Deloitte & Touche

# Changes To Singapore Accounting Standards

2002 Edition

## ACRONYMS

| | | |
|---|---|---|
| **CCDG** | – | **Committee on Corporate Disclosure and Governance** |
| **DASC** | – | **Disclosure and Accounting Standards Committee** |
| **ED** | – | **Exposure Draft** |
| **FASB** | – | **US Financial Accounting Standards Board** |
| **IAS** | – | **International Accounting Standards** |
| **IASB** | – | **International Accounting Standards Board** |
| **ICPAS** | – | **Institute of Certified Public Accountants of Singapore** |
| **IFRS** | – | **International Financial Reporting Standard** |
| **IGC** | – | **Implementation Guidance Committee of the IASB** |
| **INT** | – | **Interpretation of a Singapore Statement of Accounting Standard** |
| **IRAS** | – | **Inland Revenue Authority of Singapore** |
| **MAS** | – | **Monetary Authority of Singapore** |
| **SAS** | – | **Singapore Statements of Accounting Standard** |
| **SGX** | – | **Singapore Exchange** |
| **SIC** | – | **Interpretation of the Standing Interpretations Committee of the IASB** |
| **US GAAP** | – | **United States Generally Accepted Accounting Principles** |

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***To Help Our Clients and Our People Excel.***

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| ***Effective for financial periods commencing on or after April 1, 2001*** | |
| SAS 12 (2001), Income Taxes | • Deferred tax calculations based on balance sheet approach instead of income statement approach.<br>• Full provision for deferred tax is required, partial provision disallowed.<br>• Only liability method to be used, deferral method disallowed.<br>• Recognition criteria of deferred tax asset changed from "beyond reasonable assurance of realisation" to "probable".<br>• Tax rate enacted at balance sheet date to be applied.<br>• Offsetting of tax liabilities only when there is legal right of offset and levied by the same tax authority, which accepts the offset and requires settlement on a net basis.<br>• More extensive disclosures |
| ***Effective for financial periods commencing on or after October 1, 2001*** | |
| SAS 30, Interim Financial Reporting | • This standard details the reporting and disclosure requirements for interim financial statements. It must be complied with for interim financial statements issued in accordance with SAS. Announcements filed with SGX are not required to state that they are in accordance with SAS, so this standard need not be complied with for interim reporting on SGX. One exception is if the interim financial statements are reviewed. As the review opinion requires a statement as to compliance with SAS, both the SGX rules and SAS 30 must be complied with. |
| SAS 39, Agriculture | • Prescribes recognition, measurement presentation and disclosure issues relating to agricultural activities and assets (animals or plants).<br>• All biological assets should be measured at fair value less estimated point-of-sale costs, with the change in the carrying amount reported as part of profit or loss from operating activities.<br>• Agricultural produce harvested from an entity's biological assets should be measured at fair value less estimated point-of-sale costs at the point of harvest; thereafter SAS 2, *Inventories* or other applicable standard applies. |
| ***Effective on April 1, 2002*** | |
| INT 19, Disclosure – Service Concession Agreement | • The INT addresses disclosure in the financial statements of a concession operator and a concession provider. The disclosure is to assist users in assessing the amount, timing and certainty of future cash flows, and the nature and extent of the various rights and obligations involved. Concession operators and providers include entities given rights to operate activities on behalf of the government, such as airports, public transportation and utilities. Controls on pricing and risks related to operation rights are important to investors in these operations. |
| INT 21, Revenue – Barter Transactions Involving Advertising Services | • Applicable only for exchange of dissimilar advertising services when the amount of revenue can be measured reliably. Such revenue should be recognised at the fair value of services provided.<br>• A seller can reliably measure the fair value of the advertising services by making reference to non-barter transactions that involve similar transactions of significant value, that occur frequently, and are paid in cash or other monetary consideration by a different counterparty. |
| INT 22, Evaluating the Substance of Transactions Involving Legal Form of a Lease | • A series of transactions that involve the legal form of a lease is linked and should be accounted for as one transaction when the overall economic effect cannot be understood without reference to the series of transactions as a whole.<br>• Other obligations, including any guarantees provided and obligations incurred upon early termination, should be accounted for under SAS 31, *Provisions* or SAS 33, *Financial Instruments* depending on the terms. |
| INT 23, Date of Exchange and Fair Value of Equity Instruments | • When an acquisition is achieved in one exchange transaction, the "date of exchange" is the date when the acquirer obtains control over the net assets and operations of the acquiree.<br>• When an acquisition is achieved in stages (e.g., successive share purchases), the fair value of the equity instruments issued as purchase consideration at each stage should be determined at the date that each individual investment is recognised in the financial statements of the acquirer.<br>• The published price at the date of exchange of a quoted equity instrument provides the best evidence of the instrument's fair value and should be used, except in rare circumstances. |

## CHANGES TO SINGAPORE ACCOUNTING STANDARDS AND INTERPRETATIONS

| | |
|---|---|
| ***Effective for financial periods commencing on or after April 1, 2002*** | |
| SAS 11, Construction Contracts and SAS 16, Revenue | • "Completed contract" method for recognition of contract revenue and cost is disallowed. |
| SAS 14, Property, Plant and Equipment | • "Same class of assets" is no longer applicable for revaluing and impairing fixed assets. |
| SAS 20, The Effects of Changes in Foreign Exchange Rates | • Deferral of exchange differences on long-term foreign currency monetary items and recognising it in the income statement in current and future periods on a systematic basis is no longer allowed.<br>• Use of closing exchange rate on balance sheet date for translating income and expense items of a foreign entity is no longer allowed. The rate on the date of the transaction or an average rate for the period must be used. |
| INT 18, Consistency – Alternative Methods | • If more than one accounting policy is available under SAS or INT, an entity should choose and apply consistently one of those policies, unless the SAS/INT specially requires or permits categorization of items. |
| INT 20, Equity – Costs of an Equity Transaction | • Costs of an equity transaction comprise those incremental external costs directly attributable to the equity transaction, which would otherwise have been avoided. They should be accounted for as an offset against the proceeds from a transaction if the transaction results in an increase in equity or a deduction from equity if the transaction results in a decrease in equity (share buy-back). If there is no change in equity, such as a bonus issue or share split, transaction costs should be expensed.<br>• The costs of a transaction, which fail to be completed, should be expensed.<br>• Transaction costs that relate to the issuance of a compound instrument that contains both a liability and an equity element should be allocated to the component parts in proportion to the allocation of proceeds.<br>• Transaction costs that relate jointly to more than one transaction, for example costs of a concurrent offering of some shares and stock exchange listing of other shares, should be allocated to those transactions using a basis of allocation, which is rational and consistent with similar transactions. |
| INT 24, Consolidation and Equity Method - Potential Voting Rights and Allocation of Ownership Interests | • The existence and effect of potential voting rights that are presently exercisable or convertible should be considered in assessing whether an entity controls or significantly influences another entity<br>• Intention of management and the financial capability to exercise or convert the potential voting rights should be not considered.<br>• The proportion allocated to the parent and minority interests in preparing consolidated financial statements, and the proportion allocated to an investor that accounts for its investment in an associate using the equity method, should be determined based on present ownership interests. |
| ***Effective for financial periods commencing on or after October 1, 2002*** | |
| INT 25, Intangible Assets – Web site Costs | • Only applies to internally generated web sites.<br>• Establishes four phases of web site development. The planning (equivalent to research phase) and operation stages are expensed, while the application and infrastructure development and content development stages are capitalised if the criteria in SAS 34, *Intangible Assets*, is met for an internally generated intangible asset. |
| ***Effective date deferred indefinitely*** | |
| SAS 25, Accounting for Investments | • "Same class of asset" is no longer applicable in revaluing and impairing investments. For example, impairment of an investment in one property may no longer be offset against the revaluation surplus of other property. |

## Changes to Singapore's Accounting Standards

The Institute of Certified Public Accountants of Singapore (ICPAS) has almost completed the process of aligning the Singapore Statements of Accounting Standards (SAS) with the International Accounting Standards (IAS). This coincides with the recommendation by the Disclosure and Accounting Standards Committee (DASC) that Singapore adopt IAS and the Minister of Finance's decision to accept their recommendation. Just as the IAS are being renamed the International Financial Reporting Standards or IFRS, Singapore accounting standards are likely to be known as Financial Reporting Standards (Singapore) or FRS (S).

The Institute issued a sizeable number of new or revised SAS last year. Many of the revised standards eliminated previously permitted alternative accounting treatments. It should be noted that full compliance with SAS does not mean full compliance with IAS, although the number of significant differences, as shown in a separate section of this booklet (see page 30), have been reduced to only a few.

In addition to the changes in the accounting standards this year, there have been major changes to the SGX Listing Manual, with further changes proposed. Also, the Singapore Companies Act has been revised by the Companies (Amendment) Act 2002, for which an effective date has not been established as at November 30, 2002.

There are a number of changes to the Companies Act that will impact all companies. For example, the disclosure requirements of the Ninth Schedule have been repealed and the contents of the Director's Report have been substantially reduced.

The implementation of the changes to the accounting standards should begin before the effective date of the change. This allows management to consider the effect on their financial results, including the impact on ratios like the equity ratio and earnings per share. This implementation could influence contractual agreements between the entity and counterparties. An example would be debt covenants in a loan agreement requiring certain minimum ratios, gearing, shareholder funds, etc.

The accounting changes required by these standards will impact not only how you account for transactions, but the level of disclosure provided in your financial statements. The changes in recognition and measurement may have tax implications for your organisation, along with prior year adjustments made for those standards requiring retrospective treatment.

Specific details of each standard and its effective date are provided in the next section of this publication. The following section highlights the changes that will impact most financial statements issued in Singapore.

## Exposure Drafts

- ED/SAS 40, *Investment Property,* will require that investment property be stated at fair value or cost. If stated at cost, it should be accounted for at cost with a depreciation charge and any adjustment for impairment (revaluation is not allowed under the cost method). The valuation method selected must be applied to all investment properties.

- ED/SAS 47, is a comprehensive improvements exposure draft that is scheduled to be made effective at the international level for financial statement periods beginning on or after January 1, 2003. Singapore has not provided a scheduled effective date. The draft proposes a wide range of changes to existing standards. Many of these changes eliminate alternative accounting treatments currently available. Pages 13-16 provide further details of this exposure draft.

