRS 21 The Effects of Changes in Foreign Exchange Rates	IAS 21 (revised 1993) The Effects of Changes in Foreign Exchange Rates	(i) Delete paragraph 3 of IAS 21. (ii) Delete paragraph 49 of IAS 21 and substitute the following paragraph: “49. FRS 21, The Effects of Changes in Foreign Exchange Rates, is operative for financial statements covering periods beginning on or after ***1st January 1997***.”.
FRS 22 Business Combinations	IAS 22 (revised 1998) Business Combinations	(i) Delete paragraphs 99 to 103 of IAS 22 and substitute the following paragraphs: “99. Except as provided for in paragraph 100 of this Standard, retrospective application of this Standard is encouraged but not required. If this Standard is applied retrospectively — (*a*) where goodwill (negative goodwill) was immediately adjusted against shareholders’ interests — (i) restate goodwill and negative goodwill for all acquisitions before this Standard becomes effective;

THIRD SCHEDULE — *continued*

First column *Financial Reporting Standard (“FRS”)*	*Second column* *International Accounting Standard/ International Financial Reporting Standard*	*Third column* *Modification of International Accounting Standard/ International Financial Reporting Standard for the purposes of FRS*
		(ii) determine the amount assigned to the goodwill (negative goodwill) at the date of acquisition under paragraph 41 (59) of this Standard and recognise the goodwill (negative goodwill) accordingly; and (iii) determine the accumulated amortisation of the goodwill (the accumulated amount of negative goodwill recognised as income) since the date of acquisition under paragraphs 44-54 (61-63) of this Standard and recognise it accordingly;

THIRD SCHEDULE — *continued*

First column *Financial Reporting Standard (“FRS”)*	*Second column* *International Accounting Standard/ International Financial Reporting Standard*	*Third column* *Modification of International Accounting Standard/ International Financial Reporting Standard for the purposes of FRS*
		(*b*) where goodwill (negative goodwill) was recognised initially as an asset (deferred income) but not at the amount that would have been assigned under paragraph 41 (59) of this Standard, apply the requirements under sub-paragraph (*a*). If the goodwill (negative goodwill) is not restated, the amount assigned to the goodwill (negative goodwill) at the date of acquisition is deemed to have been properly determined. For the amortisation of goodwill (recognition of negative goodwill as income), see circumstances set out in paragraph 100 of this Standard.

THIRD SCHEDULE — *continued*

First column *Financial Reporting Standard (“FRS”)*	*Second column* *International Accounting Standard/ International Financial Reporting Standard*	*Third column* *Modification of International Accounting Standard/ International Financial Reporting Standard for the purposes of FRS*
		100. At the date when this Standard becomes effective, the following is required: (*a*) where goodwill was recognised as an asset but was not previously amortised or the amortisation charge was deemed to be nil, or negative goodwill was recognised initially as a separate item in the balance sheet but was not subsequently recognised as income or the amount of negative goodwill to be recognised as income was deemed to be nil, the carrying amount of the goodwill (negative goodwill) should be restated as if the amortisation of goodwill (amount of negative goodwill recognised as income) had always been determined under this Standard (see paragraphs 44-54 (61–63) of this Standard);

THIRD SCHEDULE — *continued*

First column *Financial Reporting Standard (“FRS”)*	*Second column* *International Accounting Standard/ International Financial Reporting Standard*	*Third column* *Modification of International Accounting Standard/ International Financial Reporting Standard for the purposes of FRS*
		(*b*) where goodwill (negative goodwill) was previously amortised (recognised as income), do not restate the carrying amount of the goodwill (negative goodwill) for any difference between accumulated amortisation (accumulated negative goodwill recognised as income) in prior years and that calculated under this Standard and — (i) amortise any carrying amount of the goodwill over its remaining useful life determined under this Standard; and

THIRD SCHEDULE — *continued*

First column *Financial Reporting Standard (“FRS”)*	*Second column* *International Accounting Standard/ International Financial Reporting Standard*	*Third column* *Modification of International Accounting Standard/ International Financial Reporting Standard for the purposes of FRS*
		(ii) recognise any carrying amount of the negative goodwill as income over the remaining weighted average useful life of the identifiable depreciable/ amortisable non-monetary assets acquired (see paragraph 62 (*a*) of this Standard). (That is, any change is treated in the same way as a change in accounting estimate under FRS 8, Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies.)

THIRD SCHEDULE — *continued*

First column *Financial Reporting Standard (“FRS”)*	*Second column* *International Accounting Standard/ International Financial Reporting Standard*	*Third column* *Modification of International Accounting Standard/ International Financial Reporting Standard for the purposes of FRS*
		101. The effect of adopting this Standard on its effective date should be recognised under FRS 8, Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies, that is, as an adjustment either to the opening balance of retained earnings of the earliest period presented (FRS 8 benchmark treatment) or to the net profit or loss for the current period (FRS 8 allowed alternative treatment). 102. In the first annual financial statements issued under this Standard, an enterprise should disclose the transitional provisions adopted where transitional provisions under this Standard permit a choice. 103. FRS 22, Business Combinations, is operative for financial statements covering periods beginning on or after ***1st October 2000***.”.

THIRD SCHEDULE — *continued*

First column *Financial Reporting Standard ("FRS")*	*Second column* *International Accounting Standard/ International Financial Reporting Standard*	*Third column* *Modification of International Accounting Standard/ International Financial Reporting Standard for the purposes of FRS*
FRS 23 Borrowing Costs	IAS 23 (revised 1993) Borrowing Costs	(i) Delete paragraph 2 of IAS 23. (ii) Delete paragraph 31 of IAS 23 and substitute the following paragraph: "31. FRS 23, Borrowing Costs, is operative for financial statements covering periods beginning on or after ***1st January 1997***.".
FRS 24 Related Party Disclosures	IAS 24 (1984) (reformatted 1994) Related Party Disclosures	Delete paragraph 26 of IAS 24 and substitute the following paragraph: "26. FRS 24, Related Party Disclosures, is operative for financial statements covering periods beginning on or after ***1st January 1987***.".
FRS 26 Accounting and Reporting by Retirement Benefit Plans	IAS 26 (1987) (reformatted 1994) Accounting and Reporting by Retirement Benefit Plans	(There is no modification on IAS 26.)

THIRD SCHEDULE — *continued*

First column *Financial Reporting Standard (“FRS”)*	*Second column* *International Accounting Standard/ International Financial Reporting Standard*	*Third column* *Modification of International Accounting Standard/ International Financial Reporting Standard for the purposes of FRS*
FRS 27 Consolidated Financial Statements and Accounting for Investments in Subsidiaries	IAS 27 (1989) (reformatted 1994) Consolidated Financial Statements and Accounting for Investments in Subsidiaries	(i) Delete paragraph 3 of IAS 27. (ii) Delete paragraph 33 of IAS 27 and substitute the following paragraph: “33. FRS 27, Consolidated Financial Statements and Accounting for Investments in Subsidiaries, is operative for financial statements covering periods beginning on or after ***1st January 1990***.”.
FRS 28 Accounting for Investments in Associates	IAS 28 (revised 2000) Accounting for Investments in Associates	(i) Delete paragraph 2 of IAS 28. (ii) Delete paragraphs 29, 30 and 31 of IAS 28 and substitute the following paragraphs: “29. FRS 28, Accounting for Investments in Associates, is operative for financial statements covering periods beginning on or after ***1st January 1991***. 30. Paragraphs 23 and 24 of this Standard become operative when FRS 36 becomes operative — that is, for annual financial statements covering periods beginning on or after ***1st October 2000***, unless FRS 36 is applied for earlier periods.”.

THIRD SCHEDULE — *continued*

First column *Financial Reporting Standard ("FRS")*	*Second column* *International Accounting Standard/ International Financial Reporting Standard*	*Third column* *Modification of International Accounting Standard/ International Financial Reporting Standard for the purposes of FRS*
FRS 29 Financial Reporting in Hyper-inflationary Economies	IAS 29 (1989) (reformatted 1994) Financial Reporting in Hyperinflationary Economies	Delete paragraph 41 of IAS 29 and substitute the following paragraph: "41. FRS 29, Financial Reporting in Hyperinflationary Economies, is operative for financial statements covering periods beginning on or after ***1st April 2001***.".
FRS 31 Financial Reporting of Interests in Joint Ventures	IAS 31 (revised 2000) Financial Reporting of Interests in Joint Ventures	Delete paragraphs 50, 51 and 52 of IAS 31 and substitute the following paragraphs: "50. Except for paragraphs 39, 40 and 41 of this Standard, this Standard becomes operative for financial statements covering periods beginning on or after ***1st January 1995.*** 51. Paragraphs 39, 40 and 41 of this Standard become operative when FRS 36 becomes operative — that is, for annual financial statements covering periods beginning on or after ***1st October 2000***, unless FRS 36 is applied for earlier periods.".
FRS 32 Financial Instruments: Disclosure and Presentation	IAS 32 (revised 1998) Financial Instruments: Disclosure and Presentation	Delete paragraph 96 of IAS 32 and substitute the following paragraph: "96. FRS 32, Financial Instruments: Disclosure and Presentation, is operative for financial statements covering periods beginning on or after ***1st October 2000***.".

