



BRUNEI DARUSSALAM  
accounting  
standards  
council



# **BRUNEI DARUSSALAM ACCOUNTING STANDARDS – NON PUBLIC INTEREST ENTITIES (BDAS-NONPIE)**

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Effective for a Qualifying Entity's financial statements  
Covering a period beginning on or after 1 January 2018



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# BRUNEI DARUSSALAM ACCOUNTING STANDARDS FRAMEWORK

## Scope

The Brunei Darussalam Accounting Standards for Non Public Interest Entities (BDAS NON-PIE) are based on the general framework develop by the Brunei Darussalam Accounting Standards Council for the preparation of financial statements for entities that are Non Public Interest Entities (NON-PIE) in Brunei Darussalam.

## Users

Users of financial statements generally include potential investors, employees, lenders, suppliers and other trade creditors, customers, governments and their agencies and, in some cases, members of the public. The most significant users are likely to be owners, government and creditors, who may have the power to obtain information additional to that contained in the financial statements. Management is also interested in the information contained in the financial statements, even though it has access to additional management and financial information.

## Objective

The objective of financial statements is to provide information about the financial position and performance of an entity that is useful to users of such information. Financial statements show the results of management's stewardship of and accountability for the resources entrusted to it.

## General Framework

Going concern, consistency and accrual are fundamental accounting assumptions where fundamental accounting assumptions are followed in financial statements and disclosure of such assumption is not required. If these fundamental accounting assumptions are not followed, that fact should be disclosed together with the reasons.

- (i) Going concern – An entity is normally viewed as a going concern, that is, as continuing in operation for the foreseeable future. It is assumed that the entity has neither the intention nor the necessity of liquidation or of curtailing materially the scale of its operations;
- (ii) Consistency - It is assumed that accounting policies are consistent from one financial period to another;
- (iii) Accrual - The accrual basis of accounting for revenue in each financial period means that income is recognized when it is due and not when it is received. Accrual of expenditure in each financial period means that costs are recognize when obligations arise or liabilities are incurred and not when payments are made. This also apply to the matching concept which exist under the accrual basis of accounting.
- (iv) Prudence, substance over form and materiality, as described below, should govern the selection and application of accounting policies:

- a) Prudence - Uncertainties inevitably surround many transactions. This should be recognized by exercising prudence in preparing financial statements. Prudence does not, however, justify the creation of secret or hidden reserves;
- b) Substance over form - Transactions and other events should be accounted for and presented in accordance with their substance and financial reality and not merely with their legal form;
- c) Materiality - Financial statements should disclose all items which are material enough to affect evaluations or decisions and all material information which is necessary to make the statements clear and understandable.

## **Elements**

An “asset” is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.

A “liability” is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

“Equity” is the residual interest in the assets of the entity after all its liabilities have been deducted.

“Income” encompasses both revenue and gains. It includes increases in economic benefits during the accounting period in the form of inflows or enhancements of assets as well as decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.

“Expenses” encompass losses as well as those expenses that arise in the course of the ordinary activities of the entity. Expenses are decreases in economic benefits.

## **Recognition**

An item that meets the definition of an element should be recognised if (a) it is probable that any future economic benefit associated with the item will flow to or from the entity; and (b) the item has a cost or value that can be measured with reliability. The interrelationship between the elements means that an item that meets the definition and recognition criteria for a particular element, for example, an asset, automatically requires the recognition of another element, for example, income or a liability.

## **Measurement**

The measurement base most commonly adopted by entities in preparing their financial statements is historical cost. This may be combined with other measurement bases for certain specific items that are set out under the Accounting Standards for Non Public Interest Entities.

Under the historical cost convention:

- (a) Assets are recorded at the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire them at the time of their acquisition; and

- (b) Liabilities are recorded at the amount of proceeds received in exchange for the obligation, or in some circumstances (for example, income taxes), at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.

Assets should not be revalued nor should future cash flows be discounted in the measurement of assets and liabilities except when required or permitted by the Accounting Standards for Non Public Interest Entities.

### **Qualifying Entities**

Applicable to all entities that are Non Public Interest Entities (NON-PIE) in Brunei Darussalam. An entity has public accountability for the purposes of the Accounting Standards for NON PIE is define below:

#### **Public Accountability**

Definition of public accountability as defined by International Accounting Standards Board (IASB) is the accountability to those existing and potential resource providers and others external to the entity who make economic decisions but are not in a position to demand reports tailored to meet their particular information needs. An entity as public accountability if:

- (a) Its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets), or
- (b) It holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks.

#### **Transitional Provisions**

The transition to the BDAS NON-PIE Framework and Standards is accounted for as follows:

- (a) All items recognised previously under a GAAP in Brunei Darussalam which do not meet the recognition criteria under the BDAS NON-PIE are to be derecognised and dealt with as a change of accounting policy under the BDAS NON-PIE.
- (b) All items not recognised previously under a GAAP in Brunei Darussalam which do meet the recognition criteria under the BDAS NON-PIE are to be recognised in accordance with the relevant BDAS of the BDAS NON-PIE and dealt with as a change of accounting policy under the BDAS NON-PIE.
- (c) All items recognised previously under a GAAP in Brunei Darussalam, which do meet the recognition criteria under the BDAS NON-PIE, but which were previously measured on a basis inconsistent with the BDAS NON-PIE are to be re-measured in accordance with the relevant BDAS of the Standards and dealt with as a change of accounting policy under the BDAS NON-PIE.

#### **Effective Date**

The BDAS NON-PIE becomes effective for a Qualifying Entity's financial statements that cover a period **beginning on or after 1 January 2018**. Earlier application is permitted.

# BRUNEI DARUSSALAM NON PIE ACCOUNTING STANDARDS

## Definitions

The following terms are used in the BDAS-NON PIE with the meanings specified:

**Accounting policies** are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

An **active market** is a market in which all the following conditions exist:

- (a) the items traded within the market are homogeneous;
- (b) willing buyers and sellers can normally be found at any time; and
- (c) prices are available to the public.

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

An **asset** is a resource:

- (a) controlled by an entity as a result of past events; and
- (b) from which future economic benefits are expected to flow to the entity.

An **associate** is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

**Aquaculture** is the culture and husbandry of desirable aquatic animals (such as fish and prawns) and aquatic plants (such as algae and planktons) under certain controlled conditions.

**Borrowing costs** are interest and other costs incurred by an entity in connection with the borrowing of funds.

**Carrying amount** is the amount at which an asset or a liability is recognised in the balance sheet after the deduction of (if applicable) any accumulated depreciation (amortisation) and accumulated impairment losses thereon, or any write-down to net realisable value.

**Carrying capacity** is the normal capacity that specifies the stocking density of an aquaculture production system.

**Cash** comprises cash on hand and demand deposits.

**Cash equivalents** are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**Cash flows** are inflows and outflows of cash and cash equivalents.

**Close members of the family of an individual** are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity. They may include:

- (a) the individual's spouse and children;
- (b) children of the individual's spouse; and
- (c) dependants of the individual or the individual's spouse.

The **closing rate** is the spot exchange rate at the balance sheet date.

A **construction contract** is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use. Construction contracts include: contracts for the rendering of services which are directly related to the construction of the asset, for example, those for the services of project managers and architects; and contracts for the destruction or restoration of assets, and the restoration of the environment following the demolition of assets.

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

- (a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and
- (b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

A **contingent asset** is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

A **contingent liability** is:

- (a) A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- (b) A present obligation that arises from past events but is not recognised because:
  - (i) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
  - (ii) The amount of the obligation cannot be measured with sufficient reliability.

**Contingent rent** is that portion of the lease payments which is not fixed in amount but is based on a factor other than the passage of time (e.g. percentage of sales, amount of usage, price indices, and market rates of interest).

**Control (of an asset)** is the power to obtain the future economic benefits that flow from the asset.

**Control (of an entity)** is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

**Cost** is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition, production or construction.

**Cost centre base** is the method of income determination measured by matching costs and revenues of individual unit of pond, pen or cage.

A **cost-plus contract** is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs, plus a percentage of these costs or a fixed fee.

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

**Depreciable amount** is the cost of an asset less its residual value.

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

**Development** is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services prior to the commencement of commercial production or use.

**Development unit** is a unit of residential, commercial, or industrial building, and vacant lot developed for sale.

**Economic life** is either:

- (a) the period over which an asset is expected to be economically usable by one or more users; or
- (b) the number of production or similar units expected to be obtained from the asset by one or more users.

**Events after the balance sheet date** are events, both favourable and unfavourable, that occur between the balance sheet date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- (a) those providing evidence of conditions that existed at the balance sheet date (adjusting events after the balance sheet date); and
- (b) those indicative of conditions that arose after the balance sheet date (non-adjusting events after the balance sheet date).

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

**Exchange rate** is the ratio of exchange for two currencies.

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

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

A **fixed price contract** is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.

**Foreign currency** is a currency other than the reporting currency of an entity.

**Government** refers to government, government agencies and similar bodies, whether local, national or international.

**Government assistance** is action by government designed to provide an economic benefit specific to an entity or range of entities qualifying under certain criteria. Government assistance does not include benefits provided only indirectly through action affecting general trading conditions, such as the provision of infrastructure in development areas or the imposition of trading constraints on competitors.

**Government grants** are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. They exclude those forms of government assistance which cannot reasonably have a value placed on them and transactions with government which cannot be distinguished from the normal trading transactions of the entity.

**Grants related to assets** are government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. Subsidiary conditions may also be attached restricting the type or location of the assets or the periods during which they are to be acquired or held.

**Grants related to income** are government grants other than those related to assets.

**Guaranteed residual value** is:

- (a) in the case of the lessee, that part of the residual value which is guaranteed by the lessee or by a party related to the lessee (the amount of the guarantee being the maximum amount that could, in any event, become payable); and
- (b) In the case of the lessor, that part of the residual value which is guaranteed by the lessee or by a third party unrelated to the lessor who is financially capable of discharging the obligations under the guarantee.

**Historical cost** is:

- (a) in the case of assets, the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire them at the time of their acquisition; and
- (b) in the case of liabilities, the amount of proceeds received in exchange for the obligation, or in some circumstances (for example, income taxes), at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.

**Historical cost convention** is the measurement basis whereby:

- (a) assets are recorded at the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire them at the time of their acquisition; and
- (b) liabilities are recorded at the amount of proceeds received in exchange for the obligation, or in some circumstances (for example, income taxes), at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business; and whereby: assets should not be revalued nor should future cash flows be discounted in the measurement of assets and liabilities except when required or permitted by the BDAS NON-PIE.

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

The **inception of the lease** is the earlier of the date of the lease agreement or the date of commitment by the parties to the principal provisions of the lease.

The **lessee's incremental borrowing rate of interest** is the rate of interest the lessee would have to pay on a similar lease or, if that is not determinable, the rate that, at the inception of the lease, the lessee would incur to borrow over a similar term, and with a similar security, the funds necessary to purchase the asset.

**Identifiable cost unit** is a unit or centre in which product costs accumulate.

An **intangible asset** is an identifiable non-monetary asset without physical substance.

The **interest rate implicit** in the lease is the discount rate that, at the inception of the lease, causes the aggregate present value of:

- (a) the minimum lease payments; and
  - (b) the unguaranteed residual value
- to be equal to the fair value of the leased asset.

**Inventories** are assets:

- (a) held for sale in the ordinary course of business;
- (b) in the process of production for such sale; or
- (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

**Investment (in a security)** is a financial asset (such as a bond or share or other negotiable instrument evidencing debt or ownership) held by an entity for trading, the accretion of wealth through distribution (such as interest and dividends), for capital appreciation or for other benefits to the investing entity such as those obtained through trading relationships. Current investments are those that would satisfy the criteria for being classified as current in accordance with paragraph 1.16 of the BDAS-NON PIE.

**Joint control** is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the ventures).

A **joint venture** is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

**Key management personnel** are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

A **lease** is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

The **lease term** is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

A **legal obligation** is an obligation that derives from:

- (a) a contract (through its explicit or implicit terms);
- (b) legislation; or
- (c) other operation of law.

A **liability** is a present obligation of an entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

**Minimum lease payments** are the payments over the lease term that the lessee is or can be required to make, excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor, together with, in the case of the lessee, any amounts guaranteed by the lessee or by a party related to the lessee. However, if the lessee has an option to purchase the asset at a price that is expected to be sufficiently lower than fair value at the date the option becomes exercisable, and if, at the inception of the lease, it is reasonably certain that the option will be exercised, then the minimum lease payments comprise the minimum payments payable over the lease term and the payment required to exercise this purchase option.

**Monetary items** are money held and assets and liabilities to be received or paid in fixed or determinable amounts of money.

**Net realisable value** is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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

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

An **obligating event** is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.

An **onerous contract** is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

**Operating activities** are the principal revenue-producing activities of the entity and other activities that are not investing or financing activities.

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

**Prior period errors** are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- (a) was available when financial statements for those periods were authorised for issue; and
- (b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

**Property, plant and equipment** are tangible assets that:

- (a) are held by an entity for use in the production or supply of goods or services, for rental to others, for investment potential, or for administrative purposes; and
- (b) are expected to be used during more than one period.

A **provision** is a liability of uncertain timing or amount.

**Project base** is the method of income determination measured by matching costs and revenues of each individual project or batch of production cycle.

A **project is a cluster of development units** erected within a designated geographical area forming a cost accumulating centre.

**Property development activities** are defined as activities involving the necessary steps to plan and construct, and comply with statutory and contractual requirements in the development of land into vacant lots, residential, commercial and/or industrial buildings.

A **qualifying asset** is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

**Recoverable amount** is the greater of an asset's net selling price and future net cash flow expected from the continued use of that asset.

**Related party:** A party is related to an entity if:

- (a) directly, or indirectly through one or more intermediaries, the party:
  - (i) controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);
  - (ii) has an interest in the entity that gives it significant influence over the entity; or
  - (iii) has joint control over the entity;
- (b) the party is an associate of the entity;
- (c) the party is a joint venture in which the entity is a venturer;
- (d) the party is a member of the key management personnel of the entity or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d); or
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

A **related party transaction** is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

**Research** is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

**Relative sales value** is the ratio of the estimated current selling price of each individual development unit at the time the evaluation is being carried out, in the final state that it is intended to be sold to that of others to be developed in the development project.

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

**Revenue** is the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants.

**Significant influence** is the power to participate in the financial and operating policy decisions of an entity, but is not control or joint control over those policies.

A **subsidiary** is an entity that is controlled by another entity.