- ED/SAS 48, proposes significant changes to SAS 32 and SAS 33. SAS 33 will not take effect in Singapore until January 1, 2004, so any changes for SAS 33 would not be effective until that date. Many of these changes serve to converge the international standards on financial instruments with those of the United States. Pages 17-24 provide further details of this exposure draft.

- ED/FRS 1, First Time Application of FRS, is the first exposure draft issued by the CCDG. This draft proposes requirements applicable when an entity adopts FRS as its primary basis of accounting for the first time. It includes a number of exemptions that would not be relevant to most companies in Singapore as they have already adopted the standards and applied the transitional provisions found in the individual standards.

- ED/FRS 2, Share-Based Payment, has been issued with the objective to recognise all share-based payment transactions as an expense based on fair values determined at the grant date if the services are provided by employees and at the fair value of goods or services provided by non-employees. If cash settlement is required, or allowed at the option of the holder of the share-based instruments, a liability is accrued and remeasured until settled. Options awarded to employees are expensed over their vesting period based on the value determined at the grant date. If the option is cancelled or forfeited, the expense recognition ceases, but no reversal of past expense is made to income. Any related liability or equity reserve would be transferred to retained earnings.

### IASB Projects

The IASB has undertaken projects that should significantly change the accounting requirements in key areas. These projects should result in changes to the SAS in 2003 or 2004. Key changes anticipated include:

- Merger accounting will be repealed and all business combinations will be accounted for as acquisitions;

- Goodwill and other non-wasting intangible assets will no longer be amortised, but it will be tested for impairment; and

- Financial statement requirements will be revised with the elimination of extraordinary items, the use of US concept of comprehensive income, and the elimination of a distinction between operating and non-operating.

These revisions to the accounting standards in Singapore may have a significant impact on the results of an enterprise. From the effective date of the standards, your finance department should be ready to capture the right information and report to management in accordance with the new standards. Trying to implement accounting standards while preparing statutory accounts could give management some very unpleasant surprises, and should be avoided.

We have prepared this publication to keep you abreast of the changes and to alert you to the impact they will have on your organisation's accounting and financial reporting requirements. We hope you will find the publication useful. Deloitte & Touche looks forward to helping you implement the new accounting standards.

■ Please consult with your Client Service Partner for further clarification.

### *Is your enterprise ready to face the changes?*

During the last three years the Institute of Certified Public Accountants of Singapore (ICPAS) has rapidly accelerated its harmonisation programme designed to bring the Singapore Statements of Accounting Standards (SAS) in line with the International Accounting Standards (IAS). During that time, the ICPAS has rewritten the book on accounting in Singapore. Many existing standards have been significantly revised, and new standards have been issued to cover material that has not been previously addressed.

When all the current exposure drafts have been approved, Singapore would have adopted the core set of IASB standards. The ICPAS announced in August 2000 that they will accelerate the process of standard-setting by publishing exposure documents at approximately the same time as IASB exposure drafts, allowing entities to simultaneously comply with SAS and IAS. As a result, Singapore has almost achieved full convergence with IAS (see page 30 for a schedule of remaining differences). It is important to note that full compliance with IAS would require that all standards be implemented on the IAS effective dates. Hence, full compliance with SAS does not mean full compliance with IAS.

It is important to understand that these sweeping changes to the SAS are mandatory. SAS 1 clearly states that:

> "*Financial statements should* ***not*** *be described as complying with Statements of Accounting Standard unless they comply with all the requirements of each applicable standard.*"

Many of the accounting treatment options previously available have been eliminated by clear requirements with regard to recognition, measurement and disclosure. More of the existing alternative treatments will be eliminated by an ongoing improvements project designed to harmonise IAS with the accounting standards in major jurisdictions, especially the United States.

While the standards do allow for a "true and fair" override of the standard when compliance would result in the financial statements not being true and fair, this does not mean that alternative treatments are acceptable if they provide equally acceptable or even superior information. The information resulting from the application of the standard must be clearly misleading. "Cherry-picking", whereby entities pick the part of the standards they want to apply and ignore the rest, is also not allowed.

Below you will find a summary of recently approved standards and exposure drafts. These short summaries highlight major changes to the current accounting practice in Singapore. We would like to emphasise the importance of reading the full standards to get an understanding of how they specifically influence your enterprise. Attention should be given to the comprehensive disclosure requirements in the standards. Also, please note that comparative information is required to be restated in most cases.

### SAS 1, PRESENTATION OF FINANCIAL STATEMENTS

This revised standard is effective for financial statements covering periods beginning on or after April 1, 2002. The requirement that interpretations of the standards, known as INTs, carry the same weight as standards and must be complied with in order for the accounts to be in accordance with SAS is emphasised by this revision.

### SAS 11, CONSTRUCTION CONTRACTS

This revised standard is effective for financial statements covering periods beginning on or after April 1, 2002. This standard previously permitted as an allowed alternative treatment contract revenues and expenses associated with a construction contract to be recognised as revenues and expenses respectively when the contract is completed or substantially completed. The completed contract method of revenue recognition for construction contracts has been eliminated.

## SAS 12, INCOME TAXES

This revised standard is effective for financial statements covering periods beginning on or after April 1, 2001. This revision of the existing standard will require your entity to review previous deferred tax calculations in light of the changes, and then identify the tax base and compare it with the carrying amounts. Net deferred tax assets or tax assets arising from tax losses should be reviewed and perhaps be recognised in accordance with the standard.

***Significant changes***:

There are two types of temporary differences; taxable temporary differences (resulting in a deferred tax liability) and deductible temporary differences (resulting in a deferred tax asset). Examples of the two types of differences are shown in Appendix A of SAS 12. Figure 1 and Appendix B provide examples on computation and presentation of current and deferred tax.

The original SAS 12 required an entity to account for deferred tax using either the deferral method or a liability method. Entities were allowed to recognise partial deferred tax.

Rather than applying an income statement approach using a liability method or a deferral method, the revised standard takes a balance sheet approach under which the carrying amount of assets and liabilities in the balance sheet are compared with their tax base. The resulting differences - called temporary differences - are multiplied by the applicable tax rate. With limited exception, all such deferred tax liabilities must be recognised in the balance sheet, whereas, subject to limited exceptions, deferred tax assets are recognised in the balance sheet only to the extent that it is probable that there will be sufficient taxable profits in the future to enable the asset to be recovered.

The revised standard requires the tax to be charged or credited wherever the underlying transaction has been recognised, i.e., the income statement, equity, or, in the case of fair value adjustments, goodwill.

- Deferred tax assets should be recognised when it is probable that taxable profits will be available against which the deferred tax asset can be utilised. Where an entity has a history of tax losses, the entity recognises a deferred tax asset only to the extent that the entity has sufficient taxable temporary differences or there is other convincing evidence that sufficient taxable profit will be available.

- SAS 12.39 requires an entity to recognise a deferred tax liability for all taxable temporary differences (including temporary differences arising on undistributed profits and foreign exchange translation differences) associated with investments in subsidiaries, associates, joint ventures and branches unless both of the following conditions are met; (a) the parent or investor is able to control the timing of the reversal of the temporary difference; and (b) it is probable that the temporary difference will not reverse in the foreseeable future. SAS 12.44 requires a deferred tax asset to be recognized if the temporary difference will reverse in the foreseeable future and taxable profit will exist to utilize the temporary difference against. If a deferred tax asset or liability is not recognised, the amount of temporary differences concerned should be disclosed in accordance with SAS 12.81(f).

- The revised standard requires an entity to recognise the deferred tax liability or asset resulting from fair value adjustments made on a business combination with a corresponding effect on goodwill or negative goodwill.

- Measurement of deferred tax liabilities and deferred tax assets should be based on the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities.

Illustration of the schedule of deferred tax movements:

| | 2002 | 2001 |
|---|---|---|
| | S$'000 | S$'000 |
| Analysis for financial reporting purposes | | |
| Deferred tax liabilities | 15,447 | 6,372 |
| Deferred tax assets | (2,661) | (3,400) |
| Net position at December 31 | 12,786 | 2,972 |

The movement for the year in the Group's net deferred tax position was as follows:

| | Year ended 31/12/02 | Year ended 31/12/01 |
|---|---|---|
| | S$'000 | S$'000 |
| At January 1 | 2,972 | 2,172 |
| Charge to income for the year | 6,046 | 838 |
| Charge to equity for the year | 3,858 | - |
| Net liability disposed of on disposal of subsidiary | (189) | - |
| Net asset acquired on acquisition of subsidiary | (201) | - |
| Exchange differences | 390 | (38) |
| Effect of change in tax rate | (90) | - |
| At December 31 | 12,786 | 2,972 |

The following are the major deferred tax liabilities and assets recognized by the Group and movements thereon during the period:

Deferred tax liabilities

| | Accelerated tax depreciation | Deferred development costs | Revaluation of properties | Convertible bond-equity component | Total |
|---|---|---|---|---|---|
| | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 |
| At January 1, 2002 | 4,696 | - | 1,676 | - | 6,372 |
| Charge to income for the year | 4,748 | 547 | - | (52) | 5,243 |
| Charge to equity for the year | - | - | 3,699 | 159 | 3,858 |
| Acquisitions/disposals | (140) | - | - | - | (140) |
| Exchange differences | 317 | - | 8 | - | 325 |
| Effect of change in tax rate | (127) | - | (84) | - | (211) |
| At December 31, 2002 | 9,494 | 547 | 5,299 | 107 | 15,447 |

*Figure 1*

Deferred tax assets

| | Retirement benefit obligations | Tax Losses | Total |
|---|---|---|---|
| | S$'000 | S$'000 | S$'000 |
| At January 1, 2002 | (2,561) | (839) | (3,400) |
| Charge to income for the year | 214 | 589 | 803 |
| Acquisitions/disposals | 141 | (391) | (250) |
| Exchange differences | 65 | - | 65 |
| Effect of change in tax rate | 97 | 24 | 121 |
| At December 31, 2002 | (2,044) | (617) | (2,661) |