THIRD SCHEDULE — *continued*

First column *Financial Reporting Standard ("FRS")*	*Second column* *International Accounting Standard/ International Financial Reporting Standard*	*Third column* *Modification of International Accounting Standard/ International Financial Reporting Standard for the purposes of FRS*
FRS 33 Earnings Per Share	IAS 33 (1997) Earnings Per Share	Delete paragraph 53 of IAS 33 and substitute the following paragraph: "53. FRS 33, Earnings Per Share, is operative for financial statements covering periods beginning on or after ***1st January 1999***.".
FRS 34 Interim Financial Reporting	IAS 34 (1998) Interim Financial Reporting	Delete paragraph 46 of IAS 34 and substitute the following paragraph: "46. FRS 34, Interim Financial Reporting, is operative for financial statements covering periods beginning on or after ***1st October 2001***.".
FRS 35 Discontinuing Operations	IAS 35 (1998) Discontinuing Operations	Delete paragraphs 49 and 50 of IAS 35 and substitute the following paragraph: "49. FRS 35, Discontinuing Operations, is operative for financial statements covering periods beginning on or after ***1st October 2000***.".
FRS 36 Impairment of Assets	IAS 36 (1998) Impairment of Assets	Delete paragraph 122 of IAS 36 and substitute the following paragraph: "122. FRS 36, Impairment of Assets, is operative for financial statements covering periods beginning on or after ***1st October 2000***.".

THIRD SCHEDULE — *continued*

First column *Financial Reporting Standard (“FRS”)*	*Second column* *International Accounting Standard/ International Financial Reporting Standard*	*Third column* *Modification of International Accounting Standard/ International Financial Reporting Standard for the purposes of FRS*
FRS 37 Provisions, Contingent Liabilities and Contingent Assets	IAS 37 (1998) Provisions, Contingent Liabilities and Contingent Assets	Delete paragraphs 95 and 96 of IAS 37 and substitute the following paragraph: “95. FRS 37, Provisions, Contingent Liabilities and Contingent Assets, is operative for financial statements covering periods beginning on or after ***1st October 2000***.”.
FRS 38 Intangible Assets	IAS 38 (1998) Intangible Assets	Delete paragraphs 122 and 123 of IAS 38 and substitute the following paragraph: “122. FRS 38, Intangible Assets, is operative for financial statements covering periods beginning on or after ***1st October 2000***.”.
FRS 41 Agriculture	IAS 41 (2001) Agriculture	Delete paragraph 58 of IAS 41 and substitute the following paragraph: “58. FRS 41, Agriculture, is operative for financial statements covering periods beginning on or after ***1st October 2001***.”.

FOURTH SCHEDULE

Regulation 2 (*a*)

FINANCIAL REPORTING STANDARD FRS 25
ACCOUNTING FOR INVESTMENTS

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FOURTH SCHEDULE — *continued*

Accounting for Investments

The standards should be read in the context of the Preface to Financial Reporting Standards. Financial Reporting Standards are not intended to apply to immaterial items.

Foreword

This Financial Reporting Standard should be read in the context of this Foreword:

Investment Properties

paragraph 4

i. For the purpose of this Standard, but subject to the exceptions in paragraph ii, an investment property is an interest in land and/or buildings:

(*a*) in respect of which construction work and development have been completed; and

(*b*) which is held for its investment potential, any rental income being negotiated at arm's length.

ii. The following are exceptions from the definition:

(*a*) a property which is owned and used by an entity for its own purposes is not an investment property, for example, a hotel or a warehouse;

(*b*) a property let to, and occupied by, another group company is not an investment property for the purposes of its own financial statements or the group financial statements.

iii. Investment properties may be held by an entity which holds investments as part of its business such as an investment trust or a property investment company. Investment properties may also be held by an entity whose main business is not the holding of investments.

Changes in Carrying Amount of Investments

paragraph 32

iv. For the purpose of this Standard, the term "same investment" should be interpreted as "same class of investments". "Same class of investments" means a category of investments which have a similar nature or function in the operations of the reporting enterprise.

v. Paragraph iv does not apply to the long-term business of insurance companies where changes in value are dealt with in the relevant fund account.

FOURTH SCHEDULE — *continued*

Scope

1. This Standard should be applied in the accounting for and disclosure of investments.

2. Enterprises should account for investments in accordance with paragraphs 8 to 44 of this Standard, unless they are specialised investment enterprises in which case they may account for investments in accordance with paragraph 45 of this Standard.

3. This Standard does not deal with —

(*a*) the bases for recognition of interest, royalties, dividends and rentals earned on investments (see FRS 17, Leases, and FRS 18, Revenue);

(*b*) investments in subsidiaries (see FRS 27, Consolidated Financial Statements and Accounting for Investments in Subsidiaries);

(*c*) investments in associates (see FRS 28, Accounting for Investments in Associates);

(*d*) investments in joint ventures (see FRS 31, Financial Reporting of Interests in Joint Ventures);

(*e*) goodwill, patents, trademarks and similar assets;

(*f*) finance leases as defined in FRS 17; and

(*g*) investments of retirement benefit plans and life insurance enterprises.

Definitions

4. The following terms are used in this Standard with the meanings specified:

A current investment is an investment that is by its nature readily realisable and is intended to be held for not more than one year.

Fair value is the amount for which an asset could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction.

An investment is an asset held by an enterprise for the accretion of wealth through distribution (such as interest, royalties, dividends and rentals), for capital appreciation or for other benefits to the investing enterprise such as those obtained through trading relationships. Inventories as defined in FRS 2, Inventories, are not investments. Property, plant and equipment as defined in FRS 16, Property, Plant and Equipment, (other than investment properties) are not investments.

An investment property is an investment in land or buildings that are not occupied substantially for use by, or in the operations of, the investing enterprise or another enterprise in the same group as the investing enterprise.

A long-term investment is an investment other than a current investment.

FOURTH SCHEDULE — *continued*

Market value is the amount obtainable from the sale of an investment in an active market.

Marketable means that there is an active market from which a market value (or some indicator that enables a market value to be calculated) is available.

Forms of Investments

5. Enterprises hold investments for diverse reasons. For some enterprises, investment activity is a significant element of operations[(1)], and assessment of the performance of the enterprise may largely, or solely, depend on the reported results of this activity. Some hold investments as a store of surplus funds and some hold trade investments in order to cement a trading relationship or establish a trading advantage.

6. Some investments are represented by certificates or similar documents; others are not. The nature of an investment may be that of a debt, other than a short or long-term trade debt, representing a monetary amount owing to the holder and usually bearing interest; alternatively it may be a stake in an enterprise's results, such as an equity share. Most investments represent financial rights, but some are tangible — such as certain investments in land or buildings and direct investments in gold, diamonds or other marketable commodities.

7. For some investments, an active market exists from which a market value can be established. For such investments, market value is an indicator of fair value. For other investments, an active market does not exist and other means are used to determine fair value.

Classification of Investments

8. An enterprise that distinguishes between current and long-term assets in its financial statements should present current investments as current assets and long-term investments as long-term assets.

9. Enterprises that do not distinguish between current and long-term investments in their balance sheets should nevertheless make a distinction for measurement purposes and determine the carrying amount for investments in accordance with paragraphs 19 and 23 of this Standard.

[(1)] Enterprises for which investment activity is a significant element of operations, such as insurance companies and some banks, are often subject to regulatory control. The Preface to Statements of Accounting Standard provides that Statements of Accounting Standard do not override local regulations governing the issue of financial statements.

FOURTH SCHEDULE — *continued*

10. Most enterprises present balance sheets that distinguish current assets from long-term assets in accordance with FRS 1, Presentation of Financial Statements. Current investments are included in current assets. The fact that a marketable investment has been retained for a considerable period does not necessarily preclude its classification as current.

11. Investments held primarily to protect, facilitate or further existing business or trading relations, often called trade investments, are not made with the intention that they will be available as additional cash resources and are thus classified as long-term. Other investments, such as investment properties, are intended to be held for a number of years to generate income and capital gain. They are therefore classified as long-term assets even though they may be marketable.

12. Some enterprises choose not to distinguish between current and long-term assets, and others may be required by regulations to adopt a balance sheet format that makes no distinction. Many such enterprises operate in the financial field, such as banks and insurance companies. Although such enterprises do not intend to realise their assets in current operations, they usually regard many of their investments as being available for the purposes of their current operations if required.

13. However, such enterprises may have investments properly regarded as long-term assets, for example, a bank may hold shares in a leasing company.

14. Many such enterprises therefore analyse their investments and attribute carrying amounts to them according to whether their characteristics are those of current investments or long-term investments.