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

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

**Useful life** is:

- (a) the period of time over which an asset is expected to be available for use by an entity; or
- (b) the number of production or similar units expected to be obtained from the asset by an entity.

## **BDAS 1 - Presentation of Financial Statements**

### **Components of financial statements**

- 1.1 For an entity that qualifies under the NON-PIE framework to prepare and present its financial statements in accordance with the BDAS NON-PIE, a complete set of separate financial statements for the entity includes the following components:
- (a) a balance sheet;
  - (b) an income statement;
  - (c) accounting policies and explanatory notes; and
  - (d) a cash flow statement.

The BDAS NON-PIE does not apply to the preparation and presentation of consolidated financial statements.

### **Overall considerations**

- 1.2 Financial statements should properly present the financial position and financial performance of an entity. For an entity that qualifies for reporting under the NON-PIE framework, the appropriate application of the BDAS NON-PIE, with additional disclosure when necessary, would result in financial statements that achieve a proper presentation appropriate for NON-PIE. In the event that the BDAS NON-PIE does not cover an event or a transaction undertaken by an entity, management may consider the NON-PIE framework for guidance on developing an appropriate accounting policy, consistent with the historical cost convention, for that particular event or transaction.
- 1.3 An entity whose financial statements comply with the BDAS NON-PIE should disclose that fact. Such financial statements should not be described as complying with Brunei Financial Reporting Standards.
- 1.4 Inappropriate accounting treatments are not rectified either by disclosure of the accounting policies used or by notes or explanatory material.
- 1.5 In the extremely rare circumstances when management concludes that compliance with a requirement in the BDAS NON-PIE would be misleading, and that therefore departure from a requirement is necessary in order to achieve a proper presentation, in accordance with the BDAS NON-PIE, an entity should disclose:
- (a) that management has concluded that the financial statements properly present the entity's financial position and financial performance;
  - (b) that it has complied in all material respects with applicable BDASs of the BDAS NON-PIE, except for departing from them in order to achieve a proper presentation; and
  - (c) the nature and financial effect (when quantifiable) of the departure, including the treatment that the BDAS NON-PIE would require, the reason why that treatment would be misleading in the circumstances and the treatment adopted.

In the event of a departure, management should only adopt an accounting policy that is consistent with the historical cost convention.

- 1.6 When preparing financial statements, management should make an assessment of an entity's ability to continue as a going concern. Financial statements should be prepared on a going concern basis unless management either intends to liquidate the entity or cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, those uncertainties should be disclosed. When the financial statements are not prepared on a going concern basis, that fact should be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not considered to be a going concern.
- 1.7 An entity should prepare its financial statements under the accrual basis of accounting.
- 1.8 The presentation and classification of items in the financial statements should be retained from one period to the next unless:
- (a) a significant change in the nature of the operations of the entity or a review of its financial statement presentation demonstrates that the change will result in a more appropriate presentation of events or transactions; or
  - (b) a change in presentation is required by the BDAS NON-PIE.
- 1.9 Each material item should be presented separately in the financial statements. Immaterial amounts may be aggregated with amounts of a similar nature or function and need not be presented separately. Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the item judged in the particular circumstances where its presentation comes into question.
- 1.10 Assets and liabilities should not normally be offset in the financial statements. However, some offsetting is required or permitted in exceptional circumstances, as mandated by the BDAS NON-PIE. Offsetting may also take place where gains, losses and related expenses arising from the same or similar transactions are not material.
- 1.11 Unless the law requires otherwise or the BDAS NON-PIE permits or requires otherwise, comparative information with respect to the previous period should be disclosed for all numerical information in the financial statements. Comparative information should be included in narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.

### **Structure and content**

- 1.12 Each component of the financial statements should be clearly identified. In addition, the following information should be prominently displayed, and repeated when it is necessary for a proper understanding of the information presented:
- (a) the name of the reporting entity or other means of identification;
  - (b) the balance sheet date or the period covered by the financial statements, whichever is appropriate to the related component of the financial statements; and
  - (c) the reporting currency.

- 1.13 Financial statements should be presented at least annually. When, in exceptional circumstances, an entity's balance sheet date changes and annual financial statements are presented for a period longer or shorter than one year, an entity should disclose, in addition to the period covered by the financial statements:
- (a) the reason why a period other than one year is being used; and
  - (b) the fact that comparative amounts for the income statement and related notes are not comparable.

## **Balance sheet**

- 1.14 An entity should determine, based on the nature of its operations, whether or not to present current and non-current assets and current and non-current liabilities as separate classifications on the face of the balance sheet. Paragraphs 1.16 to 1.20 of this BDAS apply when this distinction is made.
- 1.15 When an entity chooses not to make the classification in paragraph 1.14, assets and liabilities should be presented broadly in order of their liquidity and the entity should disclose, for each asset and liability item that combines amounts expected to be recovered or settled both before and after 12 months from the balance sheet date, the amount expected to be recovered or settled after more than 12 months.
- 1.16 An asset should be classified as current when it satisfies any of the following criteria:
- (a) it is expected to be realised in, or is intended for sale or consumption in, the entity's normal operating cycle;
  - (b) it is held primarily for the purpose of being traded;
  - (c) it is expected to be realised within 12 months after the balance sheet date; or
  - (d) it is cash or a cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the balance sheet date.

All other assets should be classified as non-current.

- 1.17 A liability should be classified as current when it satisfies any of the following criteria:
- (a) it is expected to be settled in the entity's normal operating cycle;
  - (b) it is held primarily for the purpose of being traded;
  - (c) it is due to be settled within 12 months after the balance sheet date; or
  - (d) the entity does not have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.<sup>1</sup>

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<sup>1</sup> The classification of a term loan as a current or non-current liability in accordance with paragraph 1.17(d) should be determined by reference to the rights and obligations of the lender and the borrower, as contractually agreed between the two parties and in force as of the balance sheet date. In this regard, the probability of the lender choosing to exercise its right within the next twelve months after the balance sheet date is not relevant.

The classification of a term loan in accordance with the paragraph 1.17(d) should depend on whether or not the borrower has an unconditional right to defer payment for at least twelve months after the balance sheet date. Consequently, amounts repayable under a loan agreement which includes a clause that gives the lender the unconditional right to call the loan at any time should be classified by the borrower as current in its statement of financial position. This is because the borrower under such an agreement does not have an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

A more detailed discussion can be found in BDAS-NON PIE application "Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause".

All other liabilities should be classified as non-current.

- 1.18 An entity classifies its financial liabilities as current when they are due to be settled within 12 months after the balance sheet date, even if:
- (a) the original term was for a period longer than 12 months; and
  - (b) an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the balance sheet date and before the financial statements are authorised for issue.
- 1.19 The face of the balance sheet should include, where applicable, line items presenting the following amounts:
- (a) property, plant and equipment;
  - (b) intangible assets;
  - (c) financial assets (including investments but excluding amounts shown under (e) and (g));
  - (d) inventories;
  - (e) trade and other receivables;
  - (f) tax assets;
  - (g) cash and cash equivalents;
  - (h) trade and other payables;
  - (i) tax liabilities;
  - (j) provisions;
  - (k) non-current liabilities;
  - (l) issued capital; and
  - (m) reserves.
- 1.20 Additional line items, headings and subtotals should be presented on the face of the balance sheet when such presentation is necessary to present properly the entity's financial position.
- 1.21 An entity should disclose the following, either on the face of the balance sheet or in the notes:
- (a) for each class of share capital:
    - (i) the number of shares authorised;
    - (ii) the number of shares issued and fully paid, and issued but not fully paid;
    - (iii) par value per share, or that the shares have no par value;
    - (iv) a reconciliation of the number of shares outstanding at the beginning and at the end of the period;
    - (v) the rights, preferences and restrictions attaching to that class, including restrictions on the distribution of dividends and the repayment of capital;
    - (vi) shares in the entity held by the entity itself; and

- (vii) shares reserved for issuance under options and sales contracts, including the terms and amounts;
- (b) where it is not otherwise self-evident, a description of the nature and purpose of each component within equity;
- (c) the amount of dividends that were proposed or declared after the balance sheet date but before the financial statements were authorised for issue; and
- (d) the amount of any cumulative preference dividends not recognised.

An entity without share capital, such as a partnership, should disclose information equivalent to that required above, showing movements during the period in each category of equity interest and the rights, preferences and restrictions attaching to each category of equity interest.

### ***Income statement***

- 1.22 The face of the income statement should include, where applicable, line items that present the following amounts:
- (a) revenue;
  - (b) finance costs;
  - (c) tax expense; and
  - (d) profit or loss for the period.

Additional line items, headings and subtotals should be presented on the face of the income statement when such presentation is necessary to present properly the entity's financial performance.

- 1.23 All items of income and expense recognised in a period should be included in the determination of the profit or loss for the period unless the BDAS NON-PIE requires or permits otherwise.
- 1.24 When items of income and expense within profit or loss are of such size, nature or incidence that their disclosure is relevant to explain the performance of the entity for the period, the nature and amount of such items should be disclosed separately.
- 1.25 Circumstances that may give rise to the separate disclosure of items of income and expense in accordance with paragraph 1.24 include the following:
- (a) the write-down of inventories to net realisable value or property, plant and equipment to recoverable amount, as well as the reversal of such write-downs;
  - (b) the write-down of intangible assets to recoverable amount, as well as the reversal of such write-downs;
  - (c) a restructuring of the activities of an entity and the reversal of any provisions for the costs of restructuring;
  - (d) disposals of items of property, plant and equipment;
  - (e) disposals of intangible assets;
  - (f) disposals of long-term investments;
  - (g) litigation settlements; and

- (h) other reversals of provisions.
- 1.26 An entity should present, either on the face of the income statement or in the notes, an analysis of expenses using a classification based on either the nature of expenses or their function within the entity.
- 1.27 Entities classifying expenses by function should disclose additional information on the nature of expenses, including depreciation and amortisation expense and staff costs.
- 1.28 An entity should disclose, either on the face of the income statement or in the notes, the amount of dividends per share, declared or proposed, for the period covered by the financial statements.

### **Changes in equity**

- 1.29 An entity should present changes in equity either in the notes to the financial statements or as a separate component of the financial statements. Changes in equity should include the following:
  - (a) the profit or loss for the period;
  - (b) each item of income and expense, gain or loss that, as required by the BDAS NON-PIE, is recognised directly in equity, and the total of these items;
  - (c) the cumulative effect of changes in accounting policy and the correction of prior period errors;
  - (d) capital transactions with owners and distributions to owners;
  - (e) the balance of accumulated reserves at the beginning of the period and at the balance sheet date, and the movements for the period; and
  - (f) a reconciliation between the carrying amount of each class of equity capital, share premium and each reserve at the beginning and end of the period, separately disclosing each movement. Comparative information is not required for this reconciliation.

### **Accounting policies and explanatory notes**

- 1.30 The notes to the financial statements should:
  - (a) present information about the basis of preparation of the financial statements and the specific accounting policies selected and applied for significant transactions and events;
  - (b) disclose the information required by the BDAS NON-PIE that is not presented elsewhere in the financial statements; and
  - (c) provide additional information that is necessary for a proper presentation.
- 1.31 Notes to the financial statements should be presented in a systematic manner. Each item on the face of the balance sheet and the income statement should be cross-referenced to any related information in the notes.
- 1.32 The accounting policies BDAS of the notes to the financial statements should describe:

- (a) whether the financial statements have been prepared in accordance with the BDAS NON-PIE and the criteria on which the entity qualifies to apply the BDAS-NON-PIE;
- (b) the measurement basis (or bases) used in preparing the financial statements; and
- (c) each specific accounting policy that is necessary for a proper understanding of the financial statements.

1.33 An entity should disclose the following, if the information is not disclosed elsewhere in information published with the financial statements:

- (a) the domicile and legal form of the entity, its place of incorporation and the address of the registered office (or principal place of business, if different from the registered office); and
- (b) a description of the nature of the entity's operations and its principal activities.

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## **BDAS 2 - Accounting Policies, Changes in Accounting Estimates and Errors**

### **General**

- 2.1 Management should use its judgment in developing an accounting policy resulting in information that is relevant to the needs of users of the financial statements and is reliable in nature. Management should select and apply an entity's accounting policies so that the financial statements comply with all the requirements of the BDAS NON-PIE and are consistent with the historical cost convention.
- 2.2 An entity should select and apply its accounting policies for a period consistently for similar transactions, other events and circumstances, unless the BDAS NON-PIE specifically requires or permits categorisation of items for which different policies may be appropriate.

### **Changes in accounting policies**

- 2.3 A change in accounting policy should be made only if it is required by the BDAS NON-PIE or if it results in a more relevant and reliable presentation in the financial statements of the effects of transactions or other events on the entity's financial position or financial performance.
- 2.4 The following are not changes in accounting policies:
- (a) the adoption of an accounting policy for transactions or other events that differ in substance from those previously occurring; or
  - (b) the adoption of a new accounting policy for transactions or other events that did not occur previously or were immaterial.
- 2.5 A change in an accounting policy that is made following an amendment to the BDAS NON-PIE should be accounted for in accordance with the transitional provisions, if any, issued with the amendment to the BDAS NON-PIE.
- 2.6 Where application of a change in the BDAS NON-PIE has a material effect on the current period or any prior period presented, an entity should disclose the following:
- (a) the fact that the change in accounting policy is made in accordance with the change in the BDAS NON-PIE, with a description of those provisions;
  - (b) the amount of the adjustment for the current period and for each prior period presented;
  - (c) the amount of the adjustment relating to periods prior to those included in the comparative information; and
  - (d) the fact that comparative information has been restated, or that restatement for a particular prior period has not been made because it would require undue cost or effort or because this is in accordance with the transitional provisions issued with the amendment to the BDAS NON-PIE.
- 2.7 A change in an accounting policy other than the one mandated under paragraph 2.5 should be applied retrospectively. The opening balance of reserves for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented should be adjusted, where applicable, as if the new accounting policy had always been in use.

- 2.8 Comparative information presented for a particular prior period need not be restated if restating the information would require undue cost or effort. When comparative information for a particular prior period is not restated, the new accounting policy should be applied to the balances of assets and liabilities as at the beginning of the next period, and a corresponding adjustment should be made to the opening balance of reserves for the next period.
- 2.9 When a change in an accounting policy has an effect on the current period or any prior period presented, or may have an effect in subsequent periods, an entity should disclose the following:
- (a) the reasons for the change;
  - (b) the amount of the adjustment for the current period and for each prior period presented;
  - (c) the amount of the adjustment relating to periods prior to those presented; and
  - (d) that comparative information has been restated, or that restatement for a particular prior period has not been made because it would require undue cost or effort.