*Figure 1 (continued)*

The revised standard requires comprehensive disclosures including a numerical reconciliation between tax expense (income) and the product of accounting profit multiplied by the applicable tax rate(s) or a numerical reconciliation between the average effective tax rate and the applicable tax rate. (See figures 2 and 3 for illustrations)

Illustration of reconciliation of accounting profit and tax expense:

| | Year ended 12/31/02 | Year ended 12/31/01 |
|---|---|---|
| | S$'000 | S$'000 |
| Profit before tax | 125,672 | 28,223 |
| Tax at the domestic income tax rate of 22% (2001 - 24.5%) | 27,648 | 6,915 |
| Tax effect of expenses that are not deductible in determining taxable profit | 301 | 23 |
| Tax effect of utilisation of tax losses not previously recognised | (1,185) | (392) |
| Decrease in opening deferred tax liability resulting from a reduction in tax rates. | (90) | - |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | 472 | 82 |
| Tax expense for the year charged to the income statement | 27,146 | 6,628 |

*Figure 2*

Illustration of reconciliation of the statutory tax rate to the effective tax rate:

| | Year ended 12/31/02 | Year ended 12/31/01 |
|---|---|---|
| | % | % |
| Tax at the domestic income tax rate | 22.0 | 24.5 |
| Tax effect of expenses that are not deductible in determining taxable profit | 0.2 | 0.1 |
| Tax effect of utilisation of tax losses not previously recognised | (0.9) | (1.4) |
| Decrease in opening deferred tax liability resulting from a reduction in tax rates. | (0.1) | - |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | 0.4 | 0.3 |
| Effective tax rate for the year used in the income statement | 21.6 | 23.5 |

*Figure 3*

**Group Relief**

Currently, each company within a group is considered a separate taxable entity and is taxed independently. Unabsorbed losses and capital allowances incurred by one company may not be offset against the taxable profits of another company within the same group. The new group relief system will allow a company to transfer its current year unabsorbed capital allowances, current year unabsorbed trade losses and current year unabsorbed donations (collectively known as "qualifying deductions") to a company in the same group. The transferee company may then deduct the qualifying deductions from its assessable income for the same Year of Assessment (YA).

Legislation outlining the group relief regime was introduced in Singapore's Parliament on October 31, 2002. The legislation follows an October 23, 2002 circular issued by the Inland Revenue Authority of Singapore (IRAS) setting out how the new regime will benefit corporate groups. The group relief system will take effect from YA 2003, which would apply to financial years ending in 2002. For the purposes of group relief, generally a group consists of a Singapore incorporated parent company and all its 75% owned Singapore incorporated subsidiaries. The group relief scheme would not include certain items such as the transfer of investment allowances and foreign losses, etc. Key elements of the scheme are as follows:

- The scheme has the features of transferring tax benefits within a group.
- Both the transferor and the transferee company must be members of the same group on the last day of the basis period. Only Singapore-incorporated companies and their Singapore-incorporated group members qualify for group relief. Various other criteria need to be considered in determining which companies are within a group for the full period under consideration.
- It is not mandatory to utilise the group relief provisions.
- When the group relief provisions are applied, it is necessary to consider accounting for such benefits transferred within a group by giving a value to such benefits, i.e., the tax value of the losses transferred.

- Whilst it is not essential to value such transfers through the income statement via the inter-company accounts, it is preferable to follow the matching concept. If the transfer of such benefits is not given accounting recognition, disclosures must be made in the related parties note and income tax note.

- When the transferor company and the transferee company are not part of a group wholly owned by the same entity, the minority shareholders and possibly the creditors, may suffer or gain from such transfers of tax benefits for no consideration. This may not be considered equitable by the minority shareholders and creditors.

**Rate Change After Balance Sheet Date**

In the past, we have used the income tax rate that would likely apply when the income tax liability is paid or a deferred tax asset is realised or the deferred tax liability is settled. The applicable accounting standard, SAS 12, *Income Taxes*, has been changed with effect for financial periods beginning on or after April 1, 2001.

SAS 12.47 states that deferred tax assets and liabilities should be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

This is further supported by SAS 10.21 (h) which indicates that changes in tax rates or tax laws enacted or announced after the balance sheet date that have a significant effect on current and deferred tax assets and liabilities is a non-adjusting event that may be of such importance that non-disclosure would affect the ability of the users of the financial statements to make proper evaluations and decisions.

The accounting standards are clear in this regard that the rate to be used to calculate deferred tax for financial year-ends prior to May 3, 2002, should be 24.5% and not 22%, even though the rate change has been enacted before the financial statements have been issued.

**Items credited or charged directly to equity**

SAS 12.61 requires current tax and deferred tax to be charged to equity if the tax relates to items that are credited or charged in the same or a different period directly to equity.

Examples of such items are:
- Revaluations of property, plant and equipment, and
- Adjustments to the opening balance of retained earnings due to a change in accounting policy or fundamental error.

**Transfers from Revaluation Reserves to Retained Earnings**

If a fixed asset is revalued under SAS 14, *Property, Plant and Equipment*, the surplus is recorded in equity under the heading revaluation surplus. SAS 14.39 and SAS 12.64 allow an entity to transfer to retained earnings an amount equal to the difference between the depreciation or amortisation on a revalued asset and the depreciation or amortisation based on the cost of that asset. If an entity makes such a transfer, the amount transferred is net of any related deferred tax.

**Pioneer Status**

Under pioneer status, an entity will not have current tax, but that does not mean that there will not be any deferred tax liabilities. Deferred tax liabilities are recognised if temporary differences will result in tax consequences based on current tax laws and tax status, when the entity comes out of its pioneer period. The rate used should be that which will be applicable based on current information on exit from pioneer status.

Under the Singapore tax law, capital allowances will still be utilised during the pioneer period, even though the company is not taxed. As a result, when a company emerges from pioneer status the assets may have a net book value different from their tax written down value, resulting in a deferred tax asset or liability.

An entity cannot avoid recognising a deferred tax liability on the assumption that they will be loss making or will continue in a pioneer status.

### SAS 16, REVENUE

This revised standard is effective for financial statements covering periods beginning on or after April 1, 2002. This standard permitted revenue to be recognised by reference to the stage of completion of the transaction at the balance sheet date or when the contract or transaction was completed or substantially completed. The completed contract method of revenue recognition has been eliminated.

### SAS 17, EMPLOYEE BENEFITS

This revised standard is effective for financial statements covering periods beginning on or after April 1, 2002. Changes are made in the section on defined benefit plans, specifically the asset ceiling requirements.

While not a change, it should be noted that payment to the Central Provident Fund is a defined contribution plan under this standard and requires disclosure in the financial statements.

### SAS 20, THE EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES

This revised standard is effective for financial statements covering periods beginning on or after April 1, 2002. The revisions to this standard eliminated a number of practices inconsistent with the comparable IAS. The accounting treatments eliminated by the revision are as follows:

- The alternative treatment that allowed exchange differences on long-term foreign currency monetary items to be deferred and recognised in the income statement in current and future periods on a systematic basis. Now all gains or losses must be recognized in income in the period in which the gain or loss occurred.

- As an allowed alternative to the above treatment, SAS 20 permits the reporting entity to use the closing rate applicable on the balance sheet date for translating income and expense items of a foreign entity.

### SAS 30, INTERIM FINANCIAL REPORTING

This new standard is effective for financial statement periods beginning on or after October 1, 2001. The objective of the standard is to prescribe the minimum content of an Interim Financial Report and the principles for recognition and measurement in financial statements presented for an interim period. The standard does not mandate which entities should publish interim financial reports, how frequently they should publish them or how soon after the end of an interim period.

***Significant issues:***

- An interim financial report is a financial report that contains either a complete or condensed (minimum) set of financial statements for a period shorter than an entity's full financial year.

- The **minimum components** specified for interim financial reports are:

  – condensed balance sheet;

- condensed income statement including basic and diluted earnings per share;
- condensed statement of changes in equity;
- condensed cash flow statement; and
- selected explanatory notes.

The SGX requires the interim announcement to be in the same format as the annual announcement, so full statements are required by the SGX. The Listing Manual also requires a number of explanatory notes not mandated by the standard.

- An entity should apply the same accounting policies in its interim financial statements as are applied in its annual financial statements, thus the principles for recognising assets, liabilities, income, and expenses for the interim periods are the same as in annual financial statements.

- There are also different requirements for comparative figures and year-to date results depending on which period is reported. Comparative figures for the balance sheet are for the last financial year, while the comparative figures for all other financial periods are for like periods from the prior year. All financial statements are year-to-date, except the income statement, which is shown for both the current period and year-to-date.

## SAS 37, INFORMATION REFLECTING THE EFFECTS OF CHANGING PRICES

This revised standard is effective for financial statements covering periods beginning on or after April 1, 2002. This Standard was introduced in 2001 to require the disclosure of information reflecting the effects of changing prices for significant companies. The revision to the standard makes these disclosures optional. While the effective date of the standard would require disclosure for financial years beginning on or after April 1, 2001, practice has been not to make such disclosures, as they will not be required in the following financial year, as this standard will be eliminated by the Improvement Project.

## SAS 39, AGRICULTURE

This new standard is effective for financial statement periods beginning on or after October 1, 2001. The international equivalent, IAS 41, is not effective until January 1, 2003, so there are limited examples on how to apply this standard. It prescribes the accounting treatment for agricultural activity, which is the management of the transformation of biological assets (living animals or plants) into agricultural produce or into additional biological assets.

The standard requires that:

- All biological assets should be measured at fair value less expected point of sale costs;

- All agricultural produce should be measured at fair value at the point of harvest (thereafter, inventory accounting standards apply);

- Fair value is the highest price obtainable, net of costs, in any available market;

- Non-biological assets used in agricultural activity should follow existing SAS; and

- Unconditional government grants received in respect of biological assets measured at fair value are reported as income when the grant becomes receivable.

## Exposure Drafts

It is anticipated that these EDs will take effect for financial periods beginning during 2003. Comparative information would be required for the current period; therefore, it is necessary to begin addressing these standards immediately.

## ED/SAS 40, INVESTMENT PROPERTY

This ED prescribes the accounting treatment for investment property and related disclosure requirements. It will replace previous requirements in SAS 25, *Accounting for Investments*, which would then be withdrawn.