Cost of Investments

15. The cost of an investment includes acquisition charges, such as brokerages, fees, duties and bank fees.

16. If an investment is acquired, or partly acquired, by the issue of shares or other securities, the acquisition cost is the fair value of the securities issued and not their nominal or par value. If an investment is acquired in exchange, or part exchange, for another asset, the acquisition cost of the investment is determined by reference to the fair value of the asset given up. It may be appropriate to consider the fair value of the investment acquired if it is more clearly evident.

17. Interest, royalties, dividends and rentals receivable in connection with an investment are generally regarded as income, being the return on the investment. However, in some circumstances, such inflows represent a recovery of cost and do not form part of income. For example, when unpaid interest has accrued before the acquisition of an interest-bearing investment and is therefore included in the price paid for the investment, the subsequent receipt of interest is allocated between pre-acquisition and post-acquisition periods; the pre-acquisition portion is deducted

from cost. When dividends on equity securities are declared from pre-acquisition profits, a similar treatment applies. If it is difficult to make such an allocation except on an arbitrary basis, the cost of an investment is normally reduced by dividends receivable only if they clearly represent a recovery of part of cost.

18. The difference between the acquisition cost and redemption value of an investment in debt securities (the discount or premium on acquisition) is usually amortised by the investor over the period from acquisition to its maturity, so that a constant yield is earned on the investment. The amortised discount or premium is credited or changed to income as though it were interest and added to or subtracted from the carrying amount of the security. The resulting carrying amount is then regarded as cost.

Carrying Amounts of Investments

Current Investments

19. Investments classified as current assets should be carried in the balance sheet at either —

(a) market value; or

(b) the lower of cost and market value.

If current investments are carried at the lower of cost and market value, the carrying amount should be determined either on an aggregate portfolio basis, in total or by category of investment, or on an individual investment basis.

20. Opinions differ on the appropriate carrying amount for current investments. Some maintain that, for financial statements prepared under the historical cost convention, the general rule of lower of cost and net realisable value is applicable to investments; and since most current investments are marketable, the carrying amount is the lower of cost and market value. Supporters of this method of determining carrying amount claim that it provides a prudent balance sheet amount and does not result in recognising unrealised gains in income. They also claim that fortuitous swings in stock market prices, which may reverse, are not brought to account merely as the result of the choice of a particular balance sheet date.

21. Others argue that, since current investments are a readily realisable store of wealth, or a cash substitute, it is appropriate to value them at fair value, usually market value. The enterprise is not concerned with the cost of such items but with the cash it could raise by disposing of them. Investments are distinguished from inventories because they can generally be sold without effort, whereas it would normally be inappropriate to recognise profit on sale of inventories before the sale was assured. Each investment is dispensable by the business, for example, an equity investment could be sold and the proceeds re-invested in a bank deposit account without detriment to the business - and therefore it is appropriate to report it at market value. Supporters of market value also argue that reporting investments at

FOURTH SCHEDULE — *continued*

historical cost allows management to recognise income at its discretion, since selected investments can be sold and immediately repurchased and the resulting profit reported in income, although such transactions have not changed the enterprise's economic position.

22. In general, the concern of an enterprise is with the overall value of its current investment portfolios, and not with each individual investment, since the investments are held collectively as a store of wealth. Consistent with this view, investments carried at the lower of cost and market value are valued on an aggregate portfolio basis, in total or by category of investment, and not on an individual investment basis. However, some argue that the use of the portfolio basis results in losses being offset against unrealised gains.

Long-term Investments

23. Investments classified as long-term assets should be carried in the balance sheet at either —

(a) cost;

(b) revalued amounts; or

(c) in the case of marketable equity securities, the lower of cost and market value determined on a portfolio basis.

If revalued amounts are used, a policy for the frequency of revaluations should be adopted and an entire category of long-term investments should be revalued at the same time.

The carrying amount of all long-term investments should be reduced to recognise a decline other than temporary in the value of the investments, such reduction being determined and made for each investment individually.

24. Long-term investments are usually carried at cost. However, when there is a decline, other than temporary, in the value of a long-term investment, the carrying amount is reduced to recognise the decline. Indicators of the value of an investment may be obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment. Risk and the type and extent of the investor's stake in the investee are also taken into account. Restrictions on distributions by the investee or on disposal by the investor may affect the value attributed to the investment.

25. Many long-term investments are of individual importance to the investing enterprise. The carrying amount of long-term investments is therefore normally determined on an item-by-item basis. However, in some countries, marketable equity securities classified as long-term investments may be carried at the lower of cost and market value determined on a portfolio basis. In these cases, temporary reductions and reversals of such reductions are included in equity.

FOURTH SCHEDULE — *continued*

26. Reductions for other than a temporary decline in the carrying amounts of long-term investments are charged in the income statement unless they offset a previous revaluation (see paragraph 32 of this Standard). Reductions in carrying amount may be reversed when there is a rise in the value of the investment, or if the reasons for the reduction no longer exist. However, in some countries reductions in the carrying amount are not reversed.

Revaluations

27. Sometimes, long-term investments are revalued to fair value. In the interests of consistency, a policy for the frequency of revaluation is adopted and all long-term investments are revalued at the same time or, at the minimum, an entire category is revalued.

Investment Properties

28. An enterprise holding investment properties should either —

- ***(a) treat them as property in accordance with FRS 16, Property, Plant and Equipment; or***
- ***(b) account for them as long-term investments.***

29. Some enterprises elect to account for investment properties as long-term investments. Other enterprises prefer to account for and charge depreciation on investment properties under their accounting policy for property, plant and equipment, in accordance with FRS 16.

30. Enterprises that account for investment properties as long-term investments consider that changes in their fair value, usually market value, are more significant than their depreciation. The properties are therefore revalued periodically on a systematic basis. Where fair values are recognised in the carrying amount, any changes in carrying amount are accounted for in accordance with paragraph 32 of this Standard. Where such fair values are not recognised in the carrying amount, they are disclosed.

Changes in Carrying Amount of Investments

31. An enterprise that carries current investments at market value should adopt, and consistently apply, a policy for accounting for increases or decreases in carrying amount which should either —

- ***(a) be recognised as income or expense; or***
- ***(b) be accounted for in accordance with paragraph 32 of this Standard.***

32. An increase in carrying amount arising from the revaluation of long-term investments should be credited to owners' equity as a revaluation surplus. To the extent that a decrease in carrying amount offsets a previous increase, for the same investment, that has been credited to revaluation surplus and not subsequently reversed or utilised, it should be charged against that revaluation

FOURTH SCHEDULE — *continued*

surplus. In all other cases, a decrease in carrying amount should be recognised as an expense. An increase on revaluation directly related to previous decrease in carrying amount for the same investment that was recognised as an expense, should be credited to income to the extent that it offsets the previously recorded decrease.

Disposals of Investments

33. On disposal of an investment, the difference between net disposal proceeds and the carrying amount should be recognised as income or expense. If the investment was a current asset carried on a portfolio basis at the lower of cost and market value, the profit or loss on sale should be based on cost. If the investment was previously revalued, or was carried at market value and an increase in carrying amount transferred to revaluation surplus, the enterprise should adopt a policy either of crediting the amount of any remaining related revaluation surplus to income or of transferring it to retained earnings. This policy should be applied consistently in accordance with FRS 8, Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies.

34. Any reduction to market value of current investments carried at the lower of cost and market value on a portfolio basis is made against the cost of the portfolio in aggregate; individual investments continue to be recorded at cost. Accordingly, the profit or loss on sale of an individual investment is based on cost; however, the aggregate reduction to market value of the portfolio needs to be assessed.

35. When disposing of part of an enterprise's holding of a particular investment, a carrying amount must be allocated to the part sold. This carrying amount is usually determined from the average carrying amount of the total holding of the investment.

Transfers of Investments

36. For long-term investments re-classified as current investments, transfers should be made at —

(a) the lower of cost and carrying amount, if current investments are carried at the lower of cost and market value; if the investment was previously revalued, any remaining related revaluation surplus should be reversed on the transfer; and

(b) carrying amount if current investments are carried at market value; if changes in market value of current investments are included in income, any remaining related revaluation surplus should be transferred to income.

37. Investments re-classified from current to long-term should each be transferred at the lower of cost and market value, or at market value if they were previously stated at that value.

FOURTH SCHEDULE — *continued*

Switches of Investments in a Portfolio

38. An enterprise with significant investment activity typically maintains a portfolio of investments in which it trades constantly. In doing so, the enterprise seeks to improve the quality and yields of its portfolio of investments. On disposal of a particular investment, funds released are available for reinvestment or may remain as the cash element of the investment portfolio.

39. In view of the constant changes in investments in such a portfolio, different opinions are held as to the appropriate accounting treatment on disposal of a particular investment:

(*a*) some maintain that an excess or deficiency of net sale proceeds over carrying amount represents a realised profit or loss, which should be recognised in income immediately;

(*b*) others argue that the disposal merely reflects an adjustment of the constituents of the portfolio, representing no value increase or decrease since it is only a substitution of one investment for another, and that therefore no profit or loss should be reflected in income; and

(*c*) a few advocate a middle course, whereby the difference between net sale proceeds and cost is amortised to income over a given period.