### **Changes in accounting estimates**

- 2.10 The effect of a change in an accounting estimate should be recognised prospectively by including it in profit or loss in:
- (a) the period of the change, if the change affects that period only; or
  - (b) the period of the change and future periods, if the change affects both.
- 2.11 The nature and amount of a change in an accounting estimate that has an effect on the current period or is expected to have an effect in subsequent periods should be disclosed. If it would require undue cost or effort to quantify that amount, this fact should be disclosed.

### **Errors**

- 2.12 The amount of the correction of a material prior period error should be accounted for retrospectively. A prior period error should be corrected by:
- (a) either restating the comparative amounts for the prior periods in which the error occurred; or
  - (b) when the error occurred before the earliest prior period presented, restating the opening balance of reserves for that period, so that the financial statements are presented as if the error had never occurred.

All errors other than prior period errors should be corrected in the current period.

- 2.13 Comparative information presented for a particular prior period need not be restated if restating the information would require undue cost or effort. When no restatement of comparative figures takes place, the opening balance of reserves for the next period should be restated for the cumulative effect of the error before the beginning of that period.

2.14 An entity should disclose:

- (a) the nature of the prior period error; and
- (b) the amount of the correction for each prior period presented.

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## **BDAS 3 - Property, Plant and Equipment**

### **General**

- 3.1 An item of property, plant and equipment (including property held for rental and/or for investment potential) should be recognised as an asset when:
- (a) it is probable that future economic benefits associated with the asset will flow to the entity; and
  - (b) the cost of the asset to the entity can be measured reliably.
- 3.2 An item of property, plant and equipment that qualifies for recognition as an asset should initially be measured at its cost.
- 3.3 The cost of an item of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes, and any directly attributable costs of bringing the asset to working condition for its intended use; any trade discounts and rebates are deducted in arriving at the purchase price. Examples of directly attributable costs include the following:
- (a) the cost of site preparation;
  - (b) initial delivery and handling costs;
  - (c) installation costs;
  - (d) professional fees such as for architects, engineers and lawyers; and
  - (e) the estimated cost of dismantling and removing the asset and restoring the site, to the extent that it is recognised as a provision under BDAS 10.
- 3.4 Administration and other general overhead costs are not a component of the cost of property, plant and equipment unless they can be directly attributed to the acquisition of the asset or bringing the asset to its working condition. Similarly, start-up and similar pre-production costs do not form part of the cost of an asset unless they are necessary to bring the asset to its working condition. Initial operating losses incurred prior to an asset's achieving planned performance are recognised as an expense.
- 3.5 The cost of a self-constructed asset is determined using the same principles as for an acquired asset.
- 3.6 An item of property, plant and equipment may be acquired in exchange or part exchange for a dissimilar item of property, plant and equipment or other asset. The cost of such an item is measured at the fair value of the asset received, which equivalent to the fair value of the asset given up is adjusted by the amount of any cash or cash equivalents transferred.
- 3.7 Subsequent expenditure relating to an item of property, plant and equipment that has already been recognised should be added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the entity. All other subsequent expenditure should be recognised as an expense in the period in which it is incurred.

- 3.8 Expenditure on repairs or maintenance of property, plant and equipment is made to restore or maintain the future economic benefits that an entity can expect from the originally assessed standard of performance of the asset. As such, it is usually recognised as an expense when incurred. For example, the cost of servicing or overhauling plant and equipment is usually an expense since it restores, rather than increases, the originally assessed standard of performance.
- 3.9 Major components of some items of property, plant and equipment may require replacement at regular intervals. For example, a furnace may require relining after a specified number of hours of usage. The components are accounted for as separate assets because they have useful lives different from those of the items of property, plant and equipment to which they relate. Therefore, provided the recognition criteria in paragraph 3.1 are satisfied, the expenditure incurred in replacing or renewing the component is accounted for as the acquisition of a separate asset and the replaced asset is written off.

### **Measurement subsequent to initial recognition**

- 3.10 Subsequent to initial recognition as an asset, an item of property, plant and equipment should be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

### **Depreciation and impairment**

- 3.11 The depreciable amount of an item of property, plant and equipment should be allocated on a systematic basis over its useful life. The depreciation method used should reflect the pattern in which the asset's economic benefits are consumed by the entity. The depreciation charge for each period should be recognised as an expense unless it is included in the carrying amount of another asset.
- 3.12 The economic benefits embodied in an item of property, plant and equipment are consumed by the entity principally through the use of the asset. However, other factors such as technical obsolescence and wear and tear while an asset remains idle often result in the diminution of the economic benefits that might have been expected to be available from the asset. Consequently, all the following factors need to be considered in determining the useful life of an asset:
- (a) the expected usage of the asset by the entity (usage is assessed by reference to the asset's expected capacity or physical output);
  - (b) the expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used, the repair and maintenance programme of the entity, and the care and maintenance of the asset while idle;
  - (c) technical obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or the service output of the asset; and
  - (d) legal or similar limits on the use of the asset, such as the expiry dates of related leases.
- 3.13 Land and buildings are separable assets and are dealt with separately for accounting purposes, even when they are acquired together. Freehold land normally has an unlimited life and, therefore, is not depreciated. Leasehold interests in land from the

Government of Brunei Darussalam or elsewhere with similar features are accounted for as property, plant and equipment in accordance with this BDAS. Leasehold land is to be depreciated over the lease term. Buildings have a limited life and, therefore, are depreciable assets. An increase in the value of the land on which a building stands does not affect the determination of the useful life of the building.

- 3.14 A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the units of production method. The method used for an asset is selected based on the expected pattern of economic benefits from that asset and is consistently applied from period to period unless there is a change in the expected pattern of economic benefits from that asset.
- 3.15 The useful life of an item of property, plant and equipment should be reviewed annually and, if expectations are significantly different from previous estimates, the depreciation charge for the current and future periods should be adjusted.
- 3.16 The depreciation method applied to property, plant and equipment should be reviewed annually and, if there has been a significant change in the expected pattern of economic benefits from those assets, the method should be changed to reflect the changed pattern. When such a change in depreciation method is necessary, the change should be accounted for as a change in accounting estimate and the depreciation charge for the current and future periods should be adjusted.
- 3.17 To determine whether an item of property, plant and equipment is impaired, an entity applies BDAS 9 *Impairment of Assets*. That BDAS explains when and how an entity reviews the carrying amount of its assets, how it determines the recoverable amount of an asset and when it recognises or reverses an impairment loss.

### **Retirements and disposals**

- 3.18 An item of property, plant and equipment should be eliminated from the balance sheet on disposal or when the asset is permanently withdrawn from use and no future economic benefits are expected from its disposal.
- 3.19 Gains or losses arising from the retirement or disposal of an item of property, plant and equipment should be determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and should be recognised as income or expense in the income statement.

### **Disclosure**

- 3.20 An entity should disclose, for each class of property, plant and equipment:
  - (a) the measurement bases used for determining the gross carrying amount;
  - (b) the depreciation methods used;
  - (c) the useful lives or the depreciation rates used;
  - (d) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and
  - (e) a reconciliation of the carrying amount at the beginning and end of the period showing:

- (i) additions;
- (ii) disposals;
- (iii) impairment losses recognised in the income statement during the period (if any);
- (iv) impairment losses reversed in the income statement during the period (if any);
- (v) depreciation; and
- (vi) other movements.

Comparative information is not required.

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

- (a) the entity's liabilities; and
- (b) another entity's liabilities.

## BDAS 4 - Intangible Assets

### Control of an asset

- 4.1 An entity controls an asset if the entity has the power to obtain the future economic benefits flowing from the underlying resource and also can restrict the access of others to those benefits. The capacity of an entity to control the future economic benefits from an intangible asset would normally stem from legal rights that are enforceable in a court of law. In the absence of legal rights, it is more difficult to demonstrate control. However, legal enforceability of a right is not a necessary condition for control since an entity may be able to control the future economic benefits in some other ways.

### Recognition and initial measurement

- 4.2 An intangible asset should be recognised if, and only if:
- (a) it is probable that the future economic benefits that are attributable to the asset will flow to the entity; and
  - (b) the cost of the asset can be measured reliably.
- 4.3 An entity should assess the probability of future economic benefits using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.
- 4.4 An intangible asset should be measured initially at cost.
- 4.5 Internally generated goodwill should not be recognised as an asset.
- 4.6 *Research phase*  
No intangible asset arising from research (or from the research phase of an internal project) should be recognised. Expenditure on research (or on the research phase of an internal project) should be recognised as an expense when it is incurred.
- 4.7 *Development phase*  
An intangible asset arising from development (or from the development phase of an internal project) should be recognised if, and only if, an entity can demonstrate all of the following:
- (a) the technical feasibility of completing the intangible asset so that it will be available for use or sale;
  - (b) the entity's intention to complete the intangible asset and use or sell it;
  - (c) its ability to use or sell the intangible asset;
  - (d) how the intangible asset will generate probable future economic benefits (among other things, the entity should demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset);
  - (e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

- (f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

4.8 Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance should not be recognised as intangible assets.

### **Recognition of an expense**

4.9 Expenditure on an intangible item should be recognised as an expense when it is incurred, unless it forms part of the cost of an intangible asset that meets the recognition criteria (see paragraphs 4.2 to 4.8).

4.10 In some cases, expenditure is incurred to provide future economic benefits to an entity, but no intangible asset or other asset is acquired or created that can be recognised. In these cases, the expenditure is recognised as an expense when it is incurred. For example, expenditure on research is always recognised as an expense when it is incurred (see paragraph 4.6). Examples of other expenditure that is recognised as an expense when it is incurred include:

- (a) expenditure on start-up activities (start-up costs), unless this expenditure is included in the cost of an item of property, plant and equipment under BDAS 3. Start-up costs may consist of establishment costs such as legal and secretarial costs incurred in establishing a legal entity, expenditure to open a new facility or business (pre-opening costs) or expenditures for commencing new operations or launching new products or processes (pre-operating costs);
- (b) expenditure on training activities;
- (c) expenditure on advertising and promotional activities; and
- (d) expenditure on relocating or re-organising part or all of an entity.

4.11 Expenditure on an intangible item that was initially recognised as an expense in previous financial statements should not be recognised as part of the cost of an intangible asset at a later date.

4.12 Subsequent expenditure on an intangible asset after its purchase or its completion should be recognised as an expense when it is incurred unless:

- (a) it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance; and
- (b) this expenditure can be reliably measured and attributed to the asset.

If these conditions are met, the subsequent expenditure should be added to the cost of the intangible asset.

4.13 After initial recognition, an intangible asset should be carried at its cost less any accumulated amortisation and any accumulated impairment losses.

## Amortisation

### 4.14 *Amortisation period*

The depreciable amount of an intangible asset should be allocated on a systematic basis over the best estimate of its useful life. There is a rebuttable presumption that the useful life of an intangible asset will not exceed 20 years from the date when the asset is available for use. Amortisation should commence when the asset is available for use.

4.15 If control over the future economic benefits from an intangible asset is achieved through legal rights that have been granted for a finite period, the useful life of the intangible asset should not exceed the period of the legal rights unless:

- (a) the legal rights are renewable; and
- (b) renewal is virtually certain.

### 4.16 *Amortisation method*

The amortisation method used should reflect the pattern in which the asset's economic benefits are consumed by the entity. If that pattern cannot be determined reliably, the straight-line method should be used. The amortisation charge for each period should be recognised as an expense unless another BDAS of this BDAS NON-PIE permits or requires it to be included in the carrying amount of another asset.

### 4.17 *Residual value*

The residual value of an intangible asset should be assumed to be zero unless:

- (a) there is a commitment by a third party to purchase the asset at the end of its useful life; or
- (b) there is an active market for the asset and:
  - (i) its residual value can be determined by reference to that market; and
  - (ii) it is probable that such a market will exist at the end of the asset's useful life.

### 4.18 *Review of amortisation period and amortisation method*

The amortisation period and the amortisation method should be reviewed at least at the end of each financial year. If the expected useful life of the asset is significantly different from previous estimates, the amortisation period should be changed accordingly. If there has been a significant change in the expected pattern of economic benefits from the asset, the amortisation method should be changed to reflect the changed pattern. Such changes should be accounted for as changes in accounting estimates by adjusting the amortisation charge for the current and future periods.

4.19 To determine whether an intangible asset is impaired, an entity applies BDAS 9 *Impairment of Assets*. That BDAS explains when and how an entity reviews the carrying amount of its assets, how it determines the recoverable amount of an asset and when it recognises or reverses an impairment loss.

4.20 An intangible asset should be derecognised (eliminated from the balance sheet) on disposal or when no future economic benefits are expected from its use and subsequent disposal.

4.21 Gains or losses arising from the retirement or disposal of an intangible asset should be determined as the difference between the net disposal proceeds and the carrying amount of the asset and should be recognised as income or expense in the income statement.

### Disclosure

4.22 An entity should disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:

- (a) the useful lives or the amortisation rates used;
- (b) the amortisation methods used;
- (c) the gross carrying amount and the accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the period;
- (d) the line item(s) of the income statement in which the amortisation of intangible assets is included; and
- (e) a reconciliation of the carrying amount at the beginning and end of the period showing:
  - (i) additions;
  - (ii) retirements and disposals;
  - (iii) impairment losses recognised in the income statement during the period (if any);
  - (iv) impairment losses reversed in the income statement during the period (if any);
  - (v) amortisation recognised during the period; and
  - (vi) other changes in the carrying amount during the period.

Comparative information is not required.

4.23 An entity should also disclose:

- (a) if an intangible asset is amortised over more than 20 years, the reasons why the presumption that the useful life of an intangible asset will not exceed 20 years from the date when the asset is available for use is rebutted;
- (b) a description, the carrying amount and remaining amortisation period of any individual intangible asset that is material to the financial statements of the entity as a whole; and
- (c) the existence and carrying amounts of intangible assets whose title is restricted and the carrying amounts of intangible assets pledged as security separately for:
  - (i) the entity's liabilities; and
  - (ii) another entity's liabilities.

## **BDAS 5 - Leases**

### **Classification of leases**

- 5.1 The classification of leases is based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. Risks include the possibility of losses from idle capacity or technological obsolescence and of variations in return caused by changing economic conditions. Rewards may be represented by the expectation of profitable operation over the asset's economic life and of gain from appreciation in value or realisation of a residual value.
- 5.2 Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Following are examples of situations that would normally lead to a lease being classified as a finance lease:
- (a) the lease transfers ownership of the asset to the lessee by the end of the lease term;
  - (b) the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
  - (c) the lease term is for the major part of the economic life of the asset, even if title is not transferred;
  - (d) at the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
  - (e) the leased assets are of a specialised nature such that only the lessee can use them without major modifications.
- 5.3 Following are indicators of situations that, individually or in combination, could also lead to a lease being classified as a finance lease:
- (a) if the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;
  - (b) gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equalling most of the sales proceeds at the end of the lease); and
  - (c) the lessee has the ability to continue the lease for a secondary period at a rent substantially lower than market rent.