This standard applies only to land or buildings - or a part of a building - or both held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both. It does not apply to property held for use in the production of goods or services, or for administrative services (SAS 14, *Property, Plant and Equipment*) or sale in the ordinary course of business (SAS 2, *Inventories*). The draft includes property under a finance lease under the definition of investment property, but identifies land under long-term leases as operating leases subject to SAS 15, *Leases*. This is being addressed in ED/SAS 47 and long-term leasehold land will be treated as a finance lease if the other criteria for investment property is met. In such instances, the fair value method must be used.

The ED introduces a fair value method and limits the accounting options to either the fair value method or a cost method. The cost method does not allow revaluation. The entity should apply the same model chosen to all its investment property. The fair value model reflects the current market value of the asset at the balance sheet date, with any increase or decrease in value taken to the income statement. The fair value method requires an adjustment to the opening balance of retained earnings upon adoption. The cost model is the benchmark treatment described in SAS 14, *Accounting for Property, Plant and Equipment* and is cost less any accumulated depreciation and any impairment losses. Revaluation is not allowed under this model.

The standard does not distinguish between property occupied by another entity in the same group and property leased to other parties in respect of financial statements for an individual entity. However, adjustments will be needed for group accounts to reclassify the investment property as a fixed asset subject to depreciation if it is occupied by another entity within the group. Furthermore, the standard encourages, but does not require, an entity to determine the fair value of all investment property on the basis of a valuation by an independent valuer.

## ED/SAS 47, PROPOSED IMPROVEMENTS TO STATEMENTS OF ACCOUNTING STANDARDS

This exposure draft is a comprehensive draft designed primarily to achieve the objectives of greater convergence with US GAAP, incorporation of many of the INTs into the standards, and improved clarity and consistency.

### ED/SAS 1, Presentation of Financial Statements

- Amends the basis for exemption from disclosing particular items of comparative information from “impracticability” to “causing undue cost or effort”.

- Amends SAS 1 to allow an entity to use a liquidity presentation of assets and liabilities, instead of a current/non-current presentation, only when a liquidity presentation provides more relevant and reliable information.

- Amends SAS 1 to specify that a long-term financial liability that is payable on demand because the entity breached a condition of its loan agreement should be classified as current at the balance sheet date even if the lender has agreed after the balance sheet date, and before the financial statements are authorised for issue, not to demand payment as a consequence of the breach.

- Removes the following disclosures:

- the results of operating activities, as a line item on the face of the income statement;
- the address of its registered office; and
- the number of employees.

- Requires disclosure of the judgments made by management in applying the accounting policies that have the most significant effect on the amounts of items recognised in the financial statements. For example, management makes judgments in determining whether financial assets are held-to-maturity investments.

- Requires disclosure of key assumptions about the future, and other sources of measurement uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The nature and extent of the information provided varies according to the nature of the assumption and other circumstances. Examples of the types of disclosures made are:

  - the nature of the assumption or other measurement uncertainty;
  - the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity;
  - the expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected; and
  - an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.

### ED/SAS 8, Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies

- Removes the distinction between fundamental errors (errors of such significance that financial statements are not valid) and other material errors.

- Removes the allowed alternative treatment of corrections of errors, which allows adjustments to income.

- Amends SAS 8 so that when accounting retrospectively for a correction of an error, the basis for exemption from restating comparative information for a particular prior period changes from "impracticability" to "undue cost or effort".

- Amends SAS 8 to require, rather than encourage, disclosure of the nature of a future change in an accounting policy when an entity has yet to implement a new standard that has been issued but not yet come into effect. In addition, disclosure would be required of the planned date of adoption, and an estimate of the effect of the change on the entity's financial position unless making such an estimate requires undue cost or effort.

### ED/SAS 14, Property, Plant and Equipment

Amends SAS 14 to clarify that the requirement to review "periodically" the useful life and depreciation method of an item of property, plant and equipment means that such reviews must occur at least at each financial year-end.

Specifies that depreciation of an item of property, plant and equipment does not cease when it becomes temporarily idle or is retired from active use and held for disposal.

Amends SAS 14 to require disclosure of the following for items of property, plant and equipment stated at revalued amounts:

(a) the basis used to revalue the assets;
(b) the effective date of the revaluation;
(c) whether an independent valuer was involved;
(d) the methods and significant assumptions applied in estimating the assets' fair values;
(e) the extent to which the assets' fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms or were estimated using other valuation techniques;
(f) for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the benchmark treatment; and
(g) the revaluation surplus, indicating the movement for the period and any restrictions on the distribution of the balance to shareholders.

### ED/SAS 15, Leases

Clarifies that when a single lease covers both land and buildings, the lease shall be split into two elements. The land element is generally classified as an operating lease under SAS 15.11. The buildings element is classified as an operating or finance lease by applying the criteria of SAS 15. However, the definition of investment property in SAS 40 is being amended so that property rights held under an operating lease can qualify as investment property if the other conditions for investment property are met and the lessee's policy is to account for investment property using the fair value model.

Eliminates the choice of how a lessor accounts for initial direct costs incurred in negotiating a lease by requiring that such costs that are incremental and directly attributable to the lease be capitalised and allocated over the lease term.

### ED/SAS 20, The Effects of Changes in Foreign Exchange Rates

Replaces the notion of 'reporting currency' in SAS 20 with two notions: Functional Currency (the currency in which the entity measures the items in its financial statements) and Presentation Currency (the currency in which the entity presents its financial statements).

Revises the provisions in SAS 20 on distinguishing between foreign operations that are integral to the operations of the reporting entity (referred to below as 'integral foreign operations') and foreign entities, to become part of the indicators of what is an entity's functional currency. As a result:

- there is no distinction between integral foreign operations and foreign entities. Rather, an entity that was previously classified as an integral foreign operation will have the same functional currency as the reporting entity.
- only one translation method is needed for foreign operations—namely that previously described in SAS 20 as applying to foreign entities.

Removes the allowed alternative treatment in SAS 20.21 that allows certain exchange differences to be capitalised.

Includes a new requirement that a change in functional currency is accounted for prospectively.

### ED/SAS 26, Consolidated Financial Statements and Accounting for Investments in Subsidiaries

Modifies the exemption from preparing consolidated financial statements to indicate that a parent need not present consolidated financial statements to comply with the accounting standards if and only if:

(a) it is a wholly-owned subsidiary or the owners of the minority interests, including those not otherwise entitled to vote, unanimously agree that the parent need not present consolidated financial statements;
(b) its securities are not publicly traded;

(c) it is not in the process of issuing securities in public securities markets; and
(d) the immediate or ultimate parent publishes consolidated financial statements that comply with Singapore's accounting standards.

Note that while the RCB may grant waivers from the provisions of the Companies Act with regard to consolidation at the intermediate holding company level, they may not waive accounting standard requirements. Therefore item (d) would require intermediate holding companies to present consolidated accounts unless their parent adopted Singapore accounting standards or their equivalent, the IFRS.

Changes the criterion for exclusion from the scope of consolidation when control is intended to be temporary from "in the near future" to "within twelve months from the date of acquisition".

Requires minority interests to be presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity.

### ED/SAS 27, Accounting for Investments in Associates

When investments meeting the criteria of associates and joint ventures are held by venture capital organisations, mutual funds, unit trusts and similar entities and are measured at fair value in accordance with well-established practice in those industries, those investments will be accounted for at fair value using SAS 33.

### ED/SAS 37, Information Reflecting the Effects of Changing Prices

This standard would be withdrawn.

### ED/SAS 40, Investment Property

Amends the definition of investment property to permit a property interest held by a lessee under an operating lease to qualify as investment property provided that:
(a) the rest of the definition of investment property is met; and
(b) the lessee uses the fair value model set out in SAS 40.

Requires a lessee that classifies a property interest held under an operating lease as investment property to account for the lease as if it were a finance lease.

### ED/SAS 48, Proposed Amendments to SAS 32, Financial Instruments: Disclosure and Presentation and SAS 33, Financial Instruments: Recognition and Measurement

This exposure draft intends to converge these standards with US GAAP on a number of issues, incorporate a number of INTs and the IAS 39 questions and answers into the standards, and provide increased or clearer guidance on a number of issues.

### ED/SAS 32, Financial Instruments: Disclosure and Presentation

#### Classification of compound instruments by the issuer

The options in IAS 32 to measure the liability element of a compound financial instrument initially either as a residual amount after separating the equity element or by measuring the elements based on a relative-fair-value method are eliminated. Instead, any asset and liability elements are separated first and the residual is the equity element.

#### Disclosure

The existing disclosure requirements in SAS 33 are moved to SAS 32.

Disclosure is required of the extent to which fair values are estimated using a valuation technique to:

- the extent to which valuations using valuation techniques are based on assumptions that are not supported by observable market prices.
- the sensitivity of the estimated fair value to changes in those assumptions based on a range of reasonably possible alternative assumptions.
- the change in fair values estimated using valuation techniques recognised in profit or loss during the reporting period.
- the nature and extent of transfers of financial assets that do not qualify for derecognition.
- the risks inherent in any component that continues to be recognised after a transfer of financial assets that does not qualify for derecognition.
- the difference between the carrying amount and settlement amount of non-derivative financial liabilities that are carried at fair value.
- defaults in the payment of principal or interest and breaches of sinking fund or redemption provisions on loans payable, and any other breaches of loan agreements when those breaches can permit the lender to demand repayment.

An issuer of a compound instrument with multiple embedded derivative features (such as an issued callable convertible bond) is required to disclose information about the existence of those features and the effective yield of that instrument.

## ED/SAS 33, Financial Instruments: Recognition and Measurement

This is a new standard on recognition and measurement of financial instruments and it is effective for financial statements covering financial years beginning on or after January 1, 2004. This statement will supersede SAS 25, *Accounting for Investments*. The standard is very complex and implementation of the standard will require considerable resources. It is currently undergoing a major revision under ED/SAS 48. In order to make this section more useful, we have summarized the standard based upon what will likely be the standard issued in 2003 and adopted in Singapore in 2004.

### Financial Assets and Liabilities

### Definitions

**Trading financial asset and liabilities** are assets and liabilities that were acquired or incurred principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. A financial asset should be classified as held for trading if, regardless of why it was acquired, it is part of a portfolio for which there is evidence of a recent actual pattern of short-term profit-taking. Derivative financial assets and derivative financial liabilities are always deemed held for trading unless they are designated and effective hedging instruments.