40. Alternative (*a*) is the preferred method. Alternative (*b*) is appropriate only when the market value basis is used and changes in market value are included in income, since the adjustments to market value will already have been accounted for. Alternative (*c*) is inappropriate because it fails to recognise the whole of the profit or loss in the period in which it arises.

Income Statement

41. The following should be included in income:

(a) investment income arising from —

(i) interest, royalties, dividends and rentals on long-term and current investments;

(ii) profits and losses on disposal of current investments;

(iii) unrealised gains and losses on current investments carried at market value, where that policy is adopted under paragraph 31 of this Standard; and

(iv) reductions to market value and reversals of such reductions required to state current investments at the lower of cost and market value;

(b) reductions of the carrying amount for other than a temporary decline in value of long-term investments, and reversals of such reductions; and

(c) profits and losses on disposal of long-term investments, calculated in accordance with paragraph 33 of this Standard.

FOURTH SCHEDULE — *continued*

42. Some enterprises that carry current investments at market value on the grounds that they are a store of freely disposable wealth recognise any gains or losses in market value as an element of income to be accounted for in the income statement along with profits and losses on disposals. However, in some countries such gains are not permitted to be included in income and are credited direct to owners' equity and accounted for in the same way as revaluation surplus on long-term investments.

43. If current investments are carried at the lower of cost and market value, any reductions to market value and any reversals of such reductions are included in the income statement along with profits and losses on disposals.

44. Any reductions in carrying amount for other than a temporary decline in value of long-term investments, and reversals of such reductions, and profits and losses on disposal of long-term investments, are included in income and presented in accordance with FRS 8, Net Profit and Loss for the Period, Fundamental Errors and Changes in Accounting Policies.

Specialised Investment Enterprises

45. Specialised investment enterprises which are prohibited from distributing profits on the disposal of investments may exclude from income changes in value of investments, whether realised or not, provided they carry their investments at fair value. Such enterprises should include in the financial statements a summary of all the movements in value of their investments for the period.

46. In certain countries, there are specialised investment enterprises whose main business is the holding of a portfolio of marketable securities as an investment vehicle for their individual shareholders. These enterprises carry their investments at fair value, usually market value, because this is the most appropriate basis in the circumstances. They regard realised profits and losses on their investments as being the same in substance as unrealised gains and losses and therefore account for them in the same way. They disclose a summary of all the movements in the value of their investments for the period.

47. The constitutions of these enterprises prohibit the distribution as dividends of profits on disposal of investments and require a distinction to be drawn between income arising from interest and dividends and the gains or losses arising on the disposal of the investments. Hence, these enterprises exclude from income all changes in value of investments whether or not they are realised.

Taxes

48. Accounting for tax consequences resulting from the application of this Standard is dealt with in accordance with FRS 12, Income Taxes.

Disclosure

49. The following should be disclosed:

(a) the accounting policies for —

(i) the determination of carrying amount of investments;

(ii) the treatment of changes in market value of current investments carried at market value; and

(iii) the treatment of a revaluation surplus on the sale of a revalued investment;

(b) the significant amounts included in income for —

(i) interest, royalties, dividends and rentals on long-term and current investments;

(ii) profits and losses on disposal of current investments; and

(iii) changes in value of such investments;

(c) the market value of marketable investments if they are not carried at market value;

(d) the fair value of investment properties if they are accounted for as long-term investments and not carried at fair value;

(e) significant restrictions on the realisability of investments or the remittance of income and proceeds of disposal;

(f) for long-term investments stated at revalued amounts —

(i) the policy for the frequency of revaluations;

(ii) the date of the latest revaluation; and

(iii) the basis of revaluation and whether an external valuer was involved;

(g) the movements for the period in revaluation surplus and the nature of such movements; and

(h) for enterprises whose main business is the holding of investments, an analysis of the portfolio of investments.

50. The following disclosures may be provided to assist a reader's understanding of the financial statements:

(*a*) an analysis of long-term investments by category;

(*b*) the directors' assessment of the fair value of investments that are not marketable;

(*c*) where investments are not marketable, the method of assessing value used for comparison with cost, where applicable;

(*d*) the amount of any previous revaluation surplus which related to the investments disposed of during the year and which has been previously distributed or converted into share capital; and

FOURTH SCHEDULE — *continued*

(*e*) details of any single investment which represents a significant proportion of the reporting enterprise's assets.

Effective Date

51. This Financial Reporting Standard becomes operative for financial statements covering periods beginning on or after 1st January 1988.

FIFTH SCHEDULE

Regulation 2 (*a*)

FRAMEWORK FOR THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

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Introduction

Purpose and Status

This framework sets out the concepts that underlie the preparation and presentation of financial statements by Singapore-incorporated companies. The purpose of the framework is to —

(*a*) assist preparers of financial statements in applying Financial Reporting Standards and in dealing with topics that have yet to form the subject of a Financial Reporting Standard;

(*b*) assist auditors in forming an opinion as to whether financial statements conform with Financial Reporting Standards; and

(*c*) assist users of financial statements in interpreting the information contained in financial statements prepared in conformity with Financial Reporting Standards.

Scope

2. This framework deals with —

(*a*) the objective of financial statements;

(*b*) the qualitative characteristics that determine the usefulness of information in financial statements;

(*c*) the definition, recognition and measurement of the elements from which financial statements are constructed; and

(*d*) concepts of capital and capital maintenance.

3. This framework is concerned with general purpose financial statements (hereafter referred to as ‘‘financial statements’’) including consolidated financial statements. Such financial statements are prepared and presented at least annually and are directed toward the common information needs of a wide range of users. Some of these users may require, and have the power to obtain, information in addition to that contained in the financial statements. Many users, however, have to rely on the financial statements as their major source of financial information and such financial statements should, therefore, be prepared and presented with their needs in view. Special purpose financial reports, for example, prospectuses and computations prepared for taxation purposes, are outside the scope of this framework. Nevertheless, this framework may be applied in the preparation of such special purpose reports where their requirements permit.

4. Financial statements form part of the process of financial reporting. A complete set of financial statements normally includes a balance sheet, an income statement, a cash flow statement, and those notes and other statements and explanatory material that are an integral part of the financial statements. They may also include supplementary schedules and information based on or derived from, and expected to be read with, such statements. Such schedules and supplementary information may deal, for example, with financial information about industrial and

FIFTH SCHEDULE — *continued*

geographical segments and disclosures about the effects of changing prices. Financial statements do not, however, include such items as reports by directors, statements by the chairman, discussion and analysis by management and similar items that may be included in a financial or annual report.

Users and Their Information Needs

5. The users of financial statements include present and potential investors, employees, lenders, suppliers and other trade creditors, customers, governments and their agencies and the public. They use financial statements in order to satisfy some of their different needs for information. These needs include the following:

(*a*) *Investors*. The providers of risk capital and their advisers are concerned with the risk inherent in, and return provided by, their investments. They need information to help them determine whether they should buy, hold or sell. Shareholders are also interested in information which enables them to assess the ability of the enterprise to pay dividends.

(*b*) *Employees*. Employees and their representative groups are interested in information about the stability and profitability of their employers. They are also interested in information which enables them to assess the ability of the enterprise to provide remuneration, retirement benefits and employment opportunities.

(*c*) *Lenders*. Lenders are interested in information that enables them to determine whether their loans, and the interest attaching to them, will be paid when due.

(*d*) *Suppliers and other trade creditors*. Suppliers and other creditors are interested in information that enables them to determine whether amounts owing to them will be paid when due. Trade creditors are likely to be interested in an enterprise over a shorter period than lenders unless they are dependent upon the continuation of the enterprise as a major customer.

(*e*) *Customers.* Customers have an interest in information about the continuance of an enterprise, especially when they have a long-term involvement with, or are dependent on, the enterprise.

(*f*) *Governments and their agencies*. Governments and their agencies are interested in the allocation of resources and, therefore, the activities of enterprises. They also require information in order to regulate the activities of enterprises, determine taxation policies and as the basis for national income and similar statistics.

(*g*) *Public*. Enterprises affect members of the public in a variety of ways. For example, enterprises may make a substantial contribution to the local economy in many ways including the number of people they employ and their patronage of local suppliers. Financial statements may assist the public by providing information about the trends and recent developments in the prosperity of the enterprise and the range of its activities.

FIFTH SCHEDULE — *continued*

6. While all of the information needs of these users cannot be met by financial statements, there are needs which are common to all users. As investors are providers of risk capital to the enterprise, the provision of financial statements that meet their needs will also meet most of the needs of other users.

7. The management of an enterprise has the primary responsibility for the preparation and presentation of the financial statements of the enterprise. Management is also interested in the information contained in the financial statements even though it has access to additional management and financial information that helps it carry out its planning, decision-making and control responsibilities. Management has the ability to determine the form and content of such additional information in order to meet its own needs. The reporting of such information, however, is beyond the scope of this framework. Nevertheless, published financial statements are based on the information used by management about the financial position, performance and changes in financial position of the enterprise.

