International Accounting Standards Committee®

Press Release

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**IASC'S STANDING INTERPRETATIONS COMMITTEE (SIC)
ISSUES FIVE INTERPRETATIONS**

The Standing Interpretations Committee (SIC) today published five new Interpretations to clarify accounting issues under International Accounting Standards. The Interpretations are:

- SIC – 20, *Equity Accounting Method – Recognition of Losses*
- SIC – 21, *Income Taxes – Recovery of Revalued Non-Depreciable Assets*
- SIC – 22, *Business Combinations – Subsequent Adjustment of Fair Values and Goodwill Initially Reported*
- SIC – 23, *Property, Plant and Equipment – Major Inspection or Overhaul Costs*
- SIC – 25, *Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders*

Commenting on the new Interpretations, Paul Cherry, Chairman of the Standing Interpretations Committee, said: "These five interpretations provide guidance on a wide range of interpretative points on the application of International Accounting Standards.

SIC-20 confirms that in applying the equity method of accounting, the investor normally stops recording its share of the continuing losses of an associate once the carrying amounts of financial interests which are accounted for under the equity method are reduced to nil.

SIC-21 deals with cases where a non-depreciable asset is carried at revaluation under IAS 16. No part of the carrying amount of such an asset is considered to be recovered through its use. Therefore, SIC concluded that the deferred tax liability or asset that arises from revaluation must be measured based on the tax consequences that would follow from the sale of the asset rather than through use. In some jurisdictions, this will result in the use of a capital gains tax rate rather than the rate applicable to corporate earnings.

In very limited circumstances, IAS 22 permits the subsequent recognition of identifiable assets and liabilities that had not been recognised in the original accounting for an acquisition under the purchase method or adjustment of the amounts initially assigned to identifiable assets and liabilities to reflect additional evidence which has become available. SIC-22 indicates that the adjustment made in such circumstances should be calculated as if the newly assigned values had been used from the date of the acquisition. In some cases there will also be an effect on goodwill or negative goodwill. The Interpretation also addresses the presentation and disclosure of such an adjustment.

SIC-23 confirms that the cost of a major inspection or overhaul generally should be expensed as incurred. The exception is where the enterprise treats the cost of a major inspection or overhaul as a separate "component" for accounting purposes and depreciates that component to reflect the consumption of benefits resulting from the major inspection or overhaul.

Finally, SIC-25 indicates that because a change in the tax status of an enterprise or its shareholders does not give rise to increases or decreases in the pre-tax amounts recognised directly in equity, the current and deferred tax consequences of the change in tax status should be included in net profit or loss for the period. However, where a transaction or event does result in a direct credit or charge to equity, for example the revaluation of property, plant or equipment under IAS 16, the related tax consequence would still be recognised directly in equity."

ENDS.

Printed copies of the Interpretations will be mailed to subscribers to IASC's "SIC Interpretations Subscription Package" and to subscribers to the IASC "Comprehensive Package" services this week. The SIC publications include a loose-leaf binder containing Draft and Final Interpretations, the SIC Operating Procedures, a member list and other additional information. Detailed information on subscription services and on ordering other IASC publications can be obtained from IASC's Publications Department, 166 Fleet Street, London EC4A 2DY, United Kingdom. Telephone: +44 (020) 7427-5927. Fax: +44 (020) 7353-0562. E-mail: publications@iasc.org.uk

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NOTE TO EDITORS:

- SIC – 20, *Equity Accounting Method – Recognition of Losses*

The Interpretation requires that, for the purpose of applying IAS 28.22, the carrying amount of the investment in an associate should include common shares and preferred shares that provide unlimited rights of participation in earnings or losses and a residual equity interest in the associate. If the investor's share of losses of an associate exceeds the carrying amount of the investment, recognition of further losses should be discontinued, unless the investor has incurred obligations to satisfy obligations of the associate that the investor has guaranteed or otherwise committed, whether the obligation is funded or not. Financial interests in an associate which are not included in the carrying amount of the investment are accounted for in accordance with other applicable International Accounting Standards, for example IAS 39, *Financial Instruments: Recognition and Measurement.* Additionally, continuing losses of an associate should be considered objective evidence that financial interests in that associate may be impaired. Impairment of the carrying amount of the investment in an associate is determined based on the carrying amount after adjustment for equity method losses.

- SIC – 21, *Income Taxes – Recovery of Revalued Non-Depreciable Assets*

The SIC agreed that the deferred tax liability or asset that arises from the revaluation of a non-depreciable asset under IAS 16 is measured based on the tax consequences that would follow from recovery of the carrying amount of that asset through sale. Because the asset is not depreciated, no part of its carrying amount is considered to be recovered (that is, consumed) through use.

- SIC – 22, *Business Combinations – Subsequent Adjustment of Fair Values and Goodwill Initially Reported*

This Interpretation addresses adjustments to identifiable assets and liabilities and goodwill, which are made to recognise identifiable assets and liabilities (other than those related to income taxes) that previously did not satisfy recognition criteria, and adjustments made to reflect additional evidence of the amounts initially assigned in accounting for an acquisition under the purchase method. The SIC confirmed that such adjustments should be calculated as if the newly assigned values had been used from the date of the acquisition. The Interpretation also clarified that adjustments to amounts included in the income statement, such as depreciation or amortisation of goodwill, are included in the corresponding category of income or expense presented on the face of the income statement.

The Interpretation requires disclosure of the amount of an adjustment recognised in the income statement of the current period which relates to comparative and prior periods. For example, if the adjustment increases depreciation expense in the current period by 150 and 100 of the increase results from the recalculation of the effects of the adjustment to identifiable assets over the comparative year, that fact would be disclosed.

- SIC – 23, *Property, Plant and Equipment – Major Inspection or Overhaul Costs*

The SIC confirmed that the costs of a major inspection or overhaul of property, plant and equipment occurring subsequent to the acquisition of that property, plant and equipment are generally expensed. However, such costs are capitalised when the enterprise has identified as a separate component of the asset an amount representing major inspection or overhaul and has already depreciated that component to reflect the consumption of benefits which are replaced or restored by the subsequent major inspection or overhaul. The criteria for recognition of an asset under IAS 16 must also be met.

- SIC – 25, *Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders*

This Interpretation addresses changes in the tax status of an enterprise or of a shareholder that has consequences for an enterprise by increasing or decreasing its tax liabilities or assets. The SIC agreed that a change in the tax status of an enterprise or its shareholders does not give rise to increases or decreases in the pre-tax amounts recognised directly in equity. Therefore, the current and deferred tax consequences of a change in tax status should be included in net profit or loss for the period, unless those consequences relate to transactions and events that result, in the same or a different period, in a direct credit or charge to the recognised amount of equity. An example of an event that is recognised directly in equity is a change in the carrying amount of property, plant or equipment revalued under IAS 16. Those tax consequences that relate to changes in the recognised amount of equity, in the same or a different period (not included in net profit or loss) should be charged or credited directly to equity.