**Held-to-maturity investments** are financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intent and ability to hold to maturity other than loans and receivables originated by the entity.

**Originated loans and receivables** are financial assets that are created by the entity by providing money, goods, or services directly to a debtor, other than those that are originated with the intent to be sold immediately or in the short term, which should be classified as held for trading.

**Available-for-sale financial assets** are those financial assets that are not (a) loans and receivables originated by the entity, (b) held-to-maturity investments, or (c) financial assets held for trading.

**Initial Classification of Financial Assets and Liabilities**

When this standard is adopted, all financial assets and liabilities must be identified, classified and measured. While the standard currently requires a systematic approach to classification based on the nature of the asset or liability, it is proposed that an entity be permitted to measure any financial asset or financial liability at fair value, with changes in fair value recognised in profit or loss, by designating it at initial recognition as held for trading.

In presenting and disclosing information, an entity uses an appropriate label for such instruments other than 'trading' (such as 'financial instruments at fair value (through net income)'). To impose discipline on this approach, an entity is precluded from reclassifying financial instruments into (or out of) this category while they are held. The objective of the proposed amendment is to simplify the application of SAS 33 (for example, for hybrid instruments and for entities with matched asset/liability positions) and to enable consistent measurement of financial assets and financial liabilities.

The existing standard requires that when the asset or liability is classified at the beginning of the financial year in which this standard is initially applied, an entity should identify those financial assets and liabilities that should be measured at fair value and those that should be measured at amortised cost, and it should remeasure those assets as appropriate. Any adjustment of the previous carrying amount should be recognised as an adjustment of the balance of retained earnings at the beginning of the financial year in which this standard is initially applied. The revised standard proposes retrospective treatment with regard to the revisions. As a result, the transitional provisions may be tailored for those entities that have not previously applied the standard.

**Measurement**

The option to recognise gains and losses on available-for-sale financial assets in profit or loss is eliminated (the option is no longer necessary as any instrument may be designated as trading), so all changes in value on available-for-sale financial assets will be recognized in equity until disposed of or impaired. Under the proposed amendment above, an entity is permitted by designation as trading to measure any financial instrument at fair value with gains and losses reported in net income. An entity is permitted to designate an asset that would otherwise be classified as a loan or receivable originated by the entity as an available-for-sale financial asset.

Additional guidance is provided about how to determine fair values using valuation techniques. The objective is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations. A valuation technique (a) incorporates all factors that market participants would consider in setting a price and (b) is consistent with accepted economic methodologies for pricing financial instruments. In applying valuation techniques, an entity uses estimates and assumptions that are consistent with available information about the estimates and assumptions market participants would use in setting a price for the financial instrument.

**Subsequent Measurement**

Figure 4 below summarises the key accounting treatment for assets, liabilities and derivatives following initial recognition:

| Category | Subsequent Measurement | Presentation of Changes in Fair Value | Impairment Test of Carrying Value |
|---|---|---|---|
| Assets | | | |
| 1. Trading Assets | Fair Value | Income Statement | No |
| 2. Originated Loan or Receivable | Amortised Cost | Income Statement | Yes |
| 3. Held-to-Maturity Investment | Amortised Cost | Income Statement | Yes |
| 4. Available-For- Sale | Fair Value[1] | Income Statement or Equity (one-time choice)[2] | Yes |
| Liabilities | | | |
| 1. Trading | Fair Value | Income Statement | No |
| 2. Other | Amortised Cost | Income Statement | No |
| Derivatives | | | |
| 1. Trading | Fair Value | Income Statement | No |
| 2. Hedge | Fair Value | Income Statement<br>Equity[3] | Fair Value hedge<br>Cash Flow hedge[4] |

*Figure 4*

[1] Except, where in rare cases fair value cannot be measured.
[2] Option to take to income will be eliminated in 2003.
[3] To be released to the income statement when the hedge item is released.
[4] Currently a cash flow hedge includes a hedge of a firm commitment. Hedges of firm commitments will be fair value hedges in 2003.

**Transfers of Between Categories of Financial Assets**

An entity may find that they want to or need to change the classification of a financial asset to reflect changing circumstances. The table Figure (5) below summarises the restrictions on such transfers.

| Transfers To:<br>Transfers From: | Trading | Originated Loans and Receivables | Held-to-Maturity | Available-for-Sale |
|---|---|---|---|---|
| **Trading** | | Not permitted | Not permitted | Not permitted |
| **Originated Loans and Receivables** | Not permitted | | Not permitted | Not permitted |
| **Held-to-Maturity** | Not permitted | Not permitted | | If change in intent or ability – May result in tainting |
| **Available-for-Sale** | Not permitted | Not permitted | If change in intent or ability or when tainting period is over | |



*Figure 5*

## Fundamental Concepts of Recognition and Measurement

- The standard requires that all financial assets and financial liabilities should be recognised on the balance sheet. Subsequent to initial recognition at cost, all financial assets should be remeasured to fair value, except:
  a. loans and receivables originated by the entity and not held for trading,
  b. other fixed maturity investments that an entity intends and is able to hold to maturity,
  c. financial assets whose fair value cannot be reliably measured.
- The financial instruments listed above should, as an exception to the main rule, be carried at amortised cost. Amortised cost is cost at initial recognition, plus or minus the cumulative amortisation of any difference between the initial amount recognised and the amount at maturity, minus any write-down in value or repayment.

- All financial liabilities should be recognised at amortised cost, except liabilities held for trading, which should be remeasured to fair value. Amortised cost is the proceeds from issuing the liability, net of transaction costs amortised over the life of the liability so that the carrying amount at maturity is the amount repayable at maturity.

- For available-for-sale financial assets, there is a one-time election to record changes in value in income or in equity until the financial asset is sold. This will be changed prior to the effective date of the standard, and all changes in value for available-for-sale assets will be required to be recorded in equity. As any financial instrument may be designated as trading, this will allow movements to be taken to income by way of classifying the asset as trading.

- Derivatives are always deemed held for trading, with movements recognised in income, unless they are part of a hedging relationship that qualifies for hedge accounting.

- On initial adoption of SAS 33, adjustments to bring derivatives and other financial assets and liabilities onto the balance sheet and adjustments to remeasure certain financial assets and liabilities from cost to fair value will be made by adjusting retained earnings directly. Figure 4 illustrates the subsequent measurement requirements for each type of asset, liability and derivative.

- An entity should recognise normal purchases and sales of financial assets in the market place either at trade date or settlement date. Certain value changes between trade and settlement dates are recognised for purchases if settlement date accounting is used.

- Transaction costs should be included in the initial measurement of all financial instruments.

## Derecognition of a financial asset

The derecognition provisions in SAS 33 are clarified by establishing as the guiding principle a continuing involvement approach that disallows derecognition to the extent to which the transferor has continuing involvement in an asset or a portion of an asset it has transferred.

A transferor has a continuing involvement when:

(i) it could, or could be required to, reacquire control of the transferred asset (for example, if the financial asset can be called back by the transferor, the transfer does not qualify for derecognition to the extent of the asset that is subject to the call option); or

(ii) compensation based on the performance of the transferred asset will be paid (for example, if the transferor provides a guarantee, derecognition is precluded up to the amount of the guarantee).

Guidance is provided on pass-through arrangements. When the transferor continues to collect cash flows from the transferred asset, additional conditions must be met for a transfer to qualify for derecognition, including:

(i) the transferor has no obligation to pay cash flows to the transferee unless it collects equivalent cash flows from the transferred asset;

(ii) the transferor cannot use the transferred asset for its benefit; and

(iii) the transferor is obligated to remit on a timely basis to the transferee any cash flows it collects on behalf of the transferee.

**Impairment of financial assets**

The objective of the proposed amendments are to ensure that impairment losses that exist in a group of assets are recognised in the financial statements even though they cannot yet be identified with any individual assets.

Guidance is provided about how to evaluate impairment that is inherent in a group of loans, receivables, or held-to-maturity investments, but cannot yet be identified with any individual financial asset in the group, as follows:

- An asset that is individually identified as impaired should not be included in a group of assets that are collectively assessed for impairment.

- An asset that has been individually assessed for impairment and found not to be individually impaired should be included in a collective assessment of impairment. The occurrence of an event or a combination of events should not be a precondition for including an asset in a group of assets that are collectively evaluated for impairment.

- Assets should be grouped by similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms. Contractual cash flows and historical loss experience should provide the basis for estimating expected cash flow. Historical loss rates should be adjusted on the basis of relevant observable data that reflect current economic conditions.

- The methodology for measuring impairment should ensure that an impairment loss is not recognised immediately on initial recognition. Therefore, for the purposes of measuring impairment in groups of assets, estimated cash flows (contractual principal and interest payments adjusted for estimated credit losses) should be discounted using an original effective interest rate that equates the present value of the originally estimated cash flows with the initial net carrying amount of those assets.

Guidance is also provided on what constitutes objective evidence of impairment for investments in equity instruments. In addition, impairment losses recognised on investments in debt or equity instruments that are classified as available for sale cannot be reversed under the proposed amendments to the standard.

**Derivatives and Hedging**

**Definitions**

A **derivative** is a financial instrument:

(a) whose value changes in response to the change in a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index, or similar variable (sometimes called the 'underlying');

(b) that requires no initial net investment or little initial net investment relative to other types of contracts that have a similar response to changes in market conditions; and

(c) that is settled at a future date.

Sometimes, a derivative may be a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract — with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative. Such derivatives are sometimes known as **'embedded derivatives'**, and are covered extensively in the standard.

**Initial adoption**

At the beginning of the financial year in which this standard is initially applied, an entity should recognise all derivatives in its balance sheet as either assets or liabilities and should measure them at fair value. Because all derivatives, other than those that are designated hedging instruments, are considered held for trading, the difference between previous carrying amount (which may have been zero) and fair value of derivatives should be recognised as an adjustment of the balance of retained earnings at the beginning of the financial year, other than for a derivative that is a designated hedging instrument.