The Objective of Financial Statements

8. The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions.

9. Financial statements prepared for this purpose meet the common needs of most users. However, financial statements do not provide all the information that users may need to make economic decisions, since they largely portray the financial effects of past events and do not necessarily provide non-financial information.

10. Financial statements also show the results of the stewardship of management, or the accountability of management for the resources entrusted to it. Those users who wish to assess the stewardship or accountability of management do so in order that they may make economic decisions; these decisions may include, for example, whether to hold or sell their investment in the enterprise or whether to reappoint or replace the management.

Financial Position, Performance and Changes in Financial Position

11. The economic decisions that are taken by users of financial statements require an evaluation of the ability of an enterprise to generate cash and cash equivalents and of the timing and certainty of their generation. This ability ultimately determines, for example, the capacity of an enterprise to pay its employees and suppliers, meet interest payments, repay loans and make distributions to its owners. Users are better able to evaluate this ability to generate cash and cash equivalents if they are provided with information that focuses on the financial position, performance and changes in financial position of an enterprise.

FIFTH SCHEDULE — *continued*

12. The financial position of an enterprise is affected by the economic resources it controls, its financial structure, its liquidity and solvency, and its capacity to adapt to changes in the environment in which it operates. Information about the economic resources controlled by the enterprise and its capacity in the past to modify these resources is useful in predicting the ability of the enterprise to generate cash and cash equivalents in the future. Information about financial structure is useful in predicting future borrowing needs and how future profits and cash flows will be distributed among those with an interest in the enterprise; it is also useful in predicting how successful the enterprise is likely to be in raising further finance. Information about liquidity and solvency is useful in predicting the ability of the enterprise to meet its financial commitments as they fall due. ‘‘Liquidity’’ refers to the availability of cash in the near future after taking account of financial commitments over this period. ‘‘Solvency’’ refers to the availability of cash over the longer term to meet financial commitments as they fall due.

13. Information about the performance of an enterprise, in particular its profitability, is required in order to assess potential changes in the economic resources that it is likely to control in the future. Information about variability of performance is important in this respect. Information about performance is useful in predicting the capacity of the enterprise to generate cash flows from its existing resource base. It is also useful in forming judgements about the effectiveness with which the enterprise might employ additional resources.

14. Information concerning changes in the financial position of an enterprise is useful in order to assess its investing, financing and operating activities during the reporting period. This information is useful in providing the user with a basis to assess the ability of the enterprise to generate cash and cash equivalents and the needs of the enterprise to utilise those cash flows.

15. Information about financial position is primarily provided in a balance sheet. Information about performance is primarily provided in an income statement. Information about changes in financial position is provided in the financial statements by means of a separate statement.

16. The component parts of the financial statements interrelate because they reflect different aspects of the same transactions or other events. Although each statement provides information that is different from the others, none is likely to serve only a single purpose or provide all the information necessary for particular needs of users. For example, an income statement provides an incomplete picture of performance unless it is used in conjunction with the balance sheet and the cash flow statement.

FIFTH SCHEDULE — *continued*

Notes and Supplementary Schedules

17. The financial statements also contain notes and supplementary schedules and other information. For example, they may contain additional information that is relevant to the needs of users about the items in the balance sheet and income statement. They may include disclosures about the risks and uncertainties affecting the enterprise and any resources and obligations not recognised in the balance sheet (such as mineral reserves). Information about geographical and industry segments and the effect on the enterprise of changing prices may also be provided in the form of supplementary information.

Underlying Assumptions

Accrual Basis

18. In order to meet their objectives, financial statements are prepared on the accrual basis of accounting. Under this basis, the effects of transactions and other events are recognised when they occur (and not as cash or its equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate. Financial statements prepared on the accrual basis inform users not only of past transactions involving the payment and receipt of cash but also of obligations to pay cash in the future and of resources that represent cash to be received in the future. Hence, they provide the type of information about past transactions and other events that is most useful to users in making economic decisions.

Going Concern

19. The financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the enterprise has neither the intention nor the need to liquidate or curtail materially the scale of its operations; if such an intention or need exists, the financial statements may have to be prepared on a different basis and, if so, the basis used is disclosed.

Qualitative Characteristics of Financial Statements

20. Qualitative characteristics are the attributes that make the information provided in financial statements useful to users. The four principal qualitative characteristics are understandability, relevance, reliability and comparability.

Understandability

21. An essential quality of the information provided in financial statements is that it is readily understandable by users. For this purpose, users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence. However, information about complex matters that should be included in the financial

FIFTH SCHEDULE — *continued*

statements because of its relevance to the economic decision-making needs of users should not be excluded merely on the grounds that it may be too difficult for certain users to understand.

Relevance

22. To be useful, information 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 evaluate past, present or future events, or confirming or correcting their past evaluations.

23. The predictive and confirmatory roles of information are interrelated. For example, information about the current level and structure of asset holdings has value to users when they endeavour to predict the ability of the enterprise to take advantage of opportunities and its ability to react to adverse situations. The same information plays a confirmatory role in respect of past predictions about, for example, the way in which the enterprise would be structured or the outcome of planned operations.

24. Information about financial position and past performance is frequently used as the basis for predicting future financial position and performance and other matters in which users are directly interested, such as dividend and wage payments, security price movements and the ability of the enterprise to meet its commitments as they fall due. To have predictive value, information need not be in the form of an explicit forecast. The ability to make predictions from financial statements is enhanced, however, by the manner in which information on past transactions and events is displayed. For example, the predictive value of the income statement is enhanced if unusual, abnormal and infrequent items of income or expense are separately disclosed.

Materiality

25. The relevance of information is affected by its nature and materiality. In some cases, the nature of information alone is sufficient to determine its relevance. For example, the reporting of a new segment may affect the assessment of the risks and opportunities facing the enterprise irrespective of the materiality of the results achieved by the new segment in the reporting period. In other cases, both the nature and materiality are important, for example, the amounts of inventories held in each of the main categories that are appropriate to the business.

26. Information is material if its omission or misstatement could influence the economic decisions of users taken 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. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.

Reliability

27. To be useful, information must also be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent.

28. Information may be relevant but so unreliable in nature or representation that its recognition may be potentially misleading. For example, if the validity and amount of a claim for damages under a legal action are disputed, it may be inappropriate for the enterprise to recognise the full amount of the claim in the balance sheet, although it may be appropriate to disclose the amount and circumstances of the claim.

Faithful Representation

29. To be reliable, information must represent faithfully the transactions and other events it either purports to represent or could reasonably be expected to represent. Thus, for example, a balance sheet should represent faithfully the transactions and other events that result in assets, liabilities and equity of the enterprise at the reporting date which meet the recognition criteria.

30. Most financial information is subject to some risk of being less than a faithful representation of that which it purports to portray. This is not due to bias, but rather to inherent difficulties either in identifying the transactions and other events to be measured or in devising and applying measurement and presentation techniques that can convey messages that correspond to those transactions and events. In certain cases, the measurement of the financial effects of items could be so uncertain that enterprises generally would not recognise them in the financial statements; for example, although most enterprises generate goodwill internally over time, it is usually difficult to identify or measure that goodwill reliably. In other cases, however, it may be relevant to recognise items and to disclose the risk of error surrounding their recognition and measurement.

Substance Over Form

31. If information is to represent faithfully the transactions and other events that it purports to represent, it is necessary that they are accounted for and presented in accordance with their substance and economic reality and not merely their legal form. The substance of transactions or other events is not always consistent with that which is apparent from their legal or contrived form. For example, an enterprise may dispose of an asset to another party in such a way that the documentation purports to pass legal ownership to that party; nevertheless, agreements may exist that ensure that the enterprise continues to enjoy the future economic benefits embodied in the asset. In such circumstances, the reporting of a sale would not represent faithfully the transaction entered into (if indeed there was a transaction).

FIFTH SCHEDULE — *continued*

Neutrality

32. To be reliable, the information contained in financial statements must be neutral, that is, free from bias. Financial statements are not neutral if, by the selection or presentation of information, they influence the making of a decision or judgement in order to achieve a predetermined result or outcome.

Prudence

33. The preparers of financial statements do, however, have to contend with the uncertainties that inevitably surround many events and circumstances, such as the collectability of doubtful receivables, the probable useful life of plant and equipment and the number of warranty claims that may occur. Such uncertainties are recognised by the disclosure of their nature and extent and by exercise of prudence in the preparation of the financial statements. Prudence is the inclusion of a degree of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated. However, the exercise of prudence does not allow, for example, the creation of hidden reserves or excessive provisions, the deliberate understatement of assets or income, or the deliberate overstatement of liabilities or expenses, because the financial statements would not be neutral and, therefore, not have the quality of reliability.

Completeness

34. 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.

Comparability

35. Users must be able to compare the financial statements of an enterprise 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 enterprises in order to evaluate their relative financial position, performance and changes in financial position. Hence, the measurement and display of the financial effect of like transactions and other events must be carried out in a consistent way throughout an enterprise and over time for that enterprise and in a consistent way for different enterprises.

36. An important implication of the qualitative characteristic of comparability is that users be informed of the accounting policies employed in the preparation of the financial statements, any changes in those policies and the effects of such changes. Users need to be able to identify differences between the accounting policies for like transactions and other events used by the same enterprise from period to period and by different enterprises. Compliance with Financial Reporting Standards, including the disclosure of the accounting policies used by the enterprise, helps to achieve comparability.

37. The need for comparability should not be confused with mere uniformity and should not be allowed to become an impediment to the introduction of improved accounting standards. It is not appropriate for an enterprise to continue accounting in the same manner for a transaction or other event if the policy adopted is not in keeping with the qualitative characteristics of relevance and reliability. It is also inappropriate for an enterprise to leave its accounting policies unchanged when more relevant and reliable alternatives exist.

38. Because users wish to compare the financial position, performance and changes in financial position of an enterprise over time, it is important that the financial statements show corresponding information for the preceding periods.

Constraints on Relevant and Reliable Information

Timeliness

39. 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. To provide information on a timely basis, it may often be necessary to report before all aspects of a transaction or other event are known, thus impairing reliability. Conversely, if reporting is delayed until all aspects are known, the information may be highly reliable but of little use to users who have had to make decisions in the interim. In achieving a balance between relevance and reliability, the overriding consideration is how best to satisfy the economic decision-making needs of users.

Balance Between Benefit and Cost

40. The balance between benefit and cost is a pervasive constraint rather than a qualitative characteristic. The benefits derived from information should exceed the cost of providing it. The evaluation of benefits and costs is, however, substantially a judgmental process. Furthermore, the costs do not necessarily fall on those users who enjoy the benefits. Benefits may also be enjoyed by users other than those for whom the information is prepared; for example, the provision of further information to lenders may reduce the borrowing costs of an enterprise. For these reasons, it is difficult to apply a cost-benefit test in any particular case. Nevertheless, standard-setters in particular, as well as the preparers and users of financial statements, should be aware of this constraint.

Balance Between Qualitative Characteristics

41. In practice a balancing, or trade-off, between qualitative characteristics is often necessary. Generally, the aim is to achieve an appropriate balance among the characteristics in order to meet the objective of financial statements. The relative importance of the characteristics in different cases is a matter of professional judgement.

FIFTH SCHEDULE — *continued*

True and Fair View/Fair Presentation

42. Financial statements are frequently described as showing a true and fair view of, or as presenting fairly, the financial position, performance and changes in financial position of an enterprise. Although this framework does not deal directly with such concepts, the application of the principal qualitative characteristics and of appropriate accounting standards normally results in financial statements that convey what is generally understood as a true and fair view of, or as presenting fairly, such information.

The Elements of Financial Statements

43. Financial statements portray the financial effects of transactions and other events by grouping them into broad classes according to their economic characteristics. These broad classes are termed the elements of financial statements. The elements directly related to the measurement of financial position in the balance sheet are assets, liabilities and equity. The elements directly related to the measurement of performance in the income statement are income and expenses. The cash flow statement usually reflects income statement elements and changes in balance sheet elements; accordingly, this framework identifies no elements that are unique to this statement.

44. The presentation of these elements in the balance sheet and the income statement involves a process of sub-classification. For example, assets and liabilities may be classified by their nature or function in the business of the enterprise in order to display information in the manner most useful to users for purposes of making economic decisions.

Financial Position

45. The elements directly related to the measurement of financial position are assets, liabilities and equity. These are defined as follows:

(*a*) an *asset* is a resource controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise;

(*b*) a *liability* is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits;

(*c*) *equity* is the residual interest in the assets of the enterprise after deducting all its liabilities.

46. The definitions of an asset and a liability identify their essential features but do not attempt to specify the criteria that need to be met before they are recognised in the balance sheet. Thus, the definitions embrace items that are not recognised as assets or liabilities in the balance sheet because they do not satisfy the criteria for recognition discussed in paragraphs 78 to 94 of this framework. In particular, the expectation that future economic benefits will flow to or from

an enterprise must be sufficiently certain to meet the probability criterion in paragraph 79 of this framework before an asset or liability is recognised.

47. In assessing whether an item meets the definition of an asset, liability or equity, attention needs to be given to its underlying substance and economic reality and not merely its legal form. Thus, for example, in the case of finance leases, the substance and economic reality are that the lessee acquires the economic benefits of the use of the leased asset for the major part of its useful life in return for entering into an obligation to pay for that right an amount approximating to the fair value of the asset and the related finance charge. Hence, the finance lease gives rise to items that satisfy the definitions of an asset and a liability and are recognised as such in the lessee's balance sheet.

48. Balance sheets drawn up in accordance with current International Accounting Standards may include items that do not satisfy the definition of an asset or liability and are not shown as part of equity. The definitions set out in paragraph 45 of this framework will, however, underlie future reviews of existing Financial Reporting Standards and the formulation of further Standards.

Assets

49. The future economic benefit embodied in an asset is the potential to contribute, directly or indirectly, to the flow of cash and cash equivalents to the enterprise. The potential may be a productive one that is part of the operating activities of the enterprise. It may also take the form of convertibility into cash or cash equivalents or a capability to reduce cash outflows, such as when an alternative manufacturing process lowers the costs of production.

50. An enterprise usually employs its assets to produce goods or services capable of satisfying the wants or needs of customers; because these goods or services can satisfy these wants or needs, customers are prepared to pay for them and, hence, contribute to the cash flow of the enterprise. Cash itself renders a service to the enterprise because of its command over other resources.

51. The future economic benefits embodied in an asset may flow to the enterprise in a number of ways. For example, an asset may be —

(*a*) used singly or in combination with other assets in the production of goods or services to be sold by the enterprise;

(*b*) exchanged for other assets;

(*c*) used to settle a liability; or

(*d*) distributed to the owners of the enterprise.

52. Many assets, for example, property, plant and equipment, have a physical form. However, physical form is not essential to the existence of an asset; hence,

patents and copyrights, for example, are assets if future economic benefits are expected to flow from them to the enterprise and if they are controlled by the enterprise.

53. Many assets, for example, receivables and property, are associated with legal rights, including the right of ownership. In determining the existence of an asset, the right of ownership is not essential; thus, for example, property held on a lease is an asset if the enterprise controls the benefits which are expected to flow from the property. Although the capacity of an enterprise to control benefits is usually the result of legal rights, an item may nonetheless satisfy the definition of an asset even when there is no legal control. For example, know-how obtained from a development activity may meet the definition of an asset when, by keeping that know-how secret, an enterprise controls the benefits that are expected to flow from it.

54. The assets of an enterprise result from past transactions or other past events. Enterprises normally obtain assets by purchasing or producing them, but other transactions or events may generate assets; examples include property received by an enterprise from government as part of a program to encourage economic growth in an area and the discovery of mineral deposits. Transactions or events expected to occur in the future do not in themselves give rise to assets; hence, for example, an intention to purchase inventory does not, of itself, meet the definition of an asset.

55. There is a close association between incurring expenditure and generating assets but the two do not necessarily coincide. Hence, when an enterprise incurs expenditure, this may provide evidence that future economic benefits were sought but is not conclusive proof that an item satisfying the definition of an asset has been obtained. Similarly, the absence of a related expenditure does not preclude an item from satisfying the definition of an asset and thus becoming a candidate for recognition in the balance sheet; for example, items that have been donated to the enterprise may satisfy the definition of an asset.

Liabilities

56. An essential characteristic of a liability is that the enterprise has a present obligation. An obligation is a duty or responsibility to act or perform in a certain way. Obligations may be legally enforceable as a consequence of a binding contract or statutory requirement. This is normally the case, for example, with amounts payable for goods and services received. Obligations also arise, however, from normal business practice, custom and a desire to maintain good business relations or act in an equitable manner. If, for example, an enterprise decides as a matter of policy to rectify faults in its products even when these become apparent after the warranty period has expired, the amounts that are expected to be expended in respect of goods already sold are liabilities.

57. A distinction needs to be drawn between a present obligation and a future commitment. A decision by the management of an enterprise to acquire assets in the future does not, of itself, give rise to a present obligation. An obligation normally arises only when the asset is delivered or the enterprise enters into an irrevocable agreement to acquire the asset. In the latter case, the irrevocable nature of the agreement means that the economic consequences of failing to honour the obligation, for example, because of the existence of a substantial penalty, leave the enterprise with little, if any, discretion to avoid the outflow of resources to another party.

58. The settlement of a present obligation usually involves the enterprise giving up resources embodying economic benefits in order to satisfy the claim of the other party. Settlement of a present obligation may occur in a number of ways, for example, by —

(*a*) payment of cash;

(*b*) transfer of other assets;

(*c*) provision of services;

(*d*) replacement of that obligation with another obligation; or

(*e*) conversion of the obligation to equity.

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

59. Liabilities result from past transactions or other past events. Thus, for example, the acquisition of goods and the use of services give rise to trade payables (unless paid for in advance or on delivery) and the receipt of a bank loan results in an obligation to repay the loan. An enterprise may also recognise future rebates based on annual purchases by customers as liabilities; in this case, the sale of the goods in the past is the transaction that gives rise to the liability.