### **Finance leases**

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

- 5.5 Lease payments should be apportioned between the finance charge and the reduction of the outstanding liability. The finance charge should be allocated on a systematic basis to periods during the lease term either by way of the straight-line method, the sum-of-digits methods or a method that produces a constant periodic rate of interest on the remaining balance of the liability for each period.
- 5.6 A finance lease gives rise to a depreciation expense for the asset as well as a finance expense for each accounting period. The depreciation policy for leased assets should be consistent with that for depreciable assets that are owned.
- 5.7 If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset should be fully depreciated over the lease term or its useful life, whichever is shorter.
- 5.8 *Disclosure*  
Lessees should disclose for finance lease at the balance sheet date the carrying amount of the asset, and the outstanding liability falling due in each of the following periods:
- (a) not later than one year; and
  - (b) later than one year.

### **Operating leases**

- 5.9 Lease payments under an operating lease should be recognised as an expense in the income statement on a straight-line basis over the lease term unless another systematic basis is representative of the time pattern of the user's benefit.
- 5.10 All incentives for the agreement of a new or renewed operating lease should be recognised as an integral part of the net consideration agreed for the use of the leased asset. Lessees should recognise the aggregate benefit of incentives as a reduction of rental expense over the lease term.
- 5.11 *Disclosure*  
Lessees should disclose the total of future minimum lease payments under non-cancellable operating leases for each of the following periods:
- (a) not later than one year; and
  - (b) later than one year.

### **Sale and leaseback**

- 5.12 A sale and leaseback transaction involves the sale of an asset by the vendor and the leasing of the same asset back to the vendor. The lease payment and the sale price are usually interdependent since they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends on the type of lease involved.
- 5.13 If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount should not be immediately recognised as income in the financial statements of a seller-lessee. Instead, it should be deferred and amortised over the lease term.

- 5.14 If a sale and leaseback transaction results in an operating lease and it is clear that the transaction is established at fair value, any profit or loss should be recognised immediately. If the sale price is below fair value, any profit or loss should be recognised immediately except that, if the loss is compensated by future lease payments at below market price, it should be deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value should be deferred and amortised over the period for which the asset is expected to be used.
- 5.15 For operating leases, if the fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset, a loss equal to the amount of the difference between the carrying amount and fair value should be recognised immediately.

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## **BDAS 6 - Investments**

- 6.1 This BDAS should be applied in accounting for investments in subsidiaries, associates, joint ventures and other investments in securities. This BDAS should not be applied in accounting for properties held for rental and/or for investment potential as they are dealt with in BDAS 3 *Property, Plant and Equipment*.
- 6.2 An investment should be recognised as an asset when:
- (a) it is probable that future economic benefits associated with the asset will flow to the entity; and
  - (b) the cost of the asset can be measured reliably.
- 6.3 An investment that qualifies for recognition as an asset should initially be measured at its cost.
- 6.4 The cost of an investment includes acquisition charges such as brokerages, fees, duties and taxes.
- 6.5 If an investment is acquired, or partly acquired, by the issue of shares or other securities, the acquisition cost is the fair value of the securities issued and not their nominal or par value. If an investment is acquired in exchange, or part exchange, for another asset, the acquisition cost of the investment is determined by reference to the fair value of the asset given up. In cases where the fair value of the securities issued or the asset given up is not reliably determinable, the acquisition cost should be the fair value of the investment acquired.
- 6.6 Interest and dividends receivable in connection with an investment are generally regarded as income, being the return on the investment. However, in some circumstances, such inflows represent a recovery of cost and do not form part of income. For example, when unpaid interest has accrued before the acquisition of an interest-bearing investment and is therefore included in the price paid for the investment, the subsequent receipt of interest is allocated between pre-acquisition and post-acquisition periods; the pre-acquisition portion is deducted from cost. When dividends on equity securities are declared from pre-acquisition profits a similar treatment applies. If it is difficult to make such an allocation except on an arbitrary basis, the cost of an investment is normally reduced by dividends receivable only if they clearly represent a recovery of part of cost.

### **Measurement subsequent to initial recognition**

- 6.7 Except as provided in paragraph 6.8 for held-to-maturity securities, subsequent to initial recognition as an asset, an investment should be carried at:
- (a) the lower of cost and net realisable value for current investments; and
  - (b) cost less accumulated impairment losses for long-term investments.

Changes in the carrying amount of an investment from one balance sheet date to another should be recognised as income or expense in the income statement.

6.8 The difference between the acquisition cost and redemption value of an investment in held-to-maturity debt securities (the discount or premium on acquisition) should be amortised by the entity on a systematic basis over the period from acquisition to maturity either by way of the straight-line method, or a method whereby a constant yield is earned on the investment. The amortised discount or premium is credited or charged to income as though it were interest and added to or subtracted from the carrying amount of the security. The resulting carrying amount is then regarded as cost.

### ***Disposals of investments***

6.9 Gains or losses arising from the disposal of an investment should be determined as the difference between the net disposal proceeds and the carrying amount of the asset and should be recognised as income or expense in the income statement.

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

### **Disclosure**

6.11 An entity should disclose:

- (a) the measurement bases used for determining the carrying amount of investments;
- (b) the significant amounts included in income for:
  - (i) interest and dividends;
  - (ii) profits and losses on disposal of investments;
  - (iii) impairment losses; and
  - (iv) reversals of impairment losses;
- (c) the market value of listed investments if they are not carried at market value;
- (d) significant restrictions and other terms affecting the realisability of investments or the remittance of income and proceeds of disposal;
- (e) in respect of investments in subsidiaries, associates and joint ventures:
  - (i) the name of the investee;
  - (ii) the proportion of ownership interest in the investee;
  - (iii) the principal place of operation and place of incorporation of the investee; and
  - (iv) an indication of the nature of business of the investee; and
- (f) the accumulated write-down to net carrying amount (if any).

6.12 Investments in securities should be distinguished between equities and debt securities. They should be analysed between those that are listed and those that are unlisted. This analysis should be provided separately for current investments and long-term investments.

- 6.13 An entity should disclose the existence and amounts of restrictions on title, as well as investments pledged as security separately for:
- (a) the entity's liabilities; and
  - (b) another entity's liabilities.

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## **BDAS 7 - Inventories**

- 7.1 Inventories should be measured at the lower of cost and net realisable value. Inventories are usually written down to net realisable value on an item-by-item basis. In some circumstances, however, it may be appropriate to group similar or related items.
- 7.2 The cost of inventories should comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.
- 7.3 The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects should be assigned by using specific identification of their individual costs.
- 7.4 The cost of inventories, other than those dealt with in paragraph 7.3, should be assigned by using the first-in, first-out or weighted average cost formulas.

### **Recognition as an expense**

- 7.5 When inventories are sold, the carrying amount of those inventories should be recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories should be recognised as an expense in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value should be recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### **Disclosure**

- 7.6 An entity should disclose:
- (a) the accounting policies adopted in measuring inventories, including the cost formula used;
  - (b) the total carrying amount of inventories analysed in classifications appropriate to the entity;
  - (c) the carrying amount of inventories pledged as security for the entity's liabilities; and
  - (d) the carrying amount of inventories pledged as security for another entity's liabilities.

## **BDAS 8 - Construction Contracts**

- 8.1 This BDAS should be applied in accounting for construction contracts in the financial statements of contractors.
- 8.2 Contract revenue comprises:
- (a) the initial amount of revenue agreed in the contract; and
  - (b) variations in contract work, claims and incentive payments:
    - (i) to the extent that it is probable that they will result in revenue; and
    - (ii) they are capable of being reliably measured.
- 8.3 Contract costs comprise:
- (a) costs that relate directly to the specific contract;
  - (b) costs that are attributable to contract activity in general and can be allocated to the contract; and
  - (c) such other costs as are specifically chargeable to the customer under the terms of the contract.

### **Recognition**

- 8.4 When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract should be recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the balance sheet date. An expected loss on the construction contract should be recognised as an expense immediately in accordance with paragraph 8.10.
- 8.5 In the case of a fixed price contract, the outcome of a construction contract can be estimated reliably when all the following conditions are satisfied:
- (a) total contract revenue can be measured reliably;
  - (b) it is probable that the economic benefits associated with the contract will flow to the entity;
  - (c) both the contract costs to complete the contract and the stage of contract completion at the balance sheet date can be measured reliably; and
  - (d) the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.
- 8.6 In the case of a cost-plus contract, the outcome of a construction contract can be estimated reliably when all the following conditions are satisfied:
- (a) it is probable that the economic benefits associated with the contract will flow to the entity; and
  - (b) the contract costs attributable to the contract, whether or not specifically reimbursable, can be clearly identified and measured reliably.

- 8.7 The stage of completion of a contract may be determined in a variety of ways. The entity uses the method that measures reliably the work performed. Depending on the nature of the contract, the methods may include:
- (a) the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs;
  - (b) surveys of work performed; or
  - (c) completion of a physical proportion of the contract work.

Progress payments and advances received from customers often do not reflect the work performed.

- 8.8 When the outcome of a construction contract cannot be estimated reliably:
- (a) revenue should be recognised only to the extent of contract costs incurred that it is probable they will be recoverable; and
  - (b) contract costs should be recognised as an expense in the period in which they are incurred.

An expected loss on the construction contract should be recognised as an expense immediately in accordance with paragraph 8.10.

- 8.9 When the uncertainties that prevented the outcome of the contract being estimated reliably no longer exist, revenue and expenses associated with the construction contract should be recognised in accordance with paragraph 8.4 rather than in accordance with paragraph 8.8.

### **Expected losses**

- 8.10 When it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognised as an expense immediately.
- 8.11 The amount of such a loss is determined irrespective of:
- (a) whether work has commenced on the contract; or
  - (b) the stage of completion of contract activity.

### **Disclosure**

- 8.12 An entity should disclose:
- (a) the amount of contract revenue recognised as revenue in the period;
  - (b) the methods used to determine the contract revenue recognised in the period; and
  - (c) the methods used to determine the stage of completion of contracts in progress.
- 8.13 An entity should disclose each of the following for contracts in progress at the balance sheet date:
- (a) the aggregate amount of costs incurred and recognised profits (less recognised losses) to date;
  - (b) the amount of advances received; and
  - (c) the amount of retentions.

8.14 Retentions are amounts of progress billings that are not paid until the satisfaction of conditions specified in the contract for the payment of such amounts or until defects have been rectified. Progress billings are amounts billed for work performed on a contract whether or not they have been paid by the customer. Advances are amounts received by the contractor before the related work is performed.

8.15 An entity should present:

- (a) the gross amount due from customers for contract work as an asset; and
- (b) the gross amount due to customers for contract work as a liability.

8.16 The gross amount due from customers for contract work is the net amount of:

- (a) costs incurred plus recognised profits; less
- (b) the sum of recognised losses and progress billings,

for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings.

8.17 The gross amount due to customers for contract work is the net amount of:

- (a) costs incurred plus recognised profits; less
- (b) the sum of recognised losses and progress billings,

for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

## **BDAS 9 - Impairment of Assets**

### **General**

9.1 At each balance sheet date, an entity should consider whether there exists any indications of impairment and, if so, estimate the recoverable amount of all assets (including items of property, plant and equipment, intangible assets and investments in securities) other than inventories, construction contracts and current investments. In the event that an asset's carrying amount exceeds its recoverable amount, the carrying amount should be restated to recoverable amount and an impairment loss should be recognised in the profit or loss for the period.

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

#### External sources of information

- (a) during the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use;
- (b) significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated;

#### Internal sources of information

- (c) evidence is available of obsolescence or physical damage of an asset;
- (d) significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or the manner in which, an asset is used or is expected to be used. These changes include plans to discontinue or restructure the operation to which an asset belongs or to dispose of an asset before the previously expected date; and
- (e) evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

9.3 The list in paragraph 9.2 is not exhaustive. An entity may identify other indications that an asset may be impaired and these would also require the entity to determine the asset's recoverable amount.

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

- (a) cash flows for acquiring the asset, or subsequent cash needs for operating or maintaining it, that are significantly higher than those originally budgeted;
- (b) actual net cash flows or operating profit or loss flowing from the asset that are significantly worse than those budgeted;
- (c) a significant decline in budgeted net cash flows or operating profit, or a significant increase in budgeted loss, flowing from the asset; or
- (d) operating losses or net cash outflows for the asset, when current period figures are aggregated with budgeted figures for the future.

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

External sources of information

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

Internal sources of information

- (c) significant changes with a favourable effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or the manner in which, the asset is used or is expected to be used. These changes include costs incurred during the period to improve or enhance the asset's performance or restructure the operation to which the asset belongs; and
- (d) evidence is available from internal reporting that indicates that the economic performance of the asset is, or will be, better than expected.

Indications of a potential decrease in an impairment loss in this paragraph mainly mirror the indications of a potential impairment loss in paragraph 9.2.

- 9.6 In case of a reversal of impairment loss, the increased carrying amount of an asset should not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.
- 9.7 It is not always necessary to determine both an asset's net selling price and future net cash flow expected from the continued use of that asset. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount.
- 9.8 In some cases, estimates, averages and computational short cuts may provide reasonable approximations of the detailed computations for determining recoverable amount. Discounting would be permitted but not required. If discounting is used, the discount rate(s) should be a pre-tax rate(s) that reflect(s) current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. When discounting is used, an asset's future net cash flow expected from the continued use of that asset may become greater than the asset's carrying amount simply because the present value of future cash inflows increases as they become closer. However, the service potential of the asset has not increased. Therefore, an impairment loss is not reversed just because of the passage of time (sometimes called the 'unwinding' of the discount), even if the recoverable amount of the asset becomes higher than its carrying amount.

## **BDAS 10 - Provisions, Contingent Liabilities and Contingent Assets**

10.1 A provision should be recognised when:

- (a) an entity has a present obligation (legal or constructive) as a result of a past event, excluding those arising from executory contracts, except where these are onerous;
- (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- (c) a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision should be recognised.