**Definitions Relating to Hedge Accounting**

**Hedging**, for accounting purposes, means designating one or more hedging instruments so that their change in fair value is an offset, in whole or in part, to the change in fair value or cash flows of a hedged item.

**A hedged item** is an asset, liability, firm commitment, or forecasted future transaction that (a) exposes the entity to risk of changes in fair value or changes in future cash flows and that (b) for hedge accounting purposes, is designated as being hedged.

**A hedging instrument**, for hedge accounting purposes, is a designated derivative or (in limited circumstances) another financial asset or liability whose fair value or cash flows are expected to offset changes in the fair value or cash flows of a designated hedged item. Under this standard, a non-derivative financial asset or liability may be designated as a hedging instrument for hedge accounting purposes only if it hedges the risk of changes in foreign currency exchange rates.

**Hedge effectiveness** is the degree to which offsetting changes in fair value or cash flows attributable to a hedged risk are achieved by the hedging instrument.

**Initial Adoption**

A hedging relationship qualifies for special hedge accounting if, and only if, all of the following conditions are met:

(a) at the inception of the hedge there is formal documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. That documentation should include identification of the hedging instrument, the related hedged item or transaction, the nature of the risk being hedged, and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or the hedged transaction's cash flows that is attributable to the hedged risk;

(b) the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistent with the originally documented risk management strategy for that particular hedging relationship;

(c) for cash flow hedges, a forecasted transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect reported net profit or loss;

(d) the effectiveness of the hedge can be reliably measured, that is, the fair value or cash flows of the hedged item and the fair value of the hedging instrument can be reliably measured; and

(e) the hedge was assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting period.

***Significant issues***

- SAS 33 identifies three types of hedge: fair value hedges, cash flow hedges and hedges of a net investment in a foreign entity. Hedge accounting differs depending on the type of hedge. For fair value hedges, the hedged item is adjusted for changes in fair value to offset the changes in the fair value of the hedging instrument (derivative) recognised in the income statement. For cash flow hedges, changes in the fair value of the hedging instrument are recognised in equity until the hedged item has been recognised. For hedges of a net investment in a foreign entity, changes in the fair value of the hedging instrument are recognised in equity until the investment is disposed of.

- Hedges of firm commitments are currently treated as cash flow hedges, but it proposed that they be treated as fair value hedges, in order to be consistent with US GAAP.

- When a hedged forecast transaction actually occurs and results in an asset or liability, the gain or loss deferred in equity does not adjust the initial carrying amount of the asset or liability ('basis adjustment'), but remains in equity and is reported in profit or loss in a manner that is consistent with the reporting of gains and losses on the asset or liability.

- Basis adjustment (adjusting the carrying amount of the acquired asset or liability) will be prohibited when a cash flow hedge of a forecasted transaction results in the recognition of an asset or a liability. This proposal would converge with US GAAP. Instead, the hedging gain or loss will remain in equity but will be amortised to income at the same time as the related asset or liability affects income.

- Hedging, for accounting purposes, means designating a derivative or (only for hedges of foreign currency risks) a non-derivative financial instrument as an offset in net profit or loss, in whole or in part, to the change in fair value or cash flows of a hedged item. Hedge accounting is permitted under SAS 33 in certain circumstances, provided that the hedging relationship is clearly defined, measurable, and actually effective. An entity's failure to properly document the hedge will invalidate hedge accounting treatment.

- The fair value of the derivatives should be recognised in the balance sheet, and fair value adjustments should be recognised in the income statement unless the requirements for hedge accounting are met.

- Hedge accounting is permitted only if an entity designates a specific hedging instrument as a hedge of a change in fair value or cash flow of a specific hedged item or part of a hedged item.

- For hedges of forecasted transactions that result in the recognition of an asset or liability, the gain or loss on the hedging instrument will adjust the basis (carrying amount) of the acquired asset or liability.

**Other Issues**

- The Questions and Answers compiled by the Implementation Guidance Committee (IGC) of the IASB with regard to IAS 39, which is virtually identical to SAS 33, have to a large extent been incorporated into IAS 39 and SAS 33. IAS 39 provides an appendix that identifies which questions and answers were and were not included.

- Appendices to SAS 33 are an integral part of the standard, and therefore compliance is required. This is an exception to the rule that such appendices do not form part of the standard and are only guidance.

**Transitional Provisions**

This statement was originally operative for annual financial statements covering financial years beginning on or after July 1, 2001, and forbid retrospective application. In view of the practical difficulties involved in the implementation of SAS 33, the effective date has been deferred to January 1, 2004, but early application is encouraged.

It is important to note that the exposure draft states that the standard is to be implemented retrospectively, unless restating the information would require undue cost or effort.

At the beginning of the financial year in which this statement is initially applied, an entity is permitted to designate a previously recognised financial instrument as held for trading or available for sale. Any adjustment of previous carrying amounts shall be recognised as an adjustment to the opening balance of retained earnings of the financial year in which this statement is first applied.

If an entity had derecognised financial assets before the beginning of the financial year in which this statement becomes operative and those assets would not have been derecognised had this statement been applied, those assets shall be put back on the books at the beginning of the financial year in which this statement is first applied. At the beginning of the financial year in which this statement is initially applied, any amount recognised directly in equity for a hedge of a firm commitment shall be reclassified as an asset or liability.

## ED/FRS 1, FIRST TIME APPLICATION OF FRS

This draft addresses when an entity adopts FRS for the first time as its basis of accounting. First time adoption is determined by when an entity makes an explicit and unreserved statement of compliance with FRSs. This draft is not relevant to most companies in Singapore, as they have already fully adopted the standards.

In general, the draft requires an entity to comply with each standard effective at the reporting date for its first FRS financial statements. Previous versions of a standard are not considered. Limited exemptions are permitted from requirement in specified areas, notably from retrospectively applying certain standards, such as those related to fixed assets, foreign currency and financial instruments, where the cost of complying would exceed the benefits to users of the financial statements.

The provisions of this standard would overrides the transitional provisions found in the individual standards. Disclosures explaining how the transition from previous GAAP to FRSs affected the entity's reported financial position, financial performance and cash flows will be required.

An entity is expected to apply the standard if its first FRS financial statements are for a period beginning on or after January 1, 2003. Earlier application is encouraged.

## ED/FRS 2, SHARE-BASED PAYMENT

The scope of this draft includes all share-based payment transactions with employees and other parties, whether settled in equity instruments or cash. There are no exceptions, other than for transactions to which more specific standards apply. For example, there is no exception for employee share purchase plans. This standard would require that all share-based payment transactions be recognized as an expense and that they be measured at fair value most readily determinable.

Measurement principles and specific requirements differ for the three types of share-based payment transactions:

**Equity-settled share-based payment transactions -** transactions in which the entity receives goods or services as consideration for equity instruments of the entity (including shares or share options).

For equity-settled share-based payment transactions, an entity would be required to measure the fair value of the goods or services received either at the fair value of the goods or services received or by reference to the fair value of the equity instruments granted. If the fair value of the goods or services received is used, they are measured at the date the goods or services are received, if the fair value of the equity instruments is used, they are measured at the grant date.

For transactions with parties other than employees, there is a rebuttable presumption that the fair value of the goods or services received is more readily determinable.

The fair value of an option on an equity instrument is the fair value of the option and not the market prices of the shares at the grant date.

The fair value of the option is fixed at the grant date and not revalued even if the option is out-of-the money.

For transactions with employees, the entity is required to measure the fair value of the equity instruments granted. The fair value is then amortised over the vesting period, which is the period from the grant date to the date the employee satisfies all of the conditions for vesting. If services cease to be rendered during the vesting period, no further amounts are recognized beyond the date services are terminated and amounts recognized previously are not reversed.

The fair value of equity instruments granted is required to be based on market prices, if available, and in the absence of market prices, estimates of fair value. In the case of options, where market prices of similar instruments rarely exist, the entity is required to apply an option pricing model, such as Black-Sholes. These models take into account the exercise price of the option, life of the option, share price, volatility, dividends, and risk-free interest rate, but the standard requires the fair value estimate to include common features of employee share options, such as non-transferability, inability to exercise the option during the vesting period and vesting conditions (including service conditions and performance conditions).

If the terms and conditions of an option or share are modified (e.g. an option is repriced) or if a grant is cancelled, repurchased and/or replaced with another grant of equity instruments, the standard provides specific requirements to account for the effect.

**Cash-settled share-based payment transactions -** transactions in which the entity acquires goods or services by incurring liabilities to the supplier of those goods or services for amounts that are based on the price (or value) of the entity's shares or other equity instruments. These are for situations where a transaction's value is based on the market prices of an entity's shares at a future date.

For cash-settled share-based payment transactions, an entity is required to measure the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the entity is required to remeasure the fair value of the liability at each reporting date, with any changes in value recognised in profit or loss.

**Optional settlement share-based payment transactions -** transaction in which either the entity or the supplier of those goods or services may choose whether the entity settles the transaction in cash, in amounts that are based on the price (or value) of the entity's shares or other equity instruments, or by issuing equity instruments.

For share-based payment transactions in which either the entity or the supplier of goods or services may choose whether the entity settles the transaction in cash or by issuing equity instruments, the entity is required to account for that transaction, or the components of that transaction, as a cash-settled share-based payment transaction if the entity has incurred a liability to settle in cash, or as an equity-settled share-based payment transaction if no such liability has been incurred.

The exposure draft calls for extensive disclosures to enable users of financial statements to understand:

(a) the nature and extent of share-based payment arrangements that existed during the period;

(b) how the fair value of the goods or services received, or the fair value of the equity instruments granted, during the period was determined; and

(c) the effect of expenses arising from share-based payment transactions on the entity's profit or loss.

The standard is intended to be effective for periods beginning on or after January 1, 2004. Earlier application is encouraged.

**Disclosure Requirements**

Extensive disclosure requirements will be required to enable users of financial statements to understand:

(a) the nature and extent of share-based payment arrangements that existed during the period;

(b) how the fair value of the goods or services received, or the fair value of the equity instruments granted, during the period was determined; and

(c) the effect of expenses arising from share-based payment transactions on the entity's profit or loss.

# SIGNIFICANT IASB PROJECTS

The IASB has a significant number projects and topics under development that will likely result in new or revised accounting standards. We have summarised below the key issues for two projects that will likely impact most companies.