60. Some liabilities can be measured only by using a substantial degree of estimation. Some enterprises describe these liabilities as provisions. In some countries, such provisions are not regarded as liabilities because the concept of a liability is defined narrowly so as to include only amounts that can be established without the need to make estimates. The definition of a liability in paragraph 45 of this framework follows a broader approach. Thus, when a provision involves a present obligation and satisfies the rest of the definition, it is a liability even if the amount has to be estimated. Examples include provisions for payments to be made under existing warranties and provisions to cover pension obligations.

Equity

61. Although equity is defined in paragraph 45 of this framework as a residual, it may be sub-classified in the balance sheet. For example, in a corporate enterprise, funds contributed by shareholders, retained earnings, reserves representing appropriations of retained earnings and reserves representing capital

maintenance adjustments may be shown separately. Such classifications can be relevant to the decision-making needs of the users of financial statements when they indicate legal or other restrictions on the ability of the enterprise to distribute or otherwise apply its equity. They may also reflect the fact that parties with ownership interests in an enterprise have differing rights in relation to the receipt of dividends or the repayment of capital.

62. The creation of reserves is sometimes required by statute or other law in order to give the enterprise and its creditors an added measure of protection from the effects of losses. Other reserves may be established if national tax law grants exemptions from, or reductions in, taxation liabilities when transfers to such reserves are made. The existence and size of these legal, statutory and tax reserves is information that can be relevant to the decision-making needs of users. Transfers to such reserves are appropriations of retained earnings rather than expenses.

63. The amount at which equity is shown in the balance sheet is dependent on the measurement of assets and liabilities. Normally, the aggregate amount of equity only by coincidence corresponds with the aggregate market value of the shares of the enterprise or the sum that could be raised by disposing of either the net assets on a piecemeal basis or the enterprise as a whole on a going concern basis.

64. Commercial, industrial and business activities are often undertaken by means of enterprises such as sole proprietorships, partnerships and trusts and various types of government business undertakings. The legal and regulatory framework for such enterprises is often different from that applying to corporate enterprises. For example, there may be few, if any, restrictions on the distribution to owners or other beneficiaries of amounts included in equity. Nevertheless, the definition of equity and the other aspects of this framework that deal with equity are appropriate for such enterprises.

Performance

65. Profit is frequently used as a measure of performance or as the basis for other measures, such as return on investment or earnings per share. The elements directly related to the measurement of profit are income and expenses. The recognition and measurement of income and expenses, and hence profit, depend in part on the concepts of capital and capital maintenance used by the enterprise in preparing its financial statements. These concepts are discussed in paragraphs 98 to 106 of this framework.

66. The elements of income and expenses are defined as follows:

(*a*) *income* is increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants;

FIFTH SCHEDULE — *continued*

(*b*) *expenses* are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

67. The definitions of income and expenses identify their essential features but do not attempt to specify the criteria that would need to be met before they are recognised in the income statement. Criteria for the recognition of income and expenses are discussed in paragraphs 79 to 94 of this framework.

68. Income and expenses may be presented in the income statement in different ways so as to provide information that is relevant for economic decision-making. For example, it is common practice to distinguish between those items of income and expenses that arise in the course of the ordinary activities of the enterprise and those that do not. This distinction is made on the basis that the source of an item is relevant in evaluating the ability of the enterprise to generate cash and cash equivalents in the future; for example, incidental activities, such as the disposal of a long-term investment, are unlikely to recur on a regular basis. When distinguishing between items in this way, consideration needs to be given to the nature of the enterprise and its operations. Items that arise from the ordinary activities of one enterprise may be unusual in respect of another.

69. Distinguishing between items of income and expense, and combining them in different ways also permit several measures of enterprise performance to be displayed. These have differing degrees of inclusiveness. For example, the income statement could display gross margin, profit from ordinary activities before taxation, profit from ordinary activities after taxation, and net profit.

Income

70. The definition of income encompasses both revenue and gains. Revenue arises in the course of the ordinary activities of an enterprise and is referred to by a variety of different names including sales, fees, interest, dividends, royalties and rent.

71. Gains represent other items that meet the definition of income and may, or may not, arise in the course of the ordinary activities of an enterprise. Gains represent increases in economic benefits and as such are no different in nature from revenue. Hence, they are not regarded as constituting a separate element in this framework.

72. Gains include, for example, those arising on the disposal of non-current assets. The definition of income also includes unrealised gains; for example, those arising on the revaluation of marketable securities and those resulting from increases in the carrying amount of long-term assets. When gains are recognised in the income statements, they are usually displayed separately because knowledge of

them is useful for the purpose of making economic decisions. Gains are often reported net of related expenses.

73. Various kinds of assets may be received or enhanced by income; examples include cash, receivables and goods and services received in exchange for goods and services supplied. Income may also result from the settlement of liabilities. For example, an enterprise may provide goods and services to a lender in settlement of an obligation to repay an outstanding loan.

Expenses

74. The definition of expenses encompasses losses as well as those expenses that arise in the course of the ordinary activities of the enterprise. Expenses that arise in the course of the ordinary activities of the enterprise include, for example, cost of sales, wages and depreciation. They usually take the form of an outflow or depletion of assets such as cash and cash equivalents, inventory, property, plant and equipment.

75. Losses represent other items that meet the definition of expenses and may, or may not, arise in the course of the ordinary activities of the enterprise. Losses represent decreases in economic benefits and as such they are no different in nature from other expenses. Hence, they are not regarded as a separate element in this framework.

76. Losses include, for example, those resulting from disasters such as fire and flood, as well as those arising on the disposal of non-current assets. The definition of expenses also includes unrealised losses, for example, those arising from the effects of increases in the rate of exchange for a foreign currency in respect of the borrowings of an enterprise in that currency. When losses are recognised in the income statement, they are usually displayed separately because knowledge of them is useful for the purpose of making economic decisions. Losses are often reported net of related income.

Capital Maintenance Adjustments

77. The revaluation or restatement of assets and liabilities gives rise to increases or decreases in equity. While these increases or decreases meet the definitions of income and expenses, they are not included in the income statement under certain concepts of capital maintenance. Instead, these items are included in equity as capital maintenance adjustments or revaluation reserves. These concepts of capital maintenance are discussed in paragraphs 98 to 106 of this framework.

Recognition of the Elements of Financial Statements

78. Recognition is the process of incorporating in the balance sheet or income statement an item that meets the definition of an element and satisfies the criteria for recognition set out in paragraph 79 of this framework. It involves the depiction of the item in words and by a monetary amount and the inclusion of that amount

in the balance sheet or income statement totals. Items that satisfy the recognition criteria should be recognised in the balance sheet or income statement. The failure to recognise such items is not rectified by disclosure of the accounting policies used nor by notes or explanatory material.

79. An item that meets the definition of an element should be recognised if —

(*a*) it is probable that any future economic benefit associated with the item will flow to or from the enterprise; and

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

80. In assessing whether an item meets these criteria and therefore qualifies for recognition in the financial statements, regard needs to be given to the materiality considerations discussed in paragraphs 25 and 26 of this framework. The inter-relationship between the elements means that an item that meets the definition and recognition criteria for a particular element, for example, an asset, automatically requires the recognition of another element, for example, income or a liability.

The Probability of Future Economic Benefit

81. The concept of probability is used in the recognition criteria to refer to the degree of uncertainty that the future economic benefits associated with the item will flow to or from the enterprise. The concept is in keeping with the uncertainty that characterises the environment in which an enterprise operates. Assessments of the degree of uncertainty attaching to the flow of future economic benefits are made on the basis of the evidence available when the financial statements are prepared. For example, when it is probable that a receivable owed by a enterprise will be paid, it is then justifiable, in the absence of any evidence to the contrary, to recognise the receivable as an asset. For a large population of receivables, however, some degree of non-payment is normally considered probable; hence, an expense representing the expected reduction in economic benefits is recognised.

Reliability of Measurement

82. The second criterion for the recognition of an item is that it possesses a cost or value that can be measured with reliability as discussed in paragraphs 27 to 34 of this framework. In many cases, cost or value must be estimated; the use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability. When, however, a reasonable estimate cannot be made, the item is not recognised in the balance sheet or income statement. For example, the expected proceeds from a lawsuit may meet the definitions of both an asset and income as well as the probability criterion for recognition; however, if it is not possible for the claim to be measured reliably, it should not be recognised as an asset or as income; the existence of the claim, however, would be disclosed in the notes, explanatory material or supplementary schedules.

FIFTH SCHEDULE — *continued*

83. An item that, at a particular point in time, fails to meet the recognition criteria in paragraph 79 of this framework may qualify for recognition at a later date as a result of subsequent circumstances or events.

84. An item that possesses the essential characteristics of an element but fails to meet the criteria for recognition may nonetheless warrant disclosure in the notes, explanatory material or supplementary schedules. This is appropriate when knowledge of the item is considered to be relevant to the evaluation of the financial position, performance and changes in financial position of an enterprise by the users of financial statements.