### **Probable outflow of resources embodying economic benefits**

10.2 For a liability to qualify for recognition, there must be not only a present obligation but also the probability of an outflow of resources embodying economic benefits to settle that obligation. For the purpose of this BDAS, an outflow of resources or other event is regarded as probable if the event is more likely than not to occur (i.e. the probability that the event will occur is greater than the probability that it will not). Where it is not probable that a present obligation exists, an entity discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote (see paragraph 10.19).

### **Reliable estimate of the obligation**

10.3 The use of estimates is an essential part of the preparation of financial statements and does not undermine their reliability. This is especially true in the case of provisions, which by their nature are more uncertain than most other balance sheet items. Except in extremely rare cases, an entity will be able to determine a range of possible outcomes and can therefore make an estimate of the obligation that is sufficiently reliable to use in recognising a provision. Discounting of the amount to arrive at the present value of the expenditures expected to be required to settle the obligation is permitted but not required. If discounting is used, the discount rate should be a pre-tax rate (or rates) that reflect(s) current assessments of the time value of money and the risks specific to the liability. The discount rate(s) should not reflect risks for which future cash flow estimates have been adjusted.

### **Contingent liabilities**

10.4 An entity should not recognise a contingent liability.

10.5 A contingent liability is disclosed, as required by paragraph 10.19, unless the possibility of an outflow of resources embodying economic benefits is remote.

### **Contingent assets**

10.6 An entity should not recognise a contingent asset.

10.7 Contingent assets are not recognised in financial statements, since this may result in the recognition of income that may never be realised. However, when the realisation of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.

10.8 A contingent asset is disclosed, as required by paragraph 10.20, where an inflow of economic benefits is probable.

### **Measurement**

10.9 The amount recognised as a provision should be the best estimate of the amount required to settle the present obligation at the balance sheet date.

### **Risks and uncertainties**

10.10 Risk describes variability of outcome. A risk adjustment may increase the amount at which a liability is measured. Caution is needed in making judgements under conditions of uncertainty, so that income or assets are not overstated and expenses or liabilities are not understated. However, uncertainty does not justify the creation of excessive provisions or a deliberate overstatement of liabilities. For example, if the projected costs of a particularly adverse outcome are estimated on a prudent basis, that outcome is not then deliberately treated as more probable than is realistically the case. Care is needed to avoid duplicating adjustments for risk and uncertainty with consequent overstatement of a provision.

10.11 The risks and uncertainties that inevitably surround many events and circumstances should be taken into account in reaching the best estimate of a provision.

10.12 Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement should be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement should be treated as a separate asset. The amount recognised for the reimbursement should not exceed the amount of the provision. Gains from the expected disposal of assets should not be taken into account when measuring a provision.

10.13 In the income statement, the expense relating to a provision may be presented net of the amount recognised for a reimbursement.

10.14 Provisions should be reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision should be reversed.

10.15 A provision should be used only for expenditures for which the provision was originally recognised.

10.16 Provisions should not be recognised for future operating losses.

10.17 For a contract that is onerous, a provision should be recognised and measured at the best estimate of the present obligation under the contract.

## Disclosure

10.18 For each class of provision, an entity should disclose:

- (a) the carrying amount at the beginning and end of the period; and
- (b) a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits.

When discounting is used to arrive at the best estimate of the provision, that fact should also be disclosed.

10.19 Unless the possibility of any outflow in settlement is remote, an entity should disclose for each class of contingent liability at the balance sheet date a brief description of the nature of the contingent liability and, where practicable, an estimate of its financial effect, measured under paragraphs 10.9 and 10.10.

10.20 Where an inflow of economic benefits is probable, an entity should disclose a brief description of the nature of the contingent assets at the balance sheet date and, where practicable, an estimate of their financial effect, measured using the principles set out for provisions in paragraphs 10.9 and 10.10.

10.21 Where any of the information required by paragraphs 10.19 and 10.20 is not disclosed because it is not practicable to do so, that fact should be stated.

10.22 In extremely rare cases, disclosure of some or all of the information required by paragraphs 10.18 to 10.20 can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, an entity need not disclose the information but should disclose the general nature of the dispute, together with the fact that, and the reason why, the information has not been disclosed.

## **BDAS 11 - Revenue**

### **Measurement**

11.1 Revenue should be measured at the fair value of the consideration received or receivable.

### **Sale of goods**

11.2 Revenue from the sale of goods should be recognised when all the following conditions have been satisfied:

- (a) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods;
- (b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- (c) the amount of revenue can be measured reliably;
- (d) it is probable that the economic benefits associated with the transaction will flow to the entity; and
- (e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

### **Rendering of services**

11.3 When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction should be recognised by reference to the stage of completion of the transaction at the balance sheet date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- (a) the amount of revenue can be measured reliably;
- (b) it is probable that the economic benefits associated with the transaction will flow to the entity;
- (c) the stage of completion of the transaction at the balance sheet date can be measured reliably; and
- (d) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

11.4 When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue should be recognised only to the extent of the expenses recognised that are recoverable.

11.5 "Goods" include goods produced by the entity for the purpose of sale and goods purchased for resale, such as merchandise purchased by a retailer or land and other property held for resale.

11.6 The rendering of services typically involves the performance by the entity of a contractually agreed task over an agreed period of time. The services may be rendered within a single period or over more than one period. Some contracts for the

rendering of services are directly related to construction contracts – for example, those for the services of project managers and architects.

11.7 Revenue includes only the gross inflows of economic benefits received and receivable by the entity on its own account. Amounts collected on behalf of third parties, such as sales taxes, goods and services taxes and value-added taxes, are not economic benefits flowing to the entity and, hence, do not result in increases in equity. Therefore, they are excluded from revenue. Similarly, in an agency relationship, the gross inflows of economic benefits include amounts collected on behalf of the principal and which do not result in increases in equity for the entity. The amounts collected on behalf of the principal are not revenue. Instead, revenue is the amount of commission.

### **Interest, royalties and dividends**

11.8 Revenue arising from the use by others of entity assets yielding interest, royalties and dividends should be recognised on the bases set out in paragraph 11.9 when:

- (a) it is probable that the economic benefits associated with the transaction will flow to the entity; and
- (b) the amount of the revenue can be measured reliably.

11.9 Revenue should be recognised on the following bases:

- (a) interest should be recognised on a time proportion basis;
- (b) royalties should be recognised on an accrual basis in accordance with the substance of the relevant agreement; and
- (c) dividends should be recognised when the shareholder's right to receive payment is established.

11.10 Revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the entity. However, when uncertainty arises about the collectability of an amount already included in revenue, the uncollectable amount, or the amount in respect of which recovery has ceased to be probable, is recognised as an expense rather than as an adjustment of the amount of revenue originally recognised.

### **Disclosure**

11.11 An entity should disclose:

- (a) the accounting policies adopted for the recognition of revenue, including the methods adopted to determine the stage of completion of transactions involving the rendering of services;
- (b) the amount of each significant category of revenue recognised during the period, including revenue arising from:
  - (i) the sale of goods;
  - (ii) the rendering of services;
  - (iii) interest;
  - (iv) royalties; and

- (v) dividends; and
- (c) the amount of revenue arising from exchanges of goods or services included in each significant category of revenue.

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## **BDAS 12 - Government Grants and Other Government Assistance**

### **Government grants**

- 12.1 Government grants should not be recognised until there is reasonable assurance that:
- (a) the entity will comply with the conditions attaching to them; and
  - (b) the grants will be received.
- 12.2 Government grants should be recognised as income over the periods necessary to match them with the related costs they are intended to compensate, on a systematic basis. They should not be credited directly to equity.
- 12.3 In most cases, the periods over which an entity recognises the costs or expenses related to a government grant are readily ascertainable, and thus grants in recognition of specific expenses are recognised as income in the same period as the relevant expense. Similarly, grants related to depreciable assets are usually recognised as income over the periods and in the proportions in which depreciation on those assets is charged.
- 12.4 A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity, with no future related costs, should be recognised as income of the period in which it becomes receivable.
- 12.5 Government grants related to assets should be presented in the balance sheet either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.
- 12.6 Grants related to income are sometimes presented as a credit in the income statement, either separately or under a general heading such as "Other income"; alternatively, they are deducted in reporting the related expense.
- 12.7 A government grant that becomes repayable should be accounted for as a revision to an accounting estimate. Repayment of a grant related to income should be applied first against any unamortised deferred credit set up in respect of the grant. To the extent that the repayment exceeds any such deferred credit, or where no deferred credit exists, the repayment should be recognised immediately as an expense. Repayment of a grant related to an asset should be recorded by increasing the carrying amount of the asset or reducing the deferred income balance by the amount repayable. The cumulative additional depreciation that would have been recognised to date as an expense in the absence of the grant should be recognised immediately as an expense.

### **Government assistance**

- 12.8 Excluded from the definition of government grants are certain forms of government assistance that cannot reasonably have a value placed on them and transactions that cannot be distinguished from the normal trading transactions of the entity.

12.9 Examples of assistance that cannot reasonably have a value placed on them are free technical or marketing advice and the provision of guarantees. An example of assistance that cannot be distinguished from the normal trading transactions of the entity is a government procurement policy that is responsible for a portion of the entity's sales. The existence of the benefit might be unquestioned, but any attempt to segregate the trading activities from government assistance could well be arbitrary.

12.10 The significance of the benefit in the above examples may be such that disclosure of the nature, extent and duration of the assistance is necessary in order that the financial statements will not be misleading.

12.11 Loans at nil or low interest rates are a form of government assistance, but the benefit is not quantified by the imputation of interest.

12.12 Government assistance to entities meets the definition of government grants even if there are no conditions specifically relating to the operating activities of the entity other than the requirement to operate in certain regions or industry sectors. Such grants should therefore not be credited to equity.

## **Disclosure**

12.13 An entity should disclose:

- (a) the accounting policy adopted for government grants, including the methods of presentation adopted in the financial statements;
- (b) the nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the entity has directly benefited; and
- (c) unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

## **BDAS 13 - Borrowing Costs**

13.1 Borrowing costs may include:

- (a) interest on bank overdrafts and short-term and long-term borrowings;
- (b) amortisation of discounts or premiums relating to borrowings;
- (c) amortisation of ancillary costs incurred in connection with the arrangement of borrowings;
- (d) finance charges in respect of finance leases; and
- (e) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

### **Borrowing costs: benchmark treatment**

13.2 Borrowing costs should be recognised as an expense in the period in which they are incurred.

### **Borrowing costs: allowed alternative treatment**

13.3 Borrowing costs should be recognised as an expense in the period in which they are incurred, except to the extent that they are capitalised in accordance with paragraph 13.4.

13.4 Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset. The amount of borrowing costs eligible for capitalisation should be determined in accordance with this BDAS.

13.5 Examples of qualifying assets are inventories that require a substantial period of time to bring them to a saleable condition, manufacturing plants, power generation facilities and properties held for investment potential. Other investments, and those inventories that are routinely manufactured or otherwise produced in large quantities on a repetitive basis over a short period of time, are not qualifying assets. Assets that are ready for their intended use or sale when acquired also are not qualifying assets.

### **Borrowing costs eligible for capitalisation**

13.6 To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

13.7 To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation should be determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate should be the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The

amount of borrowing costs capitalised during a period should not exceed the amount of borrowing costs incurred during that period.

- 13.8 The capitalisation of borrowing costs as part of the cost of a qualifying asset should commence when:
- (a) expenditures for the asset are being incurred;
  - (b) borrowing costs are being incurred; and
  - (c) activities that are necessary to prepare the asset for its intended use or sale are in progress.
- 13.9 Capitalisation of borrowing costs should be suspended during extended periods in which active development is interrupted.
- 13.10 Capitalisation of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.
- 13.11 When the construction of a qualifying asset is completed in parts and each part is capable of being used while construction continues on other parts, capitalisation of borrowing costs should cease when substantially all the activities necessary to prepare that part for its intended use or sale are completed.

## **Disclosure**

- 13.12 An entity should disclose:
- (a) the accounting policy adopted for borrowing costs;
  - (b) the total borrowing costs incurred during the period;
  - (c) the amount of borrowing costs capitalised during the period; and
  - (d) the capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation.

## **BDAS 14 - Income Taxes**

### **Current tax**

- 14.1 Current tax for current and prior periods should, to the extent unpaid, be recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess should be recognised as an asset.
- 14.2 The benefit relating to a tax loss that can be carried back to recover current tax of a previous period should be recognised as an asset.
- 14.3 Current tax liabilities (assets) for the current and prior periods should be measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.
- 14.4 Deferred tax liabilities (assets) (that is, the amounts of income taxes payable (recoverable) in future periods in respect of taxable temporary differences (deductible temporary differences and the carry forward of unused tax losses and tax credits)) should not be recognised.
- 14.5 Current tax should be recognised as income or an expense and included in the profit or loss for the period, except to the extent that the tax arises from a transaction or event that is recognised other than in the income statement.
- 14.6 Current tax should be charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

### **Presentation**

- 14.7 Current tax assets and current tax liabilities should be presented separately from other assets and liabilities in the balance sheet.
- 14.8 An entity should offset current tax assets and current tax liabilities if, and only if, the entity:
- (a) has a legally enforceable right to set off the recognised amounts; and
  - (b) intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

### **Disclosure**

- 14.9 An entity should disclose:
- (a) the accounting policy adopted for income taxes; and
  - (b) major components of tax expense (income).

14.10 Components of tax expense (income) may include:

- (a) current tax expense (income);
- (b) any adjustments recognised in the period for current tax of prior periods; and
- (c) the amount of benefit arising from a previously unrecognised tax loss or tax credit of a prior period that is used to reduce current tax expense.

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## **BDAS 15 - The Effects of Changes in Foreign Exchange Rates**

### **Foreign currency transactions**

- 15.1 A foreign currency transaction should be recorded, on initial recognition in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction.
- 15.2 At each balance sheet date:
- (a) foreign currency monetary items should be reported using the closing rate; and
  - (b) non-monetary items (including investments in subsidiaries, associates and joint ventures) denominated in a foreign currency should be reported using the exchange rate at the date of the transaction or event (for example, the recognition and reversal of an impairment loss).
- 15.3 Exchange differences arising on the settlement of monetary items or on reporting an entity's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognised as income or expenses in the period in which they arise.

### **Translation of a foreign branch**

- 15.4 Where a foreign branch does not form an integral part of the entity and operates as a separate business with local finance, it is not uncommon that the foreign branch would report in a currency which is different from the reporting currency of the entity. Where this is the case, the results and financial position of the foreign branch should be translated into the reporting currency of the entity using the following procedures:
- (a) assets and liabilities for each balance sheet presented (i.e. including comparatives) should be translated at the closing rate at the date of that balance sheet;
  - (b) income and expenses for each income statement (i.e. including comparatives) should be translated at average rate for the period or closing rate at that balance sheet date; and
  - (c) all resulting exchange differences should be recognised as a separate component of equity.
- 15.5 On the disposal of a foreign branch, the cumulative amount of the exchange differences deferred in the separate component of equity relating to that foreign branch should be recognised in profit or loss when the gain or loss on disposal is recognised.