## BUSINESS COMBINATION PROJECT

This project is being addressed in two phases. Phase 1 is expected to result in:

- Replacement of **IAS 22, Business Combinations**
- Significant revisions to **IAS 36, Impairment of Assets**
- Significant revisions to **IAS 38, Intangible Assets**.

The Exposure Drafts are expected in early 2003 with the three final standards issued in late 2003.

**Key Decisions of IASB to Date**

- All business combinations covered by the revised standard must use the purchase method. Uniting (pooling) of interests will no longer be permitted.
- An intangible asset will either have a finite or indefinite useful life. An intangible asset with an indefinite useful life (whether or not acquired in a business combination) will not be subject to the amortisation requirements but should be tested for impairment at each financial year-end (or more frequently if events or changes in circumstances indicate that the asset might be impaired) by comparing the asset's recoverable amount with its carrying amount.
- Goodwill should be accounted for by a non-amortisation plus impairment test model.
- Revaluation of intangible assets with indefinite useful lives should be permitted for intangible assets that (a) have an indefinite useful life and (b) are acquired in a business combination even if no active market exists for them.
- Purchased in-process research and development (IPR&D) acquired as part of a business combination should be recorded as an intangible asset separate from goodwill when it is separable or arises as a result of contractual or legal rights. In this case, the purchased research is an asset even though research cost would not be recognised as an asset if such costs were incurred directly by the acquirer. If the IPR&D is not contractual or separable, the cost should form part of the amount attributed to goodwill.
- There should be an annual assessment of impairment. However, a detailed calculation of recoverable amount is required only if there is evidence of impairment (guidance will be provided).
- Reversals of impairment losses recognised in respect of goodwill will be prohibited.
- Any negative goodwill (a replacement will be found for this term) should be recognised immediately in the income statement as a gain.
- If the estimated life of an intangible asset is changed from indefinite to a finite life, such change will be accounted for as a change in estimate (prospectively). In addition, an immediate impairment test is required, the trigger being the change of estimated life.

- IAS 22 currently includes a benchmark and an allowed alternative treatment for the initial measurement of the identifiable net assets acquired in a business combination The alternative treatment, that net assets acquired are initially measured at 100% of their fair values, will be mandatory.

- Initial values of assets and liabilities should only be adjusted for an error. The adjustment of the error in the fair values should be made as a prior year adjustment. Revisions of estimates other than errors should not lead to an adjustment to the fair values but, instead, should be recognised in the income statement. Separately identifiable assets or liabilities that do not meet recognition criteria would be recognised and goodwill would be adjusted within the first financial year following the business combination if the recognition was due to new information.

- Further guidance will be provided on accounting for successive share purchases.

**Effective Date and Transition**

- Amortisation will stop for any goodwill pre-existing at the time the standards are adopted. Instead, impairment testing will be required. This would apply also to goodwill implicit in an investment accounted for by the equity method.

- Any negative goodwill pre-existing at the time the standards are adopted should be credited directly to retained earnings. This would apply also to negative goodwill implicit in an investment accounted for by the equity method.

- An intangible asset acquired in a business combination before the standards are adopted and that does not meet the recognition criteria in the revised standard on intangible assets would be reclassified as goodwill.

- The revisions to IAS 38 would apply to intangible assets recognised at the time the standards are adopted. Any resulting change in estimated useful life (including a change from a finite life to an indefinite life) would be accounted for prospectively as a change in estimate.

## PERFORMANCE REPORTING

This project addresses broadly the issues related to the display and presentation in the financial statements of all recognized changes in assets and liabilities from transactions or other events except those related to transactions with owners as owners (sometimes called comprehensive income). Thus, it will consider items that presently are reported in the income statement, cash flow statement, and statement of changes in equity. Issues addressed in this project include distinguishing revenues and expenses from other sources of comprehensive income or expense, reporting of holding gains and losses, and distinguishing operating and non-operating items.

***Key Decisions of IASB to Date***

- **Terminology.** The IASB has begun to use the term “statement of comprehensive income” rather than “statement of performance”. This is consistent with the terminology in FASB Statement 130. An entity would present a single statement of all recognised income and expense items as a component of a complete set of financial statements.

- **No “recycling”.** Recycling of income and expense items should not be allowed, that is, items should be reported in the performance statement as income or expense only once.

- **Realised vs. unrealised.** Profits should not be based on a notion of realisation. The IASB noted that realisation means something different in different countries. In Europe and Asia realisation refers to net profit available for distribution. However, in the United States realisation refers to capital maintenance. A critical issue in Europe would be whether ‘mark to market’ gains are distributable. The IASB noted that distributable profits are not an accounting issue but a legal issue of countries concerned. The focus of the standard should be to provide greater transparency and useful information to the investors. Transitional provisions will include disclosures (particularly narrative) as well as possibly dual reporting.

- **Operating vs. non-operating.** A split between operating and non-operating profits should not be made as it could mislead users. In practice, many entities have more than one core operation and it can change with time so it is difficult to make such a split and it may not always be appropriate. The issue of whether gains and losses relating to the same activity can be netted against each other was not decided.

- **Fair value changes.** Changes in fair values of assets in a period should be split based on causes of the change, for example, value changes resulting from performance during the period, changes in economic conditions, and changes in market expectations. Some IASB members raised concerns regarding the significant amount of judgement that would be required to make this split and its usefulness in helping to predict with the future. The concept was accepted but the detail will be developed at a later stage of the project.

- **Unusual items (Exceptional items).** The IASB’s preliminary consensus is that these should not be separately aggregated on the face of the income statement but rather disclosed in the notes.

- **Gains resulting from accounting choices.** There should be segregation of gains and losses recognised in the period that result from a choice of accounting convention. For example, the profit on disposal of a fixed asset will be different if the accounting convention chosen is historical cost rather than revalued amounts.

- **Format of performance statement.** A prescribed format and subtotals for the performance statement is needed, but management should be given freedom to specify key performance indicators by having discretion over line items provided and the sequencing of those items. Management would not be allowed to add their own subtotals. Presentation of the performance statement needs to be discussed before the detail of this principle is decided.

## DIFFERENCES BETWEEN SAS AND IAS (as at November 30, 2002)

| No. | SAS Requirements | No. | IAS Requirements |
|---|---|---|---|
| 2 | The LIFO method is not allowed. | 2 | The FIFO and LIFO method is allowed. |
| 7 | Exempts private entities that have gross sales and other operating revenue of less than S$5 million or gross assets less than S$5 million from preparing cash flow statements. | 7 | There is no exemption in IAS 7. |
| 14 | Valuation need not be made by qualified or independent valuers. The name and qualifications of the valuers should be disclosed together with the bases of the valuation used by them. If the valuer is not independent, that must be disclosed.<br><br>If total assets are substantial, the valuation should be carried out annually (and must be carried out at least every five years) by an independent professional valuer. | 16 | There is no similar disclosure in IAS 16.<br><br>There is no similar requirement in IAS 16. |
| 19 | In exceptional circumstances, borrowing costs may be capitalised until receipt of Temporary Occupation Permit when it is later than when asset is ready for use. | 23 | No such provision. |
| 21 | It is not mandatory to comply with the requirements of this standard for banks and discount companies. | 24 | Banks and discount companies must comply with the related party disclosure requirements. |
| 22 | Provides for optional retrospective treatment for all business combinations prior to implementation of the revised standard. | 22 | Requires retrospective treatment. |
| 25 | Definition of 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.<br><br>Exceptions to the definition are: (a) a property which is owned and used by an entity for its own purposes is not an investment property; and (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. | 40 | IAS 25 has been superseded with respect to investment property by IAS 40, the equivalent of which is still an exposure draft (ED/SAS 40) in Singapore. The definition of investment property in IAS 40 is equivalent.<br><br>Allows property let to another group company to be shown as investment property at the company, but not at the group level. |
| 27 | Separate financial statements of the company are required. If the equity method is used for associates, the same method should be used for subsidiaries, and vice versa.<br><br>A wholly owned subsidiary which is exempt from issuing consolidated financial statements is also exempt from applying the equity method to account for investments in associates.<br><br>Where an investor which does not issue consolidated financial statements chooses not to equity account for its investment in associates using the equity method, it should disclose what would have been the effect had the equity method been applied.<br><br>The equity method of accounting need not be applied in respect of banks and insurance companies.<br><br>An investment in an associate is accounted for using the cost method when it operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor and when the investment is acquired and held exclusively with a view to its disposal in the near future. | 28 | There is no requirement for separate financial statements in IAS 28.<br><br>There is no exemption in IAS 28.<br><br>There is no requirement in IAS 28.<br><br>Not provided for in IAS 28.<br><br>This has been deleted in IAS 28. |
| | No equivalent SAS, but the MAS requires similar disclosures. | 30 | Provides disclosure requirements for financial institutions. |
| 33 | The financial instrument measurement and recognition standard is effective for financial years beginning on or after January 1, 2004. | 39 | Effective for financial periods beginning on or after April 1, 2001 |
| 39 | Effective for financial periods beginning on or after April 1, 2001 | 41 | Effective for Periods on or after January 1, 2003 |