Recognition of Assets

85. An asset is recognised in the balance sheet when it is probable that the future economic benefits will flow to the enterprise and the asset has a cost or value that can be measured reliably.

86. An asset is not recognised in the balance sheet when expenditure has been incurred for which it is considered improbable that economic benefits will flow to the enterprise beyond the current accounting period. Instead, such a transaction results in the recognition of an expense in the income statement. This treatment does not imply either that the intention of management in incurring expenditure was other than to generate future economic benefits for the enterprise or that management was misguided. The only implication is that the degree of certainty that economic benefits will flow to the enterprise beyond the current accounting period is insufficient to warrant the recognition of an asset.

Recognition of Liabilities

87. A liability is recognised in the balance sheet when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably. In practice, obligations under contracts that are equally proportionately unperformed (for example, liabilities for inventory ordered but not yet received) are generally not recognised as liabilities in the financial statements. However, such obligations may meet the definition of liabilities and, provided the recognition criteria are met in the particular circumstances, may qualify for recognition. In such circumstances, recognition of liabilities entails recognition of related assets or expenses.

Recognition of Income

88. Income is recognised in the income statement when an increase in future economic benefits related to an increase in an asset or a decrease of a liability has arisen that can be measured reliably. This means, in effect, that recognition of income occurs simultaneously with the recognition of increases in assets or

decreases in liabilities (for example, the net increase in assets arising on a sale of goods or services or the decrease in liabilities arising from the waiver of a debt payable).

89. The procedures normally adopted in practice for recognising income, for example, the requirement that revenue should be earned, are applications of the recognition criteria in this framework. Such procedures are generally directed at restricting the recognition as income to those items that can be measured reliably and have a sufficient degree of certainty.

Recognition of Expenses

90. Expenses are recognised in the income statement when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. This means, in effect, that recognition of expenses occurs simultaneously with the recognition of an increase in liabilities or a decrease in assets (for example, the accrual of employee entitlements or the depreciation of equipment).

91. Expenses are recognised in the income statement on the basis of a direct association between the costs incurred and the earning of specific items of income. This process, commonly referred to as the matching of costs with revenues, involves the simultaneous or combined recognition of revenues and expenses that result directly and jointly from the same transactions or other events; for example, the various components of expense making up the cost of goods sold are recognised at the same time as the income derived from the sale of the goods. However, the application of the matching concept under this framework does not allow the recognition of items in the balance sheet which do not meet the definition of assets or liabilities.

92. When economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined, expenses are recognised in the income statement on the basis of systematic and rational allocation procedures. This is often necessary in recognising the expenses associated with the using up of assets such as property, plant, equipment, goodwill, patents and trademarks; in such cases, the expense is referred to as depreciation or amortisation. These allocation procedures are intended to recognise expenses in the accounting periods in which the economic benefits associated with these items are consumed or expire.

93. An expense is recognised immediately in the income statement when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the balance sheet as an asset.

FIFTH SCHEDULE — *continued*

94. An expense is also recognised in the income statement in those cases when a liability is incurred without the recognition of an asset, as when a liability under a product warranty arises.

Measurement of the Elements of Financial Statements

95. Measurement is the process of determining the monetary amounts at which the elements of the financial statements are to be recognised and carried in the balance sheet and income statement. This involves the selection of the particular basis of measurement.

96. A number of different measurement bases are employed to different degrees and in varying combinations in financial statements. They include the following:

(*a*) *Historical cost*. Assets are recorded at the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire them at the time of their acquisition. Liabilities are recorded at the amount of proceeds received in exchange for the obligation, or in some circumstances (for example, income taxes), at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.

(*b*) *Current cost*. Assets are carried at the amount of cash or cash equivalents that would have to be paid if the same or an equivalent asset was acquired currently. Liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently.

(*c*) *Realisable (settlement) value*. Assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the asset in an orderly disposal. Liabilities are carried at their settlement values; that is, the undiscounted amounts of cash or cash equivalents expected to be paid to satisfy the liabilities in the normal course of business.

(*d*) *Present value*. Assets are carried at the present discounted value of the future net cash inflows that the item is expected to generate in the normal course of business. Liabilities are carried at the present discounted value of the future net cash outflows that are expected to be required to settle the liabilities in the normal course of business.

97. The measurement basis most commonly adopted by enterprises in preparing their financial statements is historical cost. This is usually combined with other measurement bases. For example, inventories are usually carried at the lower of cost and net realisable value, marketable securities may be carried at market value and pension liabilities are carried at their present value. Furthermore, some enterprises use the current cost basis as a response to the inability of the historical cost accounting model to deal with the effects of changing prices of non-monetary assets.

FIFTH SCHEDULE — *continued*

Concepts of Capital and Capital Maintenance

Concepts of Capital

98. A financial concept of capital is adopted by most enterprises in preparing their financial statements. Under a financial concept of capital, such as invested money or invested purchasing power, capital is synonymous with the net assets or equity of the enterprise. Under a physical concept of capital, such as operating capability, capital is regarded as the productive capacity of the enterprise based on, for example, units of output per day.

99. The selection of the appropriate concept of capital by an enterprise should be based on the needs of the users of its financial statements. Thus, a financial concept of capital should be adopted if the users of financial statements are primarily concerned with the maintenance of nominal invested capital or the purchasing power of invested capital. If, however, the main concern of users is with the operating capability of the enterprise, a physical concept of capital should be used. The concept chosen indicates the goal to be attained in determining profit, even though there may be some measurement difficulties in making the concept operational.

Concepts of Capital Maintenance and the Determination of Profit

100. The concepts of capital in paragraph 98 of this framework give rise to the following concepts of capital maintenance:

(*a*) *Financial capital maintenance.* Under this concept, a profit is earned only if the financial (or money) amount of the net assets at the end of the period exceeds the financial (or money) amount of net assets at the beginning of the period, after excluding any distributions to, and contributions from, owners during the period. Financial capital maintenance can be measured in either nominal monetary units or units of constant purchasing power.

(*b*) *Physical capital maintenance*. Under this concept, a profit is earned only if the physical productive capacity (or operating capability) of the enterprise (or the resources or funds needed to achieve that capacity) at the end of the period exceeds the physical productive capacity at the beginning of the period, after excluding any distributions to, and contributions from, owners during the period.

101. The concept of capital maintenance is concerned with how an enterprise defines the capital that it seeks to maintain. It provides the linkage between the concepts of capital and the concepts of profit because it provides the point of reference by which profit is measured; it is a prerequisite for distinguishing between an enterprise's return on capital and its return of capital; only inflows of assets in excess of amounts needed to maintain capital may be regarded as profit and therefore as a return on capital. Hence, profit is the residual amount that remains

FIFTH SCHEDULE — *continued*

after expenses (including capital maintenance adjustments, where appropriate) have been deducted from income. If expenses exceed income, the residual amount is a net loss.

102. The physical capital maintenance concept requires the adoption of the current cost basis of measurement. The financial capital maintenance concept, however, does not require the use of a particular basis of measurement. Selection of the basis under this concept is dependent on the type of financial capital that the enterprise is seeking to maintain.

103. The principal difference between the two concepts of capital maintenance is the treatment of the effects of changes in the prices of assets and liabilities of the enterprise. In general terms, an enterprise has maintained its capital if it has as much capital at the end of the period as it had at the beginning of the period. Any amount over and above that required to maintain the capital at the beginning of the period is profit.

104. Under the concept of financial capital maintenance where capital is defined in terms of nominal monetary units, profit represents the increase in nominal money capital over the period. Thus, increases in the prices of assets held over the period, conventionally referred to as holding gains, are, conceptually, profits. They may not be recognised as such, however, until the assets are disposed of in an exchange transaction. When the concept of financial capital maintenance is defined in terms of constant purchasing power units, profit represents the increase in invested purchasing power over the period. Thus, only that part of the increase in the prices of assets that exceeds the increase in the general level of prices is regarded as profit. The rest of the increase is treated as a capital maintenance adjustment and, hence, as part of equity.

105. Under the concept of physical capital maintenance when capital is defined in terms of the physical productive capacity, profit represents the increase in that capital over the period. All price changes affecting the assets and liabilities of the enterprise are viewed as changes in the measurement of the physical productive capacity of the enterprise; hence, they are treated as capital maintenance adjustments that are part of equity and not as profit.

106. The selection of the measurement bases and concept of capital maintenance will determine the accounting model used in the preparation of the financial statements. Different accounting models exhibit different degrees of relevance and reliability and, as in other areas, management must seek a balance between relevance and reliability. This framework is applicable to a range of accounting models and provides guidance on preparing and presenting the financial statements constructed under the chosen model. At the present time, it is not the intention of the Council on Corporate Disclosure and Governance to prescribe a particular model other than in exceptional circumstances, such as for those

enterprises reporting in the currency of a hyperinflationary economy. This intention will, however, be reviewed in the light of world developments.

Made this 17th day of December 2002.

J Y PILLAY
Chairman,
Council on Corporate Disclosure
and Governance,
Singapore.

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