## CAMBODIAN ACCOUNTING STANDARDS (CAS)

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### CAS1

#### Introduction

This Cambodian Accounting Standard (“CAS 1”) sets out the fundamental requirements for presentation of financial statements that are prepared in accordance with Cambodian Accounting Standards. It is a requirement of Cambodian Law that financial statements for all Accounting Entities (as defined in the Law) are to be prepared in accordance with International Accounting Standards. Therefore, this CAS 1 includes all of the relevant paragraphs from the equivalent International Accounting Standard (“IAS 1”) background material and implementation guidance for Cambodia.

This standard sets out the requirement that a complete set of financial statements should include a balance sheet, income statement, statement of changes in equity, cashflow statement and notes. The standard also provides practical guidance regarding the key assumptions of going concern, accrual, consistency and materiality.

Financial statements presented in accordance with CAS should comply with the recognition, measurement, presentation and disclosure requirements of all applicable CAS. The accounting policies used should lead to relevant and reliable information. Wrong or inappropriate accounting treatments are not rectified either by disclosure of the accounting policies used, or by notes or explanations (good disclosure cannot cure bad accounting).
4. This Standard describes the minimum requirements as to structure and content for each of the primary financial statements. Comparative information should be disclosed for all numerical information. Accounting policies used and information on the enterprise should be disclosed.

5. The Standard applies to all enterprises reporting in accordance with CAS, including banks and insurance companies. The minimum structures are designed to be sufficiently flexible that they can be adapted for use by any enterprise. Banks, for example, should be able to develop a presentation which complies with this Standard and the more detailed requirements in CAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions.

Objective

The Cambodian Accounting Standards, which have been set in bold italic type, should be read in the context of the background material and implementation guidance in this Standard, and in the context of Cambodian Law which sets out the requirement for financial statements for all Accounting Entities (as defined in the Law) to be prepared in accordance with International Accounting Standards. The Standards are not intended to apply to immaterial items.

The objective of this Standard is to prescribe the basis for presentation of general purpose financial statements, in order to ensure comparability both with the enterprise’s own financial statements of previous periods and with the financial statements of other enterprises. To achieve this objective, this Standard sets out overall considerations for the presentation of financial statements, guidelines for their structure and minimum requirements for the content of financial statements. The recognition, measurement and disclosure of specific transactions and events is dealt with in other Cambodian Accounting Standards.
Scope

1. This Standard should be applied in the presentation of all general purpose financial statements prepared and presented in accordance with International Accounting Standards.

2. General purpose financial statements are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their specific information needs. General purpose financial statements include those that are presented separately or within another public document. This Standard applies equally to the financial statements of an individual enterprise and to consolidated financial statements for a group of enterprises.

3. This Standard applies to all types of enterprises including banks and insurance enterprises. Additional requirements for banks and similar financial institutions, consistent with the requirements of this Standard, are set out in CAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions.

4. This Standard uses terminology that is suitable for an enterprise with a profit objective. Public sector business enterprises may therefore apply the requirements of this Standard. Non-profit, government and other public sector enterprises seeking to apply this Standard may need to amend the descriptions used for certain line items in the financial statements and for the financial statements themselves. Such enterprises may also present additional components of the financial statements.

Purpose of Financial Statements

5. Financial statements are a structured financial representation of the financial position of and the transactions undertaken by an enterprise. The objective of general purpose financial statements is to provide information about the financial position, performance and cash flows of an enterprise that is useful to a wide range of users in making economic decisions. Financial statements also show the results of management’s stewardship of the resources entrusted to it. To meet this objective, financial statements provide information about an enterprise’s:

(a) assets;
(b) liabilities;
(c) equity;
(d) income and expenses, including gains and losses; and
(e) cash flows.

This information, along with other information in the notes to financial statements, assists users in predicting the enterprise’s future cash flows and in particular the timing and certainty of the generation of cash and cash equivalents.

Responsibility for Financial Statements

6. The board of directors and/or other governing body of an enterprise is responsible for the preparation and presentation of its financial statements, as stated in the Cambodia Law on Accounting.
Components of Financial Statements

7. A complete set of financial statements includes the following components:

(a) balance sheet;

(b) income statement;

(c) a statement showing either:
   (i) all changes in equity; or
   (ii) changes in equity other than those arising from capital transactions with owners and distributions to owners;

(d) cash flow statement; and

(e) accounting policies and explanatory notes.

8. Enterprises are encouraged to present, outside the financial statements, a financial review by management which describes and explains the main features of the enterprise’s financial performance and financial position and the principal uncertainties it faces. Such a report may include a review of:

(a) the main factors and influences determining performance, including changes in the environment in which the enterprise operates, the enterprise’s response to those changes and their effect, and the enterprise’s policy for investment to maintain and enhance performance, including its dividend policy;

(b) the enterprise’s sources of funding, the policy on gearing and its risk management policies; and

(c) the strengths and resources of the enterprise whose value is not reflected in the balance sheet under Cambodian Accounting Standards.

Overall Considerations  Fair Presentation and Compliance with International Accounting Standards

9. Financial statements should present fairly the financial position, financial performance and cash flows of an enterprise. The appropriate application of International Accounting Standards, with additional disclosure when necessary, results, in virtually all circumstances, in financial statements that achieve a fair presentation.

10. An enterprise whose financial statements comply with International Accounting Standards should disclose that fact. Financial statements should not be described as complying with International Accounting Standards unless they comply with all the requirements of each applicable Standard.