# EFFECTIVE DATES AND TRANSITIONAL PROVISION

| Standard | New or Revised Standard | Effective Beginning On or After | Transitional Provision |
|---|---|---|---|
| SAS 1, Presentation of Financial Statements | Revised | 01.04.2002 (periods) | Not mentioned, See (1) |
| SAS 11, Construction Contracts | Revised | 01.04.2002 (periods) | Not mentioned, See (1) |
| SAS 12, Income Tax | Revised | 01.04.2001 (periods) | Not mentioned, See (1) |
| SAS 14, Property, Plant and Equipment | Revised | 01.04.2002 (periods) | Not mentioned, See (1) |
| SAS 16, Revenue | Revised | 01.04.2002 (periods) | Not mentioned, See (1) |
| SAS 17, Employee Benefits | Revised | 01.04.2002 (periods) | Not mentioned, See (1) |
| SAS 20, The Effect of Changes in Foreign Exchange Rates | Revised | 01.04.2002 (periods) | See 20.48 for certain disclosure requirements, otherwise see (1). |
| SAS 25, Investments | Revised | Deferred | Not mentioned, See (1) |
| SAS 30, Interim Financial Reporting | New | 01.10.2001 (periods) | Not applicable |
| SAS 33, Financial Instruments: Recognition and Measurement | New | 01.01.2004 (financial years) | See (2) |
| SAS 37, Information Reflecting the Effect of Changing Prices | New | 01.04.2001 (periods), made optional 01.04.2002 (periods) | Not applicable |
| SAS 38, Financial Reporting in Hyperinflationary Economies | New | 01.04.2001(periods) | Not mentioned, See (1) |
| SAS 39, Agriculture | New | 01.10.2001 (periods) | See (1) |
| INT 18, Alternative Methods | New | 01.04.2002 (financial years) | See (1) |
| INT 19, Disclosure – Service Concession Agreements | New | 01.04.2002 (on this date) | Not applicable |
| INT 20, Costs of an Equity Transaction | New | 01.04.2002 (financial years) | See (1) |
| INT 21, Barter Transactions Involving Advertising Services | New | 01.04.2002 (on this date) | See (1) |
| INT 22, Transactions Involving the Legal Form of a Lease | New | 01.04.2002 (on this date) | See (1) |
| INT 23, "Date of Exchange" and Fair Value of Equity Instruments | New | 01.04.2002 (acquisitions on or after this date) | Not applicable |
| INT 24, Potential Voting Rights | New | 01.04.2002 (financial years) | See (1) |
| INT 25, Web site Costs | New | 01.10.2002 (on this date) | SAS 34.118-121. |

(1) ***Change in accounting policy***

A change in accounting policy, which is made on the adoption of a SAS, should be accounted for in accordance with the specific transitional provisions, if any, in that SAS. In absence of any transitional provisions, the change in accounting policy should be applied as follows:

- **Benchmark treatment** - retrospectively unless the amount of any resulting adjustment that relates to prior periods is not reasonably determinable. Any resulting adjustment should be reported as an adjustment to the opening balance of retained earnings. Comparative information should be restated unless it is impracticable to do so. The change in accounting policy should be applied **prospectively** when the amount of the adjustment to the opening balance of retained earnings required cannot be reasonably determined.

- **Allowed alternative treatment** - retrospectively unless the amount resulting to prior periods is not reasonably determinable. Any resulting adjustment should be included in the determination of the net profit or loss for the current period. Comparative information should be presented as reported in the financial statements of the prior period.

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

a. the reasons for the change;
b. the amount of the adjustment recognised in net profit or loss in the current period;
c. the amount of the adjustment included in each period for which pro-forma information is presented and the amount of the adjustment relating to period's prior or those included in the financial statements. If it is impracticable to present pro forma information, this fact should be disclosed.

(2) The transitional provisions in SAS 33 as issued in 2001 provided that retrospective application was not permitted, but a detailed study was required of the impact on all financial assets and liabilities as well as hedges upon adoption. ED/SAS 48 proposes retrospective treatment in line with the IASB exposure draft, which addresses a standard that has already been adopted at the IAS level. The ED/SAS provides for prospective treatment is undue cost or burden is required to apply the standard retrospectively.

## LIST OF SINGAPORE ACCOUNTING STANDARDS AND INTERPRETATIONS

### Statement of Accounting Standard (SAS) (As at November 30, 2002)

| | | IAS Equivalent |
|---|---|---|
| SAS 1 | Presentation of Financial Statements (Revised 2002) | 1 (Revised) |
| SAS 2 | Inventories (Revised 1997) | 2 (Revised) |
| SAS 3 | (Superseded by SAS 26 and SAS 27) | - |
| SAS 4 | (Withdrawn) | - |
| SAS 5 | (Superseded by SAS 1) | - |
| SAS 6 | Earnings per Share (Revised 1998) | 33 (1998) |
| SAS 7 | Cash Flow Statements (Revised 1994) | 7 (Revised) |
| SAS 8 | Net Profits or Loss for the Period, Fundamental Errors and Changes in Accounting Policies (2000) | 8 (Revised) |
| SAS 9 | (Superseded by SAS 34) | - |
| SAS 10 | Events after the Balance Sheet Date (2000) | 10 (Revised) |
| SAS 11 | Construction Contracts (Revised 2002) | 11 (Revised) |
| SAS 12 | Income Taxes (Revised 2001) | 12 (Revised) |
| SAS 13 | (Superseded by SAS 1) | - |
| SAS 14 | Property, Plant and Equipment (Revised 2002) | 16 (Revised) |
| SAS 15 | Leases (Revised 2002) | 17 (Revised) |
| SAS 16 | Revenue (Revised 2002) | 18 (Revised) |
| SAS 17 | Employee Benefits (2001) | 19 (Revised) |
| SAS 18 | Accounting for Government Grants and Disclosure of Government Assistance (Reformatted 1997) | 20 (Revised) |
| SAS 19 | Borrowing Costs (Revised 1996) | 23 (Revised) |
| SAS 20 | The Effect of Changes in Foreign Exchange Rates (Revised 2002) | 21 (Revised) |
| SAS 21 | Related Party Disclosures (Reformatted 1998) | 24 (Revised) |
| SAS 22 | Business Combinations (2000) | 22 (1998) |
| SAS 23 | Segment Reporting (Revised 1999) | 14 (Revised) |
| SAS 24 | Accounting and Reporting by Retirement Benefits Plans (Reformatted 1997) | 26 (1988) |
| SAS 25 | Accounting for Investments (Reformatted 1998) | 25 (1986) |
| SAS 26 | Consolidated Financial Statements and Accounting for Investments in Subsidiaries (2001) | 27 (1989) |
| SAS 27 | Accounting for Investments in Associates (Revised 2000) | 28 (1989) |

**Statement of Accounting Standard (SAS)** (As at November 30, 2002)

continued...

| | | *IAS Equivalent* |
|---|---|---|
| SAS 28 | Accounting for Goods and Services Tax (Reformatted 1997) | - |
| — | Disclosures in the Financial Statements of Banks and Similar Financial Institutions | 30 (1994) |
| SAS 29 | Financial Reporting of Interests in Joint Ventures (2001) | 31 (1992) |
| SAS 30 | Interim Financial Reporting (2001) | 34 (1998) |
| SAS 31 | Provisions, Contingent Liabilities and Contingent Assets (2000) | 37 (1999) |
| SAS 32 | Financial Instruments: Disclosure and Presentation (Revised 2002) | 32 (Revised) |
| SAS 33 | Financial Instruments: Recognition and Measurement (Revised 2002) | 39 (Revised) |
| SAS 34 | Intangible Assets (2000) | 38 (1999) |
| SAS 35 | Discontinuing Operations (2000) | 35 (1999) |
| SAS 36 | Impairment of Assets (2000) | 36 (1999) |
| SAS 37 | Information Reflecting the Effect of Changing Prices (Revised 2002) | 15 (1981) |
| SAS 38 | Financial Reporting in Hyperinflationary Economies (2001) | 29 (1989) |
| SAS 39 | Agriculture (2001) | 41 (2000) |
| ED/SAS 40 | Investment Property | 40 (2001) |
| ED/SAS 47 | Proposed Improvements to Statements of Accounting Standards | |
| ED/SAS 48 | Proposed Amendments to SAS 32 Financial Instruments: Disclosure and Presentation and SAS 33 Financial Instruments: Recognition and Measurement | |
| ED/FRS 1 | First-time Application of SAS | ED/IFRS 1 |
| ED/FRS 2 | Share-based Payment | ED/IFRS 2 |

## Interpretation of Statements of Accounting Standards (INT) (As at November 30, 2002)

| | | SIC Equivalent |
|---|---|---|
| INT 1 | Consistency – Different Cost Formulas for Inventories | 1 |
| INT 2 | Consistency – Capitalisation of Borrowing Costs | 2 |
| INT 3 | Elimination of Unrealised Profits and Losses on Transactions with Associates | 3 |
| INT 4 | Foreign Exchange – Capitalisation of Losses Resulting from Severe Currency Devaluations | 11 |
| INT 5 | Consolidation – Special Purpose Entities | 12 |
| INT 6 | Government Assistance – No Specific Relation to Operating Activities | 10 |
| INT 7 | Jointly Controlled Entities – Non-monetary Contributions By Venturers | 13 |
| INT 8 | Operating Leases – Incentives | 15 |
| INT 9 | Property, Plant and equipment – Compensation for the Impairment of Loss of Items | 14 |
| INT 10 | Cost of Modifying Existing Software | 6 |
| INT 11 | Business Combinations – Classification Either as Acquisitions or Uniting of Interests | 9 |
| INT 12 | Equity Accounting Method – Recognition of Losses | 20 |
| INT 13 | Business Combinations – Subsequent Adjustment of Fair Values and Goodwill Initially Reported | 22 |
| INT 14 | Property Plant and Equipment – Major Inspection or Overhaul Costs | 23 |
| INT 15 | Earnings per Share – Financial Instruments that may be Settled in Shares | 24 |
| INT 16 | Income Taxes – Recovery of Revalued Non-depreciable Assets | 21 |
| INT 17 | Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders | 25 |
| INT 18 | Consistency – Alternative Methods | 18 |
| INT 19 | Disclosure – Service Concession Arrangements | 29 |
| INT 20 | Equity – Costs of an Equity Transaction | 17 |
| INT 21 | Revenue – Barter Transactions Involving Advertising Services | 31 |
| INT 22 | Evaluating the Substance if Transactions in the Legal Form of a Lease | 27 |
| INT 23 | Business Combinations – “Date of Exchange” and Fair Value of Equity Instruments | 28 |
| INT 24 | Consolidation and Equity Method – Potential Voting Rights and Allocation of Ownership Interest | 33 |
| INT 25 | Intangible Assets - Web Site Costs | 32 |
| ED/INT 21 | Reporting Currency—Measurement and Presentation of Financial Statements under SAS 20 and SAS 38 | 19 |
| ED/INT 22 | Classification of Financial Instruments Contingent Settlement Provisions | 5 |
| ED/INT 28 | Reporting Currency – Translation from Measurement Currency to Presentation Currency | 30 |

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**IASPlus** – *www.iasplus.com* – provides newsletters, IAS model financial statements and disclosure checklist and a wealth of information on IAS projects and issues, with a section for country specific updates.

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