### **Forward contracts**

- 15.6 Where a non-speculative forward contract is used as a hedge of a net monetary asset or liability the gain or loss on the contract should be taken to the income statement and the discount or premium may be either amortised over the period of the contract or taken to the income statement.

15.7 Where a non-speculative forward contract is used as a hedge of a firm commitment no gain or loss need normally be recognised during the commitment period. At the end of that period any gain or loss will be added to, or deducted from, the amount of the relevant transaction. The discount or premium should be either amortised over the period of the contract or deferred with the gain or loss.

15.8 Where a forward contract is speculative the gain or loss should be credited or charged to the income statement.

### **Disclosure**

15.9 An entity should disclose:

- (a) the accounting policy adopted for foreign currency transactions, including the basis used in the translation of the foreign currency transactions, balances denominated in foreign currencies at the balance sheet date and the basis used in the translation of financial statements of foreign branches and the treatment accorded to exchange differences;
- (b) the amount of exchange differences included in the profit or loss for the period; and
- (c) net exchange differences recognised as a separate component of equity, and a reconciliation of the amount of such exchange differences at the beginning and end of the period.

## **BDAS 16 - Related Party Disclosures**

- 16.1 This BDAS deals only with the identification and disclosure of related party relationships and transactions. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.
- 16.2 The following are not deemed to be related parties:
- (a) two entities simply because they have a director or other member of key management personnel in common. However, it is still necessary to consider the possibility, and assess the likelihood that the director would be able to affect the policies of both entities in their mutual dealings
  - (b) two venturers simply because they share joint control over a joint venture;
  - (c)
    - (i) providers of finance;
    - (ii) trade unions;
    - (iii) public utilities; and
    - (iv) government departments and agencies, in the course of their normal dealings with an entity by virtue only of those dealings (although they may circumscribe the freedom of action of an entity or participate in its decision-making process); and
  - (d) a customer, supplier, franchisor, distributor, or general agent with whom an entity transacts a significant volume of business merely by virtue of the resulting economic dependence.

### **Disclosure**

- 16.3 An entity should disclose the name of the entity's parent and, if different, the ultimate controlling company irrespective of whether there have been transactions between those related parties.
- 16.4 An entity should disclose the total compensation of key management personnel.
- 16.5 If there have been transactions between related parties, an entity should disclose the nature of the related party relationships as well as information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to the requirements in paragraph 16.4 to disclose key management personnel compensation. At a minimum, disclosures should include:
- (a) the amount of the transactions;
  - (b) the amount of outstanding balances and:
    - (i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and
    - (ii) details of any guarantees given or received;
  - (c) provisions for doubtful debts related to the amount of outstanding balances; and

- (d) the expense recognised during the period in respect of bad or doubtful debts due from related parties.
- 16.6 The disclosures required by paragraph 16.5 should be made separately for each of the following categories:
- (a) the parent;
  - (b) entities with joint control or significant influence over the entity;
  - (c) associates and subsidiaries;
  - (d) joint ventures in which the entity is a venturer;
  - (e) key management personnel of the entity or its parent; and
  - (f) other related parties.
- 16.7 The following are examples of disclosures if there have been transactions between related parties:
- (a) purchases or sales of goods (finished or unfinished);
  - (b) purchases or sales of property and other assets;
  - (c) rendering or receiving of services;
  - (d) leases;
  - (e) transfers of research and development;
  - (f) transfers under licence agreements;
  - (g) transfers under finance arrangements (including loans and equity contributions in cash or in kind);
  - (h) provision of guarantees or collateral; and
  - (i) settlement of liabilities on behalf of the entity or by the entity on behalf of another party.
- 16.8 Items of a similar nature may be disclosed in aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity.

## **BDAS 17 - Events After the Balance Sheet Date**

### **Recognition and Measurements**

- 17.1 An entity should adjust the amounts recognised in its financial statements to reflect adjusting events after the balance sheet date (end of reporting date).
- 17.2 The following are examples of adjusting events after the balance sheet date that require an entity to adjust the amounts recognised in its financial statements, or to recognise items that were not previously recognised:
- (a) the settlement after the balance sheet date of a court case that confirms the entity had a present obligation at the balance sheet date. The entity is required to adjust any previously recognised provision, or recognise a new provision and not merely disclose a contingent liability;
  - (b) the receipt of information after the balance sheet date indicating that an asset was impaired at the balance sheet date, or that the amount of a previously recognised impairment loss for that asset needs to be adjusted. For example:
    - (i) the bankruptcy of a customer occurs after the balance sheet date usually confirms that a loss existed at the balance sheet date on a trade receivable account and that the entity needs to adjust the carrying amount of the trade receivable account; and
    - (ii) the sale of inventories after the balance sheet date may give evidence about their net realisable value at the balance sheet date;
  - (c) the determination after the balance sheet date of the cost of assets purchased, or the proceeds from assets sold, before the balance sheet date;
  - (d) the determination after the balance sheet date of the amount of profit-sharing or bonus payments, if the entity had a present legal or constructive obligation at the balance sheet date to make such payments as a result of events before that date; and
  - (e) the discovery of fraud or errors indicating that the financial statements are incorrect.

### **Non-adjusting events**

- 17.3 Non-adjusting events are those events that are indicative of conditions that arose after the balance sheet date. An entity should not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the balance sheet date.
- 17.4 An example of a non-adjusting event after the balance sheet date is a decline in fair value of investments between the balance sheet date and the date when the financial statements are authorised for issue, not the date when shareholders approve the financial statement such as date of board authorised for issue or date of management authorised for issue to the supervisory board. The fall in market value does not normally relate to the condition of the investments at the balance sheet date, but reflects circumstances that arise in the following period. Therefore, an entity does not adjust the amounts recognised in its financial statements for the investments. Similarly, the entity does not update the amounts disclosed for the investments as at

the balance sheet date, although it may need to give additional disclosure under paragraph 17.8.

- 17.5 If dividends to holders of equity instruments (for example, ordinary shares, certain preferred shares, warrants or options to purchase ordinary shares) are declared after the balance sheet date, even before the financial statements are authorised for issue, an entity should not recognise those dividends as a liability at the balance sheet date. Such dividends are disclosed in the notes in accordance with presentation of financial statements BDAS 1 – Presentation of Financial Statement
- 17.6 An entity should not prepare its financial statements on a going concern basis if management determines, after the balance sheet date, either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.

### **Disclosure**

- 17.7 If an entity receives information after the balance sheet date about conditions that existed at the balance sheet date, the entity should, in the light of the new information, update disclosures that relate to those conditions. Even when the info does not reflect the amounts that it recognises in its financial statements.
- 17.8 For non-adjusting events after the balance sheet date that are of such importance whereby non-disclosure could affect users' economic decisions and evaluations, an entity should disclose the following information for each material category of non-adjusting event after the balance sheet date
- (a) the nature of the event; and
  - (b) an estimate of its financial effect, or a statement that such an estimate cannot be made.
- 17.9 The following are examples of non-adjusting events after the balance sheet date that may be of such importance and would generally result in disclosure:
- (a) announcing a plan to discontinue an operation;
  - (b) major purchases and disposals of assets, or expropriation of major assets by government; and
  - (c) the destruction of a major production plant by a fire after the balance sheet date.
- 17.10 An entity should disclose the date when the financial statements were authorised for issue and who gave that authorisation. If the entity's owners or others have the power to amend the financial statements after issuance, the entity should disclose that fact.

## **BDAS 18 – Cash Flow statement**

### **Cash and cash equivalent**

- 18.1 Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents, for example in the case of preferred shares acquired within a short period of their maturity and with a specified redemption date.
- a) Bank borrowings are generally considered to be financing activities. However, bank overdrafts which are repayable on demand form an integral part of an entity's cash management. In these circumstances, bank overdrafts are included as a component of cash and cash equivalents. A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn.
  - b) Another common bank borrowing is revolving credits. Many entity may view such credits as synonymous with bank overdrafts because of the 'rotating' nature of cash inflows and outflows of such credit facilities. However, revolving credit facilities are provided by banks for restricted or specific uses, and there are normally penalty clauses for early repayment and for facilities not utilised. Also, most revolving credits are subject to the requirement for yearly or short-term renewal. These characteristics make revolving credits similar to term loans or other bank borrowings, which arise from an entity's financing decision. Accordingly, revolving credits should not be included as a component of cash and cash equivalents, but should be classified as financing activities.
- 18.2 Cash flows exclude movements between items that constitute cash or cash equivalents because these components are part of the cash management of an entity rather than part of its operating, investing and financing activities. Cash management includes the investment of excess cash in cash equivalents.

### **Presentation of Cash Flow Statement**

- 18.3 The cash flow statement should report cash flows during the period classified by operating, investing and financing activities
- 18.4 An entity presents its cash flows from operating, investing and financing activities in a manner which is most appropriate to its business. Classification by activity provides information that allows users to assess the impact of those activities on the financial position of the entity and the amount of its cash and cash equivalents. This information may also be used to evaluate the relationships among those activities.
- 18.5 A single transaction may include cash flows that are classified differently. For example, when the cash repayment of a loan includes both interest and capital, the interest element may be classified as an operating activity and the capital element is classified as a financing activity.

## Operating activities

- 18.6 The amount of cash flows arising from operating activities is a key indicator of the extent to which the operations of the entity have generated sufficient cash flows to repay loans, maintain the operating capability of the entity, pay dividends and make new investments without recourse to external sources of financing. Information about the specific components of historical operating cash flows is useful, in conjunction with other information, in forecasting future operating cash flows.
- 18.7 Cash flows from operating activities are primarily derived from the principal revenue-producing activities of the entity. Therefore, they generally result from the transactions and other events that enter into the determination of net profit or loss. Examples of cash flows from operating activities are:
- (a) cash receipts from the sale of goods and the rendering of services;
  - (b) cash receipts from royalties, fees, commissions and other revenue;
  - (c) cash payments to suppliers for goods and services;
  - (d) cash payments to and on behalf of the employees;
  - (e) cash receipts and cash payments of an insurance entity for premiums and claims, annuities and other policy benefits;
  - (f) cash payments or refunds of income taxes unless they can be specifically identified with financing and investing activities; and
  - (g) cash receipts and payments from contracts held for dealing or trading purposes.
- 18.8 Some transactions, such as the sale of an item of plant, may give rise to a gain or loss that is included in the determination of net profit or loss. The cash flows relating to such transactions are cash flows from investing activities. However, for transactions that involve cash receipts from asset held for rental and subsequently held for sale are cash flows from operating activities.
- 18.9 An entity may hold securities and loans for dealing or trading purposes, in which case they are similar to inventory acquired specifically for resale. Therefore, cash flows arising from the purchase and sale of dealing or trading securities are classified as operating activities. Similarly, cash advances and loans made by financial institutions are usually classified as operating activities since they relate to the main revenue-producing activity of that entity.

## Investing Activities

- 18.10 The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which expenditures have been made for resources intended to generate future income and cash flows. Those are expenditures result in a recognised asset in the balance sheet.

Examples of cash flows arising from investing activities are:

- (a) cash payments to acquire property, plant and equipment, intangibles and other long-term assets. These payments include those relating to capitalised development costs and self-constructed property, plant and equipment;
- (b) cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;

- (c) cash payments to acquire equity or debt instruments of other entity and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes);
- (d) cash receipts from sales of equity or debt instruments of other entity and interests in joint ventures (other than receipts for those instruments considered to be cash equivalents and those held for dealing or trading purposes);
- (e) cash advances and loans made to other parties (other than advances and loans made by a financial institution);
- (f) cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a financial institution);
- (g) cash payments for futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities; and
- (h) cash receipts from futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the receipts are classified as financing activities.

18.11 When a contract is accounted for as a hedge of an identifiable position, the cash flows of the contract are classified in the same manner as the cash flows of the position being hedged.

### **Financing Activities**

18.12 The separate disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of capital to the entity. Examples of cash flows arising from financing activities are:

- (a) cash proceeds from issuing shares or other equity instruments;
- (b) cash payments to owners to buyback or redeem the entity's shares;
- (c) cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short or long-term borrowings;
- (d) cash repayments of amounts borrowed; and
- (e) cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.

18.13 An entity should report cash flows from operating activities using either:

- (a) the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or
- (b) the indirect method, whereby net profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

18.14 An entity is encouraged to report cash flows from operating activities using the direct method. The direct method provides information which may be useful in estimating future cash flows and which is not available under the indirect method. Under the

direct method, information about major classes of gross cash receipts and gross cash payments may be obtained either:

- (a) from the accounting records of the entity; or
- (b) by adjusting sales, cost of sales (interest and similar income and interest expense and similar charges for a financial institution) and other items in the income statements for:
  - (i) changes during the period in inventories and operating receivables and payables;
  - (ii) other Non-cash items; and
  - (iii) other items for which the cash effects are investing or financing cash flows.

#### 18.15 Direct Method:

Entity are encouraged to provide a reconciliation of cash flows from operations with the net profit or loss for the period.

#### 18.16 Indirect Method:

The net cash flow from operating activities is determined by adjusting net profit or loss for the effects of:

- (a) Changes during the period in inventories and operating receivables and payables;
- (b) Non-cash items such as depreciation, provisions, deferred taxes, unrealised foreign currency gains and losses, undistributed profits of associates, and minority interests; and
- (c) All other items for which the cash effects are investing or financing cash flows.

#### 18.17 Alternative:

The net cash flow from operating activities may be presented under the indirect method by showing the revenues and expenses disclosed in the income statement and the changes during the period in inventories and operating receivables and payables.

### **Reporting Cash Flows from Investing and Financing Activities**

18.18 An entity should report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows described in paragraph 18.19 and 18.20 are reported on a net basis.

### **Reporting Cash Flows on a Net Basis**

18.19 Cash flows arising from the following operating, investing or financing activities may be reported on a net basis:

- (a) cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the entity. For example:
  - 1) the acceptance and repayment of demand deposits of a bank;

- 2) funds held for customers by an investment entity; and
  - 3) rents collected on behalf of, and paid over to, the owners of properties; and
- (b) cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short. For example:
- 1) principal amounts relating to credit card customers;
  - 2) the purchase and sale of investments; and
- other short-term borrowings, for example, those which have a maturity period of three months or less.

18.20 Cash flows arising from each of the following activities of a financial institution may be reported on a net basis:

- (a) cash receipts and payments for the acceptance and repayment of deposits with a fixed maturity date;
- (b) the placement of deposits with and withdrawal of deposits from other financial institutions; and
- (c) cash advances and loans made to customers and the repayment of those advances and loans.

### **Foreign Currency Cash Flows**

18.21 Cash flows arising from transactions in a foreign currency should be recorded in an entity's reporting (functional) currency by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the cash flow.

18.22 The cash flows of a foreign subsidiary should be translated at the exchange rates between the reporting currency and the foreign currency at the dates of the cash flows.

18.23 Cash flows denominated in a foreign currency are reported in a manner consistent with BDAS 15 - the Effects of Changes in Foreign Exchange Rates. This permits the use of an exchange rate that approximates the actual rate and not to use the exchange rate at the end of the reporting period

18.24 Unrealised gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency is reported in the cash flow statement in order to reconcile cash and cash equivalents at the beginning and the end of the period. This amount is presented separately from cash flows from operating, investing and financing activities and includes the differences, if any, had those cash flows been reported at end of period exchange rates.

### **Extraordinary Items**

18.25 Cash flows associated with extraordinary items arising from operating, investing or financing activities should be classified appropriately and separately disclosed, to enable users to understand their nature and effect on the present and future cash flows of the entity.

## **Interest and Dividends**

- 18.26 Cash flows from interest and dividends received and paid should each be disclosed separately. Each should be classified in a consistent manner from period to period as either operating, investing or financing activities.
- 18.27 The total amount of interest paid during a period is disclosed in the cash flow statement whether it has been recognised as an expense in the income statement or capitalised in accordance with the allowed alternative treatment under generally accepted accounting principles on Borrowing Costs.
- 18.28 Interest paid and interest and dividends received are usually classified as operating cash flows for a financial institution. However, there is no consensus on the classification of these cash flows for other entities. Interest paid and interest and dividends received may be classified as operating cash flows because they enter into the determination of net profit or loss. Alternatively, interest paid and interest and dividends received may be classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.
- 18.29 Dividends paid may be classified as a financing cash flow because they are a cost of obtaining financial resources. Alternatively, dividends paid may be classified as a component of cash flows from operating activities in order to assist users to determine the ability of an entity to pay dividends out of operating cash flows.

## **Taxes on income**

- 18.30 Cash flows arising from taxes on income should be separately disclosed and should be classified as cash flows from operating activities unless they can be specifically identified with financing or investing activities.
- 18.31 Taxes on income arise on transactions that give rise to cash flows that are classified as operating, investing or financing activities in a cash flow statement. While tax expense may be readily identifiable with investing or financing activities, the related tax cash flows are often impracticable to identify and may arise in a different period from the cash flows of the underlying transaction. Therefore, taxes paid are usually classified as cash flows from operating activities. However, when it is practicable to identify the tax cash flow with an individual transaction that gives rise to cash flows that are classified as investing or financing activities the tax cash flow is classified as an investing or financing activity as appropriate. When tax cash flows are allocated over more than one class of activity, the total amount of taxes paid is disclosed.

## **Investments in Subsidiaries, Associates or Joint Ventures**

- 18.32 When accounting for an investment in a subsidiary, an associate or a joint venture are accounted for by use of the equity or cost method, an investor restricts its reporting in the cash flow statement to the cash flows between itself and the investee, for example, dividends and advances.
- 18.33 An entity which reports its interest in a jointly controlled entities using proportionate consolidation, includes in its consolidated cash flow statement its proportionate share of the jointly controlled cash flows.

18.34 An entity which reports such an interest using the equity method includes in its cash flow statement the cash flows in respect of its investments in the jointly controlled entities, and distributions and other payments or receipts between the entity and the jointly controlled entities.

### **Acquisitions and Disposals of Subsidiaries and Other Business Units**

18.35 The aggregate cash flows arising from acquisitions and from disposals of subsidiaries or other business units should be presented separately and classified as investing activities.

18.36 An entity should disclose, in aggregate, in respect of both acquisitions and disposals of subsidiaries or other business units during the period each of the following:

- (a) the total purchase or disposal consideration;
- (b) the portion of the purchase or disposal consideration discharged by means of cash and cash equivalents;
- (c) the amount of cash and cash equivalents in the subsidiary or business unit acquired or disposed of; and
- (d) the amount of the assets and liabilities other than cash or cash equivalents in the subsidiary or business unit acquired or disposed of, summarised by each major category.

18.37 The separate presentation of the cash flow effects of acquisitions and disposals of subsidiaries and other business units as single line items, together with the separate disclosure of the amounts of assets and liabilities acquired or disposed of, helps to distinguish those cash flows from the cash flows arising from the other operating, investing and financing activities. The cash flow effects of disposals are not deducted from those of acquisitions.

18.38 The aggregate amount of the cash paid or received as purchase or sale consideration is reported in the cash flow statement net of cash and cash equivalents acquired or disposed of.

### **Non-Cash Transactions**

18.39 Investing and financing transactions that do not require the use of cash or cash equivalents should be excluded from a cash flow statement. Such transactions should be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.

18.40 Many investing and financing activities do not have a direct impact on current cash flows although they do affect the capital and asset structure of an entity. The exclusion of non-cash transactions from the cash flow statement is consistent with the objective of a cash flow statement as these items do not involve cash flows in the current period. Examples of non-cash transactions are:

- (a) the acquisition of assets either by assuming directly related liabilities or by means of a finance lease; and
- (b) the acquisition of an entity by means of an equity issue; and (c) the conversion of debt to equity.

## Components of cash and cash equivalent

18.41 An entity should disclose the components of cash and cash equivalents and should present a reconciliation of the amounts in its cash flow statement with the equivalent items reported in the balance sheet.

## Other disclosure

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

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

18.44 There are various circumstances in which cash and cash equivalent balances held by an entity are not available for use by the group. Examples include cash and cash equivalent balances held by a subsidiary that operates in a country where exchange controls or other legal restrictions apply when the balances are not available for general use by the parent or other subsidiaries.

18.45 Additional information may be relevant to users in understanding the financial position and liquidity of an entity. Disclosure of this information, together with a commentary by management, is encouraged and may include:

- (a) the amount of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities;
- (b) the aggregate amounts of the cash flows from each of operating, investing and financing activities related to interests in joint ventures reported using proportionate consolidation;
- (c) the aggregate amount of cash flows that represent increases in operating capacity separately from those cash flows that are required to maintain operating capacity; and
- (d) the amount of the cash flows arising from the operating, investing and financing activities of each reported industry and geographical segment.

18.46 The separate disclosure of cash flows that represent increases in operating capacity and cash flows that are required to maintain operating capacity is useful in enabling the user to determine whether the entity is investing adequately in the maintenance of its operating capacity. An entity that does not invest adequately in the maintenance of its operating capacity may be prejudicing future profitability for the sake of current liquidity and distributions to owners.

18.47 The disclosure of segmental cash flows enables users to obtain a better understanding of the relationship between the cash flows of the business as a whole and those of its component parts and the availability and variability of segmental cash flows.

## **BDAS 19 – Accounting for Aquaculture**

### **General**

- 19.1 Aquaculture operations occurs where the products from such operations are used mainly for food consumption. It does not deal with the following specialised aquaculture operations where the products are not intended for food consumption:
- a) culture of aquarium fishes and other organisms
  - b) pearl culture
  - c) hatcheries of fry, larvae or fingerlings
- 19.2 The standard applies to entities engaged in aquaculture operations, whether or not, such operations are their main activities.

### **Explanation**

- 19.3 An aquaculture production cycle typically goes through three distinct phases, namely,
- (j) the procurement phase;
  - (ii) the transformation or grow-out phase, and
  - (iii) the harvesting/sale phase.

As a going concern aquaculture operations consists of a continuous series of individual production cycles each capable of being measured and evaluated separately. Thus, from economic viewpoint the success of such operations depends on the outcome of the production cycles.

- 19.4 The unique feature of aquaculture operations is that stock changes in its form and quantity in the transformation phase. Fry or fingerlings grow out to be prawns and fishes. The quantity could also change due to mortality, an inherent risk in such operations. In aquaculture, direct visibility of the species cultured is almost impossible. These unique characteristics make it impractical to associate aquaculture stocks to the physical species cultured. A more pragmatic approach is to view stocks on the basis of identifiable units or centres in which product costs accumulate. The identifiable units are the ponds or pens where the species are cultured.
- 19.5 The inherent risks and uncertainties in aquaculture operations often result in losses due to partial or complete destruction of the species cultured. The prudence concept requires the foreseeable losses from the operations be recognised on a timely basis.
- 19.6 Financial reporting regulations require that periodic results be measured and reported. Depending on the production systems employed and the species cultured, the length of a production cycle may extend beyond one accounting period. There could also be production cycle where the procurement phase begins in one accounting period while the harvesting/sale phase ends in another period. Thus, income determination in aquaculture operations should be based on accounting methods that can best reflect fairly the success of farm operations and management in the reporting period.

## **Accounting Methods - Accounting Treatment of Initial Investment Cost**

- 19.7 The initial investment cost is the cost of setting up an aquaculture venture and should consist of all expenditures whose incurrence are directly attributable or can be allocated on a reasonable basis to bring the venture to its operational conditions.
- 19.8 The expenditures normally incurred in setting up a venture include the following:
- a) acquisition cost of land, licenses and rights,
  - b) construction cost of farm buildings, farm premises and other farm infrastructures,
  - c) excavation and construction cost of ponds, pens, cages, canals, roads and gateways, cost of transportation vehicles such as boats, trucks and cars,
  - d) cost of farm machinery and equipment such as water pumps, generators, feeding machine, feed mixers, refrigerators and nets.
- 19.9 These initial expenditures are to be capitalized as fixed assets and appropriately classified. The carrying amount of the initial investment cost should be accounted for in accordance with BDAS 3 – Property Plant and Machinery Depreciation.
- 19.10 Subsequent improvements such as re-construction cost of existing ponds, pens or cages, canals, etc. should be charged to income statement unless they increase the future benefits from the existing assets beyond their previously assessed standard of performance.

## **Accounting Bases for Income Determination**

- 19.11 Opinions differ on the appropriate base for income determination in aquaculture operations. Some maintain that income should be measured on the cost-centre base by matching costs and revenues of each individual pond, pen or cage. Others argue that income should be measured on the project base by matching costs and revenues of each individual project or batch of production cycle.
- 19.12 Proponents of the cost centre base argue that the method enables costing of the units (ponds, pens or cages) to approximate those that would prevail in a normal successful operation as costs of the failed units are not spread on to the successful ones. Further, this approach has the advantage of prudence in the sense that it recognises losses of the failed units as the costs incurred are not represented by any or sufficient stocks. In a large-scale commercial venture losses on failed units represent the inherent risk in aquaculture operations.
- 19.13 The principal setback of this approach is that it could lead to a distortion in the reported periodic results. Within the same production cycle, losses may be reported for the failed units in one period while profits may be reported for the successful units in the next period. Hence the success or failure of each cycle is not determined in totality.

This approach also appears to be in conflict with the matching principle as losses arising from failed units of an uncompleted cycle are matched against revenues of completed cycles. Thus, from an economic viewpoint, this approach will not report fairly the results of the farm operations and management.

- 19.14 Proponents of the project base believe that within a production cycle, losses of failed units are a cost of those that are successful. They argue that each production cycle is distinct and identifiable. Thus, the project base approach accords more closely to the matching of costs and revenues as the result of each cycle is reported in totality. Furthermore, this approach may overcome some of the difficulties of apportioning fixed production costs across ponds, pens or cages. Hence, for control purposes, this approach appears to provide more useful accounting information.
- 19.15 The main setback of this approach is that costs of the failed units are carried as assets although they are not represented by any or sufficient stocks. Hence, it appears to be in conflict with the prudence concept.
- 19.16 Examination of the above arguments results in the project base being generally considered the more satisfactory approach as it tends to reflect fairly the results of farm operations and management.

### **Aquaculture Stocks**

- 19.17 An essential part of the good accounting system for aquaculture operations is the identification of cost units which form the bases in which product costs accumulate. The identification of cost units should be based on the principle that the result of each unit is capable of being measured and identified separately, whether done on an individual pond, pen or cage, or on an individual batch of production cycle.
- 19.18 Aquaculture stocks are stocks of the identifiable cost units and should consist of the aggregate of costs of material inputs, cost of transformation (direct farm labour and production overheads) and other costs incurred in nurturing the species cultured to their saleable condition. These provisions require that production overheads such as indirect materials, indirect labour and depreciation of farm machinery and equipment, etc. be inventoried to stocks on the grounds that they are considered to relate directly to putting the stocks in their saleable condition.
- 19.19 There can be practical difficulties in deciding the amounts of fixed production overheads to be inventoried to stocks. The allocation of fixed production overheads to the costs of stocks should be based on the normal carrying capacity of the farm operations. However, the carrying capacity in aquaculture operations can be partially changed by husbandry practices. Thus, the normal carrying capacity should be determined in advance to provide a reasonable basis for allocating fixed production overheads.
- 19.20 In order to achieve a reasonable degree of comparability between enterprises, and between accounting periods of the same enterprise, it is necessary to identify the cost items that should normally be inventoried to aquaculture stocks.
- 19.21 As a minimum, the following items should be inventoried to aquaculture stocks:
- a) Variable material costs such as seed stock, feeds, fertilizers, medicines, etc.
  - b) Direct farm labour such as wages of farm workers.
  - c) Direct fixed costs such as depreciation of ponds, pens or cages, generators, water pumps, boats, etc.
  - d) A reasonable allocation of indirect fixed costs such as depreciation of common pumps, canals, gateways, salaries of supervisors and technicians, etc.
- 19.22 The identifiable cost units should be the bases in which product cost accumulate and should be identified on an individual pond, pen or cage, and/or on an individual batch of production cycle.

## **Stock Valuation**

- 19.23 As most aquaculture production cycles are short-term, stocks should be valued at the lower of cost and net realisable value. For this purpose, detailed records of mortality rate and/or periodic sampling on stocking density should be an integral part of an aquaculture accounting system.
- 19.24 A foreseeable loss arises when current estimates of the net realisable value of a production cycle or a cost unit is expected to fetch below its accumulated costs. In such cases, a write down to net realisable value is necessary. Since the policy on income determination is based on the project approach, it is not necessary to write down the cost of a unit to its net realisable value provided the net realisable value of that production cycle is expected to be above its accumulated costs. The write down should be assessed on a project basis.
- 19.25 Opinions differ on the appropriate base for testing net realisable value. Some prefer to value stocks by comparing the current average weight valued at current market price with the costs accumulated to date.
- 19.26 Others prefer to estimate net realisable value at the point harvest/sale in comparison with the estimated total cost (which include costs accumulated to date plus estimated costs necessary to complete the cycle).
- 19.27 The current average weight of the species cultured is generally considered an inappropriate base for estimating net realisable value of aquaculture stocks. This is because the rates of weight gain and mortality are different in the grow-out phase. In addition, there are species whose market values are insignificant unless they grow out to their accepted saleable size.
- 19.28 Net realizable value should be estimated based on the most reliable evidence available at the time the estimates are made as to what the stocks are expected to realize upon completion of the cycle.

## **Income Determination**

- 19.29 Revenue from aquaculture operations should be recognised at the point of sale.

## **Disclosure in the Financial Statements**

- 19.30 The accounting policies for the following should be disclosed:
- a. the base adopted for income determination
  - b. the base adopted for valuing stocks

## **BDAS 20 – Properties Development Activities**

- 20.1 This BDAS applies to accounting for property development activities in the financial statements of an entity undertaking property development activities. Property development activities applied in this BDAS refers to the acquiring of land for the purposes of:
- (a) construction thereon and selling completed residential, and/or commercial and industrial buildings whether as a whole or by parcels therein; and
  - (b) development and sale of vacant lots for the construction of such buildings thereon including homesteads, hobby farms, orchards or for other similar purposes.

### **Nature of Property Development Activities**

- 20.2 The nature of property development activities is that of a specialised industry and a separate Standard will enhance the quality and comparability of financial statements of entities undertaking such activities. A property development entity may be one that carries out all aspects, or the majority, of property development activities in-house, for example, planning, design and construction. In contrast, other property development entities may outsource many of these functions, in particular construction activities.
- 20.3 Property development entities may be involved in the development of either, or all, industrial, commercial or residential developments.
- 20.4 A major feature of property development is that development activities are carried out over more than one accounting period. This is generally due to the procedures involved in obtaining approvals from relevant authorities as well as the construction work itself. The activities that have to be undertaken before physical construction of development units can commence may include conversion of land use, sub-division of land, technical planning and drawing, environmental impact assessment, soil test and approval by relevant authorities of master and building plans.
- 20.5 The nature of the development activities is such that revenue may be received at varying points in time and quantity. Sale of development units can occur at the point of launching the project, or at any stage of the construction work. Other sales may be made at some time after the completion of the project. Sale of development units can also come with various forms of incentives, for example, rental guarantee, interest rebate, and other promotional packages such as free air-conditioners, and kitchen cabinets. The nature of the sales process has consequences for the recognition and measurement of revenue and expenses, and assets arising from property development activities.
- 20.6 Property development costs are also peculiar to this industry and require specific cost allocations system for common infrastructure and costs associated with it over a life cycle which is invariably longer than the costing system that one would adopt for costs associated with a building phase.
- 20.7 A further issue is the circumstance where property development entities have large land banks that are developed in stages. As a consequence, it is necessary to consider how such land should be classified and measured. In addition, even though a large area of land is to be developed in stages, common infrastructure such as

connecting roads, bridges and flyovers may need to be constructed for the whole area instead of only for the portion currently under development.

### **Land Held for Property Development**

- 20.8 It is not unusual for a property development entity to hold large areas of land which are at varying stages of development, ranging from land on which there is no development to those which are in an advanced stage of development. Hence, it is important to consider how such land should be classified and measured.
- 20.9 Land held for property development should be classified as non-current asset where no development activities have been carried out or where development activities are not expected to be completed within the normal operating cycle.
- 20.10 Land held for property development should be carried at cost less any accumulated impairment losses. An entity should apply BDAS 3 – Property, Plant and Machinery, Impairment of Assets, to determine whether the land has become impaired.
- 20.11 The change in the classification of land held for property development to current asset should be at the point when development activities have commenced and where it can be demonstrated that the development activities can be completed within the normal operating cycle. Current assets as explained in BDAS 1 - Presentation of Financial Statements, are those assets which are expected to be realised or held for sale or consumption in the normal operating cycle.

### **Property Development Costs**

- 20.12 Property development costs should comprise all costs that are directly attributable to development activities or that can be allocated on a reasonable basis to such activities.
- 20.13 Costs relating to property development activities can be divided into:
- (a) costs associated with the acquisition of land;
  - (b) costs related directly to a specific property development activity; and
  - (c) costs attributable to the development activities in general and can be allocated to the project.
- 20.14 Costs associated with the acquisition of land include the purchase price of the land, professional fees, stamp duties, commissions, conversion fees and other relevant levies. Pre-acquisition costs are charged to the income statement as incurred unless such costs are directly identifiable to the consequent property development activity. Capitalised pre-acquisition costs are included as property development costs.
- 20.15 Consistent with the underlying principles of BDAS 13 - Borrowing Costs, all related costs incurred subsequent to the acquisition of land can be capitalised only during periods in which activities necessary to prepare the property for its intended use are in progress. These activities would include those of an administrative and technical nature undertaken during the pre-construction stage such as the preparation of plans and the process of obtaining approvals and permits from government authorities.
- 20.16 Costs that relate directly to a specific development activity may include professional fees and infrastructure works that are related to the project and contractors' costs for the building works.

- 20.17 Some of the property development costs can be specifically attributed to development units sold, others to project units not sold whilst other costs are general and cannot be allocated but are nonetheless central to the project.
- 20.18 Common costs that may be allocated to property development activities include:
- (a) costs that would be allocated to existing and future property development projects within the same geographical location (related) such as common infrastructure costs, mandatory land reserve for educational and recreational purposes on a piece of land which the entity intends to develop in several phases/ projects; and
  - (b) costs that would be allocated to all projects currently in progress in various locations (unrelated), for example, certain corporate expenditure that relates to existing property development projects undertaken by the entity.

These costs may be allocated using relative sales value of the projects that benefited or are going to benefit from such costs, or other generally accepted methods. The method selected must be applied consistently.

- 20.19 Costs attributable to development activities include contingency costs such as those relating to defect liability. Contingency costs are accounted for in accordance with BDAS 10 - Provisions, Contingent Liabilities and Contingent Assets.
- 20.20 Costs associated with borrowings on property development projects are accounted for in accordance with the provisions of BDAS 13 - Borrowing Costs.
- 20.21 Allocation of costs to individual development units should be made in accordance with the following criteria:
- (a) specific identification (e.g. direct building costs);
  - (b) relative sales values where specific identification is not possible; or
  - (c) other appropriate methods consistently applied where allocation based on relative sales value is impracticable.

### **Property Development Revenue and Expenses**

- 20.22 Property development revenue should comprise:
- (a) the selling price agreed in the sale and purchase agreements; and
  - (b) any additional revenue due to variation in development work.
- 20.23 A variation order is an instruction by the customer for a change in the scope of the work to be performed under the development project contract (sale and purchase agreement). A variation order may lead to an increase or a decrease in property development revenue. Examples of variations are changes in the specifications or design of the asset and changes in the duration of the development project contract. A variation is included in property development revenue when:
- (a) it is probable that the customer will approve the variation and the amount of revenue arising from the variation; and
  - (b) the amount of revenue can be reliably measured.
- 20.24 Property development revenue should be recognised in respect of all development units that have been sold.
- 20.25 Revenue recognition commences when all the following criteria are met:

- (a) when the sale of the development unit is effected, e.g. upon the signing of the individual sale and purchase agreements;
  - (b) upon the commencement of development and construction activities; and
  - (c) when the financial outcome of the development activities can be reliably estimated.
- 20.26 The financial outcome of a development activity can be reliably estimated when all of the following conditions are satisfied:
- (a) total revenue from the development activities can be measured reliably;
  - (b) it is probable that the economic benefits associated with the development project will flow to the entity;
  - (c) both the costs to complete the development activities and the stage of completion of the development project at the balance sheet date can be measured reliably; and
  - (d) the costs attributable to the development activities can be clearly identified and measured reliably so that actual development costs incurred can be compared with prior estimates.
- 20.27 Where the outcome of a development activity cannot be reliably estimated:
- (a) the property development revenue should be recognised as a provision only to the extent of property development costs incurred that is probable will be recoverable; and
  - (b) the property development costs on the development units sold should be recognised as an expense in the period in which they are incurred.
- Any expected loss on a development project should be recognised as an expense immediately (including costs to be incurred over the defects liability period).
- 20.28 During the early stages of a property development project, there are circumstances that may preclude the outcome of the project to be estimated reliably. Under such circumstances the provisions of paragraph 20.31 may be more appropriate. In the event that the outcome of the project cannot be estimated reliably, no profit should be recognised. It may also be probable that property development costs will exceed total property development revenue. In such cases, any expected excess of total property development costs over total property development revenue is recognised as a loss immediately in accordance with paragraph 20.31.
- 20.29 When property development units are sold, the attributable portion of property development costs should be recognised as an expense in the period in which the related revenue is recognised.
- 20.30 The process of recognising as an expense the attributable portion of property development costs results in the matching of expenses and revenues. In determining the allocation amount or portion, an entity should adopt a method that most appropriately reflects its circumstances. This method should be applied consistently.
- 20.31 Property development revenues and expenses should be recognised in the income statement when the outcome of a development activity can be estimated reliably (see paragraph 20.30). The amount of such revenues and expenses should be determined by reference to the stage of completion of development activity at the balance sheet date.

- 20.32 The recognition of revenue and expenses by reference to the stage of completion of the development activity is often referred to as the percentage of completion method. Under this method, property development revenue is matched with property development expenses incurred in reaching the stage of completion, resulting in the reporting of revenue, expenses and profit attributed to the proportion of work completed. This method provides useful information on the extent of the development activity and performance during a period.
- 20.33 The stage of completion of a development activity may be determined in a variety of ways. The entity should use the method that measures reliably the work performed. Depending on the nature of the development activity the methods may include:
- (a) the proportion that property development costs incurred for work performed to date bear to the estimated total property development costs;
  - (b) surveys of work performed; or
  - (c) completion of a physical proportion of the property development work.

**Progress billings to purchasers and payments received often do not reflect the work performed.**

- 20.34 When the stage of completion is determined by reference to the property development costs incurred to date, only those property development costs that reflect work performed are included in costs incurred to date. Examples of costs that do not relate to work performed are cost of land, financing costs capitalised to the project, and payments made to contractors in advance of work performed under the project.
- 20.35 When the uncertainties that prevented the outcome of the project being estimated reliably no longer exist, revenue and expenses associated with the development activity should be recognised in accordance with paragraph 20.34.
- 20.36 Property development costs not recognised as an expense should be recognised as an asset and should be measured at the lower of cost and net realisable value.

**Estimates, Revocation of Sales and Incentives**

- 20.37 Estimates and cost allocations should be reviewed at the end of each financial reporting period until the project is substantially completed. Costs should be revised and reallocated where necessary for any changes on the basis of current estimates.
- 20.38 The effects of a change in an accounting estimate should be included in the determination of net profit or loss in accordance with BDAS 2, Fundamental Errors and Changes in Accounting Policies, Net Profit or Loss for the Period,
- 20.39 As a result of uncertainties inherent in property development activities, cost and revenue estimates cannot be measured with precision. The use of reasonable estimates is essential in the preparation of financial statements and does not undermine their reliability. Revisions to cost or revenue estimates attributable to the property development activities in general should be assigned to both on-going and future projects as applicable.
- 20.40 Project development revenue and expenses recognised should be immediately written back as soon as a rescission or revocation of sale occurs.

- 20.41 Liquidated damages receivable from contractors (on late completion) and liquidated damages payable to purchasers (for late delivery) should be disclosed as gross amounts in the income statement.
- 20.42 When sales incentives or other guarantees are offered to induce sales, the estimated obligation under such incentives or guarantees are accounted for in accordance with BDAS 10 - Provisions, Contingent Liabilities and Contingent Assets.
- 20.43 It is common practice for property development entities to offer incentives to entice buyers. The incentives may be in the form of a developer's guaranteed occupancy of the development units or guaranteed return on the purchasers' investments for a specified period. Uncertainties exist as to: the extent that purchasers would allow the entity to manage on their behalf; demand for rented properties; and amount of rental chargeable. Under such situations, it may be difficult to estimate reliably the obligations to be undertaken by the entities.
- 20.44 Other incentives or promotional costs incurred by the property development entity that are associated with the sale of its development units should not be capitalised but are to be recognised in the income statement. Similarly, administrative and maintenance fees, forfeited deposits and interest receivable are to be taken to the income statement.

#### **Inventories - Unsold Completed Development Units**

- 20.45 Inventories of unsold completed development units should be stated at the lower of cost and net realisable value.
- 20.46 Those unsold completed development units that are retained by an entity are accounted for in accordance with Property, Plant and Equipment or Investment Property/Disclosure.

#### **Disclosure**

- 20.47 An entity should disclose:
- (a) the method used to determine the stage of completion for property development activities;
  - (b) the revenue and related expenses recognised in the income statement;
  - (c) in respect of property development costs carried as an asset, a reconciliation of the carrying amount at the beginning and end of the period showing:
    - (i) the gross amounts of property development costs, segregating the portion related to land;
    - (ii) property development costs incurred during the period;
    - (iii) amount of property development costs recognised as an expense in the income statement, showing brought forward and current period amounts; and
    - (iv) disposals or transfers to other category of assets or any other changes in the carrying amount during the period.
  - (d) in respect of progress billings:
    - (i) accrued billings as current asset, representing the excess of revenue recognised in the income statement over the billings to purchasers; and
    - (ii) progress billings as current liability, representing the excess of billings to purchasers over revenue recognised in the income statement; and

- (e) the amount of cash held under Housing Development Account and any other restrictions on cash.

20.48 For land held for property development, the financial statements should disclose:

- (a) the gross carrying amount of the cost and accumulated impairment loss (if any) at the beginning and end of the period; and
- (b) a reconciliation of the carrying amount at the beginning and end of the period showing:
  - (i) additions;
  - (ii) disposals;
  - (iii) transfers to current assets as property development costs;
  - (iv) impairment losses recognised / reversed in the income statement during the period, if any; and
  - (v) other movement.

20.49 The financial statements should also disclose:

- (a) the existence and amounts of restrictions on titles of land; and
- (b) land held for property development and property development projects pledged as security for liabilities.

## **Effective Date**

The BDAS NON-PIE becomes effective for a Qualifying Entity's financial statements that cover a period beginning on or after 1 January 2018. Earlier application is permitted.

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