11. Inappropriate accounting treatments are not rectified either by disclosure of the accounting policies used or by notes or explanatory material.
12. In the extremely rare circumstances when management concludes that compliance with a requirement in a Standard would be misleading, and therefore that departure from a requirement is necessary to achieve a fair presentation, an enterprise should disclose:

(a) that management has concluded that the financial statements fairly present the enterprise’s financial position, financial performance and cash flows;

(b) that it has complied in all material respects with applicable International Accounting Standards except that it has departed from a Standard in order to achieve a fair presentation;

(c) the Standard from which the enterprise has departed, the nature of the departure, including the treatment that the Standard would require, the reason why that treatment would be misleading in the circumstances and the treatment adopted; and

(d) the financial impact of the departure on the enterprise’s net profit or loss, assets, liabilities, equity and cash flows for each period presented.

13. In virtually all circumstances, a fair presentation is achieved by compliance in all material respects with applicable Cambodian Accounting Standards. A fair presentation requires:

(a) selecting and applying accounting policies in accordance with paragraph [18];

(b) presenting information, including accounting policies, in a manner which provides relevant, reliable, comparable and understandable information; and

(c) providing additional disclosures when the requirements in Cambodian Accounting Standards are insufficient to enable users to understand the impact of particular transactions or events on the enterprise’s financial position and financial performance.

14. In extremely rare circumstances, application of a specific requirement in a Cambodian Accounting Standard might result in misleading financial statements. This will be the case only when the treatment required by the Standard is clearly inappropriate and thus a fair presentation cannot be achieved either by applying the Standard or through additional disclosure alone. Departure is not appropriate simply because another treatment would also give a fair presentation.

15. When assessing whether a departure from a specific requirement in Cambodian Accounting Standards is necessary, consideration is given to:

(a) the objective of the requirement and why that objective is not achieved or is not relevant in the particular circumstances; and

(b) the way in which the enterprise’s circumstances differ from those of other enterprises which follow the requirement.
16. Because the circumstances requiring a departure are expected to be extremely rare and the need for a departure will be a matter for considerable debate and subjective judgement, it is important that there is full disclosure of the departure in the financial statements so that users are aware that the enterprise has not complied in all material respects with Cambodian Accounting Standards. It is also important that they are given sufficient information to enable them to make an informed judgement on whether the departure is necessary and to calculate the adjustments that would be required to comply with the Standard.

17. When, in accordance with specific provisions in that Standard, an International Accounting Standard is applied before its effective date, that fact should be disclosed.

Overall Considerations Accounting Policies

18. Management should select and apply an enterprise’s accounting policies so that the financial statements comply with all the requirements of each applicable International Accounting Standard and interpretation of the Standing Interpretations Committee. Where there is no specific requirement, management should develop policies to ensure that the financial statements provide information that is:

(a) relevant to the decision-making needs of users; and

(b) reliable in that they:
   (i) represent faithfully the results and financial position of the enterprise;
   (ii) reflect the economic substance of events and transactions and not merely the legal form;
   (iii) are neutral, that is free from bias;
   (iv) (iv) are prudent; and
   (v) are complete in all material respects.

19. Accounting policies are the specific principles, bases, conventions, rules and practices adopted by an enterprise in preparing and presenting financial statements.

20. In the absence of a specific Cambodian Accounting Standard, management uses its judgement in developing an accounting policy that provides the most useful information to users of the enterprise’s financial statements. In making this judgement, management considers:

(a) the requirements and guidance in Cambodian Accounting Standards dealing with similar and related issues;

(b) pronouncements of the Cambodian National Accounting Council and accepted industry practices to the extent, but only to the extent, that these are consistent with (a) and (b) of this paragraph.
Overall Considerations  **Going Concern**

21. When preparing financial statements, management should make an assessment of an enterprise’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 enterprise or to 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 which may cast significant doubt upon the enterprise’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 enterprise is not considered to be a going concern.

22. In assessing whether the going concern assumption is appropriate, management takes into account all available information for the foreseeable future, which should be at least, but is not limited to, twelve months from the balance sheet date. The degree of consideration depends on the facts in each case. When an enterprise has a history of profitable operations and ready access to financial resources, a conclusion that the going concern basis of accounting is appropriate may be reached without detailed analysis. In other cases, management may need to consider a wide range of factors surrounding current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.

**Overall Considerations  Accrual Basis of Accounting**

23. An enterprise should prepare its financial statements, except for cash flow information, under the accrual basis of accounting.

24. Under the accrual basis of accounting, transactions and events are recognised when they occur (and not as cash or its equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate. Expenses are recognised in the income statement on the basis of a direct association between the costs incurred and the earning of specific items of income (matching). However, the application of the matching concept does not allow the recognition of items in the balance sheet which do not meet the definition of assets or liabilities.

**Overall Considerations  Consistency of Presentation**

25. 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 enterprise 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 an International Accounting Standard or an interpretation of the Standing Interpretations Committee.
26. A significant acquisition or disposal, or a review of the financial statement presentation, might suggest that the financial statements should be presented differently. Only if the revised structure is likely to continue, or if the benefit of an alternative presentation is clear, should an enterprise change the presentation of its financial statements. When such changes in presentation are made, an enterprise reclassifies its comparative information in accordance with paragraph [36].

**Overall Consideration Materiality and Aggregation**

27. Each material item should be presented separately in the financial statements. Immaterial amounts should be aggregated with amounts of a similar nature or function and need not be presented separately.

28. Financial statements result from processing large quantities of transactions which are structured by being aggregated into groups according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data which form line items either on the face of the financial statements or in the notes. If a line item is not individually material, it is aggregated with other items either on the face of the financial statements or in the notes. An item that is not sufficiently material to warrant separate presentation on the face of the financial statements may nevertheless be sufficiently material that it should be presented separately in the notes.

29. In this context, information is material if its non-disclosure 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 of its omission. In deciding whether an item or an aggregate of items is material, the nature and the size of the item are evaluated together. Depending on the circumstances, either the nature or the size of the item could be the determining factor. For example, individual assets with the same nature and function are aggregated even if the individual amounts are large. However, large items which differ in nature or function are presented separately.

30. Materiality provides that the specific disclosure requirements of Cambodian Accounting Standards need not be met if the resulting information is not material.

**Overall Considerations Offsetting**

31. Assets and liabilities should not be offset except when offsetting is required or permitted by another International Accounting Standard.

32. Items of income and expense should be offset when, and only when:

   (a) an International Accounting Standard requires or permits it; or

   (b) gains, losses and related expenses arising from the same or similar transactions and events are not material. Such amounts should be aggregated in accordance with paragraph [28].
33. It is important that both assets and liabilities, and income and expenses, when material, are reported separately. Offsetting in either the income statement or the balance sheet, except when offsetting reflects the substance of the transaction or event, detracts from the ability of users to understand the transactions undertaken and to assess the future cash flows of the enterprise. The reporting of assets net of valuation allowances, for example obsolescence allowances on inventories and doubtful debts allowances on receivables, is not offsetting.

34. CAS 18, Revenue, defines the term revenue and requires it to be measured at the fair value of consideration received or receivable, taking into account the amount of any trade discounts and volume rebates allowed by the enterprise. An enterprise undertakes, in the course of its ordinary activities, other transactions which do not generate revenue but which are incidental to the main revenue generating activities. The results of such transactions are presented, when this presentation reflects the substance of the transaction or event, by netting any income with related expenses arising on the same transaction. For example:

(a) gains and losses on the disposal of non-current assets, including investments and operating assets, are reported by deducting from the proceeds on disposal the carrying amount of the asset and related selling expenses;

(b) expenditure that is reimbursed under a contractual arrangement with a third party (a sub-letting agreement, for example) is netted against the related reimbursement; and

(c) extraordinary items may be presented net of related taxation and minority interest with the gross amounts shown in the notes.

35. In addition, gains and losses arising from a group of similar transactions are reported on a net basis, for example foreign exchange gains and losses or gains and losses arising on financial instruments held for trading purposes. Such gains and losses are, however, reported separately if their size, nature or incidence is such that separate disclosure is required by CAS 8, Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies.

Overall Considerations  Comparative Information

36. Unless an International Accounting Standard permits or requires otherwise, comparative information should be disclosed in respect of the previous period 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.

37. In some cases narrative information provided in the financial statements for the previous period(s) continues to be relevant in the current period. For example, details of a legal dispute, the outcome of which was uncertain at the last balance sheet date and is yet to be resolved, are disclosed in the current period. Users benefit from information that the uncertainty existed at the last balance sheet date, and the steps that have been taken during the period to resolve the uncertainty.
38. When the presentation or classification of items in the financial statements is amended, comparative amounts should be reclassified, unless it is impracticable to do so, to ensure comparability with the current period, and the nature, amount of, and reason for, any reclassification should be disclosed. When it is impracticable to reclassify comparative amounts, an enterprise should disclose the reason for not reclassifying and the nature of the changes that would have been made if amounts were reclassified.

39. Circumstances may exist when it is impracticable to reclassify comparative information to achieve comparability with the current period. For example, data may not have been collected in the previous period(s) in a way which allows reclassification, and it may not be practicable to recreate the information. In such circumstances, the nature of the adjustments to comparative amounts that would have been made are disclosed. CAS 8 deals with the adjustments required to comparative information following a change in accounting policy that is applied retrospectively.

Structure and Content  Introduction

40. This Standard requires certain disclosures on the face of the financial statements, requires other line items to be disclosed either on the face of the financial statements or in the notes, and sets out recommended formats as an appendix to the Standard which an enterprise should follow as appropriate in its own circumstances. CAS 7 provides a structure for the presentation of the cash flow statement.

41. This Standard uses the term disclosure in a broad sense, encompassing items presented on the face of each financial statement as well as in the notes to the financial statements. Disclosures required by other Cambodian Accounting Standards are made in accordance with the requirements of those Standards. Unless this or another Standard specifies to the contrary, such disclosures are made either on the face of the relevant financial statement or in the notes.

Structure and Content  Introduction  Identification of Financial Statements

42. Financial statements should be clearly identified and distinguished from other information in the same published document.

43. Cambodian Accounting Standards apply only to the financial statements, and not to other information presented in an annual report or other document. Therefore, it is important that users are able to distinguish information that is prepared using Cambodian Accounting Standards from other information which may be useful to users but is not the subject of Standards.
44. 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 enterprise or other means of identification;

(b) whether the financial statements cover the individual enterprise or a group of enterprises;

(c) the balance sheet date or the period covered by the financial statements, whichever is appropriate to the related component of the financial statements;

(d) the reporting currency; and

(e) the level of precision used in the presentation of figures in the financial statements.

45. The requirements in paragraph [44] are normally met by presenting page headings and abbreviated column headings on each page of the financial statements. Judgement is required in determining the best way of presenting such information.

46. Financial statements are often made more understandable by presenting information in thousands or millions of units of the reporting currency. This is acceptable as long as the level of precision in presentation is disclosed and relevant information is not lost.

Structure and Content  Introduction  Reporting Period

47. Financial statements should be presented at least annually. When, in exceptional circumstances, an enterprise’s balance sheet date changes and annual financial statements are presented for a period longer or shorter than one year, an enterprise should disclose, in addition to the period covered by the financial statements:

(a) the reason for a period other than one year being used; and

(b) the fact that comparative amounts for the income statement, changes in equity, cash flows and related notes are not comparable.

48. In exceptional circumstances an enterprise may be required to, or decide to, change its balance sheet date, for example following the acquisition of the enterprise by another enterprise with a different balance sheet date. When this is the case, it is important that users are aware that the amounts shown for the current period and comparative amounts are not comparable and that the reason for the change in balance sheet date is disclosed.

Structure and Content  Introduction  Timeliness

49. The usefulness of financial statements is impaired if they are not made available to users within a reasonable period after the balance sheet date. The Cambodian Law on
Accounting requires financial statements to be prepared within three months of the balance sheet date.

**Structure and Content  Balance Sheet The Current/Non-current Distinction**

50. Each enterprise should present current and non-current assets and current and non-current liabilities as separate classifications on the face of the balance sheet.

51. An enterprise should disclose, for each asset and liability item that combines amounts expected to be recovered or settled both before and after twelve months from the balance sheet date, the amount expected to be recovered or settled after more than twelve months.

52. When an enterprise supplies goods or services within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities on the face of the balance sheet provides useful information by distinguishing the net assets that are continuously circulating as working capital from those used in the enterprise’s long-term operations. It also highlights assets that are expected to be realised within the current operating cycle, and liabilities that are due for settlement within the same period.

53. Information about the maturity dates of assets and liabilities is useful in assessing the liquidity and solvency of an enterprise. The maturity dates of both financial assets and financial liabilities should be disclosed. Financial assets include trade and other receivables and financial liabilities include trade and other payables. Information on the expected date of recovery and settlement of non-monetary assets and liabilities such as inventories and provisions is also useful. For example, an enterprise should disclose the amount of inventories which are expected to be recovered after more than one year from the balance sheet date.

**Structure and Content  Balance Sheet Current Assets**

54. An asset should be classified as a current asset when it:

   (a) is expected to be realised in, or is held for sale or consumption in, the normal course of the enterprise’s operating cycle; or

   (b) is held primarily for trading purposes or for the short-term and expected to be realised within twelve months of the balance sheet date; or

   (c) is cash or a cash equivalent asset which is not restricted in its use.

All other assets should be classified as non-current assets.

55. This Standard uses the term ‘non-current’ to include tangible, intangible, operating and financial assets of a long-term nature. It does not prohibit the use of alternative descriptions as long as the meaning is clear.

56. The operating cycle of an enterprise is the time between the acquisition of materials entering into a process and its realisation in cash or an instrument that is readily
convertible into cash. Current assets include inventories and trade receivables that are sold, consumed and realised as part of the normal operating cycle even when they are not expected to be realised within twelve months of the balance sheet date. Marketable securities are classified as current assets if they are expected to be realised within twelve months of the balance sheet date; otherwise they are classified as non-current assets.

**Structure and Content**

**Balance Sheet**

**Current Liabilities**

57. A liability should be classified as a current liability when it:

(a) is expected to be settled in the normal course of the enterprise’s operating cycle; or

(b) is due to be settled within twelve months of the balance sheet date.

All other liabilities should be classified as non-current liabilities.

58. Current liabilities can be categorised in a similar way to current assets. Some current liabilities, such as trade payables and accruals for employee and other operating costs, form part of the working capital used in the normal operating cycle of the business. Such operating items are classified as current liabilities even if they are due to be settled after more than twelve months from the balance sheet date.

59. Other current liabilities are not settled as part of the current operating cycle, but are due for settlement within twelve months of the balance sheet date. Examples are the current portion of interest-bearing liabilities, bank overdrafts, dividends payable, income taxes and other non-trade payables. Interest-bearing liabilities that provide the financing for working capital on a long-term basis, and are not due for settlement within twelve months, are non-current liabilities.

60. An enterprise should continue to classify its long-term interest-bearing liabilities as non-current, even when they are due to be settled within twelve months of the balance sheet date if:

(a) the original term was for a period of more than twelve months;

(b) the enterprise intends to refinance the obligation on a long-term basis; and

(c) that intention is supported by an agreement to refinance, or to reschedule payments, which is completed before the financial statements are approved.

The amount of any liability that has been excluded from current liabilities in accordance with this paragraph, together with information in support of this presentation, should be disclosed in the notes to the balance sheet.

61. Some obligations that are due to be repaid within the next operating cycle may be expected to be refinanced or ‘rolled over’ at the discretion of the enterprise and, therefore, are not expected to use current working capital of the enterprise. Such obligations are considered to form part of the enterprise’s long-term financing and should be classified as non-current. However, in situations in which refinancing is not
at the discretion of the enterprise (as would be the case if there were no agreement to refinance), the refinancing cannot be considered automatic and the obligation is classified as current unless the completion of a refinancing agreement before approval of the financial statements provides evidence that the substance of the liability at the balance sheet date was long-term.

62. Some borrowing agreements incorporate undertakings by the borrower (covenants) which have the effect that the liability becomes payable on demand if certain conditions related to the borrower’s financial position are breached. In these circumstances, the liability is classified as non-current only when:

(a) the lender has agreed, prior to the approval of the financial statements, not to demand payment as a consequence of the breach; and

(b) it is not probable that further breaches will occur within twelve months of the balance sheet date.

Structure and Content  Balance Sheet  Information to be Presented on the Face of the Balance Sheet

63. As a minimum, the face of the balance sheet should include line items which present the following amounts:

(a) property, plant and equipment;
(b) intangible assets;
(c) financial assets (excluding amounts shown under (d), (f) and (g));
(d) investments accounted for using the equity method;
(e) inventories;
(f) trade and other receivables;
(g) cash and cash equivalents;
(h) trade and other payables;
(i) tax liabilities and assets as required by IAS 12, Income Taxes;
(j) provisions;
(k) non-current interest-bearing liabilities;
(l) minority interest; and
(m) issued capital and reserves.

64. Additional line items, headings and sub-totals should be presented on the face of the balance sheet when an International Accounting Standard requires it, or when such presentation is necessary to present fairly the enterprise’s financial position.

65. This Standard does not prescribe the order or format in which items are to be presented. Paragraph [63] simply provides a list of items that are so different in nature or function that they deserve separate presentation on the face of the balance sheet. Illustrative formats are set out in the Appendix to this Standard. Adjustments to the line items above include the following:

(a) line items are added when another Cambodian Accounting Standard requires separate presentation on the face of the balance sheet, or when the size, nature or
function of an item is such that separate presentation would assist in presenting fairly the enterprise’s financial position; and

(b) the descriptions used and the ordering of items may be amended according to the nature of the enterprise and its transactions, to provide information that is necessary for an overall understanding of the enterprise’s financial position. For example, a bank amends the above descriptions in order to apply the more specific requirements in CAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions.

66. The judgement on whether additional items are separately presented is based on an assessment of:

(a) the nature and liquidity of assets and their materiality, leading, in most cases, to the separate presentation of monetary and non-monetary assets and current and non-current assets;

(b) their function within the enterprise, leading, for example, to the separate presentation of operating and financial assets, inventories, receivables and cash and cash equivalent assets; and

(c) the amounts, nature and timing of liabilities, leading, for example, to the separate presentation of interest-bearing and non-interest-bearing liabilities and provisions, classified as current or non-current if appropriate.

67. Assets and liabilities that differ in nature or function are sometimes subject to different measurement bases. For example certain classes of property, plant and equipment may be carried at cost, or at revalued amounts in accordance with CAS 16. The use of different measurement bases for different classes of assets suggests that their nature or function differs and therefore that they should be presented as separate line items.

Structure and Content  Balance Sheet  Information to be Presented Either on the Face of the Balance Sheet or in the Notes

68. An enterprise should disclose, either on the face of the balance sheet or in the notes to the balance sheet, further sub-classifications of the line items presented, classified in a manner appropriate to the enterprise’s operations. Each item should be sub-classified, when appropriate, by its nature and, amounts payable to and receivable from the parent enterprise, fellow subsidiaries and associates and other related parties should be disclosed separately.

69. The detail provided in sub-classifications, either on the face of the balance sheet or in the notes, depends on the requirements of Cambodian Accounting Standards and the size, nature and function of the amounts involved. The factors set out in paragraph [66] are also used to decide the basis of sub-classification. The disclosures will vary for each item, for example:

(a) tangible assets are classified by class as described in CAS 16, Property, Plant and Equipment;
(b) receivables are analysed between amounts receivable from trade customers, other members of the group, receivables from related parties, prepayments and other amounts;

(c) inventories are sub-classified, in accordance with CAS 2, Inventories, into classifications such as merchandise, production supplies, materials, work in progress and finished goods;

(d) provisions are analysed showing separately provisions for employee benefit costs and any other items classified in a manner appropriate to the enterprise’s operations; and

(e) equity capital and reserves are analysed showing separately the various classes of paid in capital, share premium and reserves.

70. An enterprise 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 year;
   (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 enterprise held by the enterprise itself or by subsidiaries or associates of the enterprise; and
   (vii) shares reserved for issuance under options and sales contracts, including the terms and amounts;

(b) a description of the nature and purpose of each reserve within owners’ equity;

(c) when dividends have been proposed but not formally approved for payment, the amount included (or not included) in liabilities; and

(d) the amount of any cumulative preference dividends not recognised.

An enterprise 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.

**Structure and Content**

**Income Statement Information to be Presented on the Face of the Income Statement**

71. As a minimum, the face of the income statement should include line items which present the following amounts:

(a) revenue;
(b) the results of operating activities;
(c) finance costs;
(d) share of profits and losses of associates and joint ventures accounted for using the
equity method;
(e) tax expense;
(f) profit or loss from ordinary activities;
(g) extraordinary items;
(h) minority interest; and
(i) net profit or loss for the period.
Additional line items, headings and sub-totals should be presented on the face of
the income statement when required by an International Accounting Standard, or
when such presentation is necessary to present fairly the enterprise’s financial
performance.

72. The effects of an enterprise’s various activities, transactions and events differ in
stability, risk and predictability, and the disclosure of the elements of performance
assists in an understanding of the performance achieved and in assessing future results.
Additional line items are included on the face of the income statement and the
descriptions used and the ordering of items are amended when this is necessary to
explain the elements of performance. Factors to be taken into consideration include
materiality and the nature and function of the various components of income and
expenses. For example, a bank amends the descriptions in order to apply the more
specific requirements of CAS 30q. Income and expense items are offset only when the
criteria in paragraph [32] are met.

Structure and Content  Income Statement  Information to be Presented Either on the Face
of the Income Statement or in the Notes

73. An enterprise should present, either on the face of the income statement or in the notes
to the income statement, an analysis of expenses using a classification based on either
the nature of expenses or their function within the enterprise.

74. Enterprises are encouraged to present the analysis in paragraph [73] on the face of the
income statement.

75. Expense items are further sub-classified in order to highlight a range of components of
financial performance which may differ in terms of stability, potential for gain or loss
and predictability. This information is provided in one of two ways.

76. The first analysis is referred to as the nature of expense method. Expenses are
aggregated in the income statement according to their nature, (for example
depreciation, purchases of materials, transport costs, wages and salaries, advertising
costs), and are not reallocated amongst various functions within the enterprise. This
method is simple to apply in many smaller enterprises because no allocations of
operating expenses between functional classifications is necessary. An example of a
classification using the nature of expense method is as follows:
Revenue  X
Other operating income  X

Changes in inventories of finished goods and work in progress  X
Raw materials and consumables used  X
Staff costs  X
Depreciation and amortisation expense  X
Other operating expenses  X

Total operating expenses (X)
Profit from operating activities  X

77. The change in finished goods and work in progress during the period represents an adjustment to production expenses to reflect the fact that either production has increased inventory levels or that sales in excess of production have reduced inventory levels.

78. The second analysis is referred to as the function of expense or ‘cost of sales’ method and classifies expenses according to their function as part of cost of sales, distribution or administrative activities. This presentation often provides more relevant information to users than the classification of expenses by nature, but the allocation of costs to functions can be arbitrary and involves considerable judgement. An example of a classification using the function of expense method is as follows:

Revenue  X
Cost of sales (X)
Gross profit  X
Other operating income  X
Distribution costs (X)
Administrative expenses (X)
Other operating expenses (X)

Profit from operating activities X

79. Enterprises classifying expenses by function should disclose additional information on the nature of expenses, including depreciation and amortisation expense and staff costs.

80. The choice of analysis between the cost of sales method and the nature of expenditure method depends on industry factors and the nature of the organisation. Both methods provide an indication of those costs which might be expected to vary, directly or indirectly, with the level of sales or production of the enterprise. Because each method of presentation has merit for different types of enterprise, this Standard requires a choice between classifications based on that which most fairly presents the elements of the enterprise’s performance. However, because information on the nature of expenses is useful in predicting future cash flows, additional disclosure is required when the cost of sales classification is used.
81. An enterprise 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.

Structure and Content  Changes in Equity

82. An enterprise should present, as a separate component of its financial statements, a statement showing:

(a) the net profit or loss for the period;

(b) each item of income and expense, gain or loss which, as required by other Standards, is recognised directly in equity, and the total of these items; and

(c) the cumulative effect of changes in accounting policy and the correction of fundamental errors dealt with under the Benchmark treatments in IAS 8.

In addition, an enterprise should present, either within this statement or in the notes:

(d) capital transactions with owners and distributions to owners;

(e) the balance of accumulated profit or loss 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 the end of the period, separately disclosing each movement.

83. Changes in an enterprise’s equity between two balance sheet dates reflect the increase or decrease in its net assets or wealth during the period, under the particular measurement principles adopted and disclosed in the financial statements. Except for changes resulting from transactions with shareholders, such as capital contributions and dividends, the overall change in equity represents the total gains and losses generated by the enterprise’s activities during the period.

84. CAS 8, Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies, requires all items of income and expense recognised in a period to be included in the determination of net profit or loss for the period unless an International Accounting Standard requires or permits otherwise. Other Standards require gains and losses, such as revaluation surpluses and deficits and certain foreign exchange differences, to be recognised directly as changes in equity along with capital transactions with and distributions to the enterprise’s owners. Since it is important to take into consideration all gains and losses in assessing the changes in an enterprise’s financial position between two balance sheet dates, this Standard requires a separate component of the financial statements which highlights an enterprise’s total gains and losses, including those that are recognised directly in equity.

85. The requirements in paragraph [82] may be met in a number of ways. One approach follows a columnar format which reconciles between the opening and
closing balances of each element within shareholders’ equity, including items (a) to (f). An alternative is to present a separate component of the financial statements which presents only items (a) to (c). Under this approach, the items described in (d) to (f) are shown in the notes to the financial statements. Both approaches are illustrated in the appendix to this Standard. Whichever approach is adopted, paragraph [82] requires a sub-total of the items in (b) to enable users to derive the total gains and losses arising from the enterprise’s activities during the period.

Structure and Content  Cash Flow Statement

86. CAS 7 sets out requirements for the presentation of the cash flow statement and related disclosures. It states that cash flow information is useful in providing users of financial statements with a basis to assess the ability of the enterprise to generate cash and cash equivalents and the needs of the enterprise to utilise those cash flows.

Structure and Content  Notes to the Financial Statements  Structure

87. The notes to the financial statements of an enterprise 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 International Accounting Standards that is not presented elsewhere in the financial statements; and

(c) provide additional information which is not presented on the face of the financial statements but that is necessary for a fair presentation.

88. Notes to the financial statements should be presented in a systematic manner. Each item on the face of the balance sheet, income statement and cash flow statement should be cross-referenced to any related information in the notes.

89. Notes to the financial statements include narrative descriptions or more detailed analyses of amounts shown on the face of the balance sheet, income statement, cash flow statement and statement of changes in equity, as well as additional information such as contingent liabilities and commitments. They include information required and encouraged to be disclosed by Cambodian Accounting Standards, and other disclosures necessary to achieve a fair presentation.

90. Notes are normally presented in the following order which assists users in understanding the financial statements and comparing them with those of other enterprises:

(a) statement of compliance with Cambodian Accounting Standards;

(b) statement of the measurement basis (bases) and accounting policies applied;
(c) supporting information for items presented on the face of each financial statement in the order in which each line item and each financial statement is presented; and

(d) other disclosures, including:
   (i) contingencies, commitments and other financial disclosures; and
   (ii) non-financial disclosures.

Structure and Content Notes to the Financial Statements Presentation of Accounting Policies

91. The accounting policies section of the notes to the financial statements should describe the following:

   (a) the measurement basis (or bases) used in preparing the financial statements; and

   (b) each specific accounting policy that is necessary for a proper understanding of the financial statements.

92. In addition to the specific accounting policies used in the financial statements, it is important for users to be aware of the measurement basis (bases) used (historical cost, current cost, realisable value, fair value or present value) because they form the basis on which the whole of the financial statements are prepared. When more than one measurement basis is used in the financial statements, for example when certain non-current assets are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied.

93. In deciding whether a specific accounting policy should be disclosed, management considers whether disclosure would assist users in understanding the way in which transactions and events are reflected in the reported performance and financial position. The accounting policies that an enterprise might consider presenting include, but are not restricted to, the following:

   (a) revenue recognition;
   (b) consolidation principles, including subsidiaries and associates;
   (c) business combinations;
   (d) joint ventures;
   (e) recognition and depreciation/amortisation of tangible and intangible assets;
   (f) capitalisation of borrowing costs and other expenditure;
   (g) construction contracts;
   (h) financial instruments and investments;
   (i) leases;
   (j) research and development costs;
   (k) inventories;
   (l) taxes, including deferred taxes;
   (m) provisions;
   (n) foreign currency translation and hedging; and
   (o) definition of cash and cash equivalents.

Other Cambodian Accounting Standards specifically require disclosure of accounting policies in many of these areas.
94. Each enterprise considers the nature of its operations and the policies which the user would expect to be disclosed for that type of enterprise.

95. An accounting policy may be significant even if amounts shown for current and prior periods are not material. It is also appropriate to disclose an accounting policy for each policy not covered by existing Cambodian Accounting Standards, but selected and applied in accordance with paragraph [18].

Structure and Content Notes to the Financial Statements Other Disclosures

96. An enterprise should disclose the following if not disclosed elsewhere in information published with the financial statements:

(a) the domicile and legal form of the enterprise, its country of incorporation and the address of the registered office (or principal place of business, if different from the registered office);

(b) a description of the nature of the enterprise’s operations and its principal activities;

(c) the name of the parent enterprise and the ultimate parent enterprise of the group; and

(d) either the number of employees at the end of the period or the average for the period.

Effective Date

97. This Cambodian Accounting Standard becomes operative for financial statements covering periods beginning on or after [           ]. Earlier application is encouraged.

Appendix - Illustrative Financial Statement Structure

The appendix is illustrative only and does not form part of the Standard. The purpose of the appendix is to illustrate the application of the Standard to assist in clarifying its meaning.

The Standard sets out the components of financial statements and minimum requirements for disclosure on the face of the balance sheet and the income statement as well as for the presentation of changes in equity. It also establishes further items that may be presented either on the face of the relevant financial statement or in the notes. The purpose of the Appendix is to provide examples of the ways in which the requirements for the presentation of the income statement, balance sheet and changes in equity might be presented in the primary financial statements. The order of presentation and the descriptions used for line items should be changed where necessary in order to achieve a fair presentation in each enterprise's particular circumstances.

Two income statements are provided for illustrative purposes, illustrating the two alternative classifications of income and expenses, by nature and by function. The two alternative approaches to presenting changes in equity are also illustrated.
XYZ GROUP - BALANCE SHEET AS AT 31 DECEMBER 20-2  
(in thousands of currency units)

<table>
<thead>
<tr>
<th></th>
<th>20-2</th>
<th>20-2</th>
<th>20-1</th>
<th>20-1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goodwill</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing licences</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments in associates</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other financial assets</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prepayments</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| **EQUITY AND LIABILITIES** |      |      |      |      |
| Capital and reserves     |      |      |      |      |
| Issued capital           | X    | X    |      |      |
| Reserves                 | X    | X    |      |      |
| Accumulated profits/(losses) | X    | X    |      |      |
| Minority interest        | X    | X    |      |      |
| **Non-current liabilities** |      |      |      |      |
| Interest bearing borrowings | X    | X    |      |      |
| Deferred tax             | X    | X    |      |      |
| Retirement benefit obligation | X    | X    |      |      |
| **Current liabilities**  | X    | X    |      |      |
| Trade and other payables | X    | X    |      |      |
| Short-term borrowings    | X    | X    |      |      |
| Current portion of interest-bearing borrowings | X    | X    |      |      |
| Warranty provision       | X    | X    |      |      |
| **Total equity and liabilities** | X    | X    |      |      |
XYZ GROUP - INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 20-2  
(illustrating the classification of expenses by function)  
(in thousands of currency units)  

<table>
<thead>
<tr>
<th></th>
<th>20-2</th>
<th>20-1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Other operating income</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Distribution costs</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Profit from operations</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Finance cost</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Income from associates</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Profit after tax</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Minority interest</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td><strong>Net profit from ordinary activities</strong></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Extraordinary items</td>
<td>X</td>
<td>(X)</td>
</tr>
<tr>
<td><strong>Net profit for the period</strong></td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>
XYZ GROUP - INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 20-2
(illustrating the classification of expenses by nature)

(in thousands of currency units)

<table>
<thead>
<tr>
<th></th>
<th>20-2</th>
<th>20-1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Other operating income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Changes in inventories of finished goods and work in progress (X)</td>
<td>(X)</td>
<td>X</td>
</tr>
<tr>
<td>Work performed by the enterprise and capitalised</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Raw material and consumables used (X)</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Staff costs (X) (X)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortisation expense (X) (X)</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Other operating expenses (X) (X)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Profit from operations</strong></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Finance cost (X) (X)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income from associates X X</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Profit before tax</strong></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Income tax expense (X) (X)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Profit after tax</strong></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Minority interest (X) (X)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net profit or loss from ordinary activities</strong> X X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Extraordinary items X (X)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net profit for the period</strong></td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>
### XYZ GROUP - STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 20-2

(in thousands of currency units)

<table>
<thead>
<tr>
<th></th>
<th>Share capital</th>
<th>Share premium</th>
<th>Revaluation reserve</th>
<th>Translation reserve</th>
<th>Accumulated profit</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at 31 December 20-0</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>(X)</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Changes in accounting policy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restated balance</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Surplus on revaluation of properties</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deficit on revaluation of investments</td>
<td>(X)</td>
<td></td>
<td></td>
<td></td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Currency translation differences</td>
<td>(X)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net gains and losses not recognised in the income statement</td>
<td>X</td>
<td>(X)</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Net profit for the period</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Dividends</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Issue of share capital</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Balance at 31 December 20-1</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>(X)</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Deficit on revaluation of properties</td>
<td>(X)</td>
<td></td>
<td></td>
<td></td>
<td>(X)</td>
<td></td>
</tr>
<tr>
<td>Surplus on revaluation of Investments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Currency translation differences</td>
<td>(X)</td>
<td></td>
<td></td>
<td></td>
<td>(X)</td>
<td></td>
</tr>
<tr>
<td>Net gains and losses not recognised in the income statement</td>
<td>(X)</td>
<td>(X)</td>
<td></td>
<td></td>
<td></td>
<td>(X)</td>
</tr>
<tr>
<td>Net profit for the period</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Dividends</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Issue of share capital</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Balance at 31 December 20-2</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>(X)</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

An alternative method of presenting changes in equity is illustrated on the following page.
### XYZ GROUP - STATEMENT OF RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 20-2

(in thousands of currency units)

<table>
<thead>
<tr>
<th>Description</th>
<th>20-2</th>
<th>20-1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surplus/(deficit) on revaluation of properties</td>
<td>(X)</td>
<td>X</td>
</tr>
<tr>
<td>Surplus/(deficit) on revaluation of investments</td>
<td>X</td>
<td>(X)</td>
</tr>
<tr>
<td>Exchange differences on translation of the financial statements of foreign entities</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Net gains not recognised in the income statement</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Net profit for the period</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Total recognised gains and losses</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Effect of changes in accounting policy</td>
<td>(X)</td>
<td></td>
</tr>
</tbody>
</table>

The above example illustrates an approach which presents those changes in equity that represent gains and losses in a separate component of the financial statements. Under this approach, a reconciliation of opening and closing balances of share capital, reserves and accumulated profit, as illustrated on the previous page, is given in the notes to the financial statements.

### CAS2

**Introduction**

This Cambodian Accounting Standard ("CAS 2") sets out the required accounting treatment and disclosures for inventories. It is a requirement of Cambodian Law that financial statements for all Accounting Entities (as defined in the Law) are to be prepared in accordance with International Accounting Standards. Therefore, this CAS 2 includes all of the relevant paragraphs from the equivalent International Accounting Standard ("IAS 2"), and also includes background material and implementation guidance for Cambodia.

The required accounting treatment is that inventories should be valued at the lower of historical cost and net realisable value. Historical cost should include a systematic allocation of production overheads that relate to putting the inventories in their current location and condition. Cost should be determined on a specific identification basis for each item where this is practical. Otherwise, the first-in-first-out (FIFO) or weighted average cost formula should be used. Net realisable value (NRV) estimates should be based on the most reliable evidence available. Inventories should generally be written down to NRV on an item-by-item basis.

Inventories should be classified in a manner appropriate to the business, and the amounts for each classification should be shown. Required disclosures include the accounting policies adopted, the cost formula used and the cost of inventories recognised as an expense.
Objective

The Cambodian Accounting Standards, which have been set in bold italic type, should be read in the context of the background material and implementation guidance in this Standard, and in the context of Cambodian Law which sets out the requirement for financial statements for all Accounting Entities (as defined in the Law) to be prepared in accordance with International Accounting Standards. The standards are not intended to apply to immaterial items.

The objective of this Standard is to prescribe the accounting treatment for inventories under the historical cost system. A primary issue in accounting for inventories is the amount of cost to be recognised as an asset and carried forward until the related revenues are recognised. This Standard provides practical guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realisable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

Scope

1 This Standard should be applied in financial statements prepared in the context of the historical cost system in accounting for inventories other than:

   (a) work in progress arising under construction contracts, including directly related service contracts;

   (b) financial instruments; and

   (c) producers’ inventories of livestock, agricultural and forest products, and mineral ores to the extent that they are measured at net realisable value in accordance with well established practices in certain industries.

Definitions

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

   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.

   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.

3 Inventories encompass goods purchased and held for resale including, for example, merchandise purchased by a retailer and held for resale, or land and other property held for resale. Inventories also encompass finished goods produced, or work in
progress being produced, by the enterprise and include materials and supplies awaiting use in the production process. In the case of a service provider, inventories include the costs of the service, as described in paragraph [.12], for which the enterprise has not yet recognised the related revenue (see Cambodian Accounting Standard CAS 18, Revenue).

**Measurement of Inventories**

4 Inventories should be measured at the lower of cost and net realisable value.

**Cost of Inventories**

5 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.

**Cost of Inventories  Costs of Purchase**

6 The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the enterprise from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

**Cost of Inventories  Costs of Conversion**

7 The costs of conversion of inventories include costs directly related to the units of production, such as direct labour. They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. Fixed production overheads are those indirect costs of production that remain relatively constant regardless of the volume of production, such as depreciation and maintenance of factory buildings and equipment, and the cost of factory management and administration. Variable production overheads are those indirect costs of production that vary directly, or nearly directly, with the volume of production, such as indirect materials and indirect labour.

8 The allocation of fixed production overheads to the costs of conversion is based on the normal capacity of the production facilities. Normal capacity is the production expected to be achieved on average over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance. The actual level of production may be used if it approximates normal capacity. The amount of fixed overhead allocated to each unit of production is not increased as a consequence of low production or idle plant. Unallocated overheads are recognised as an expense in the period in which they are incurred. In periods of abnormally high production, the amount of fixed overhead allocated to each unit of production is decreased so that inventories are not measured above cost. Variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities.

9 A production process may result in more than one product being produced simultaneously. This is the case, for example, when joint products are produced or
when there is a main product and a by-product. When the costs of conversion of each product are not separately identifiable, they are allocated between the products on a rational and consistent basis. The allocation may be based, for example, on the relative sales value of each product either at the stage in the production process when the products become separately identifiable, or at the completion of production. Most by-products, by their nature, are immaterial. When this is the case, they are often measured at net realisable value and this value is deducted from the cost of the main product. As a result, the carrying amount of the main product is not materially different from its cost.

Cost of Inventories  Other Costs

10 Other costs are included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition. For example, it may be appropriate to include nonproduction overheads or the costs of designing products for specific customers in the cost of inventories.

11 Examples of costs excluded from the cost of inventories and recognised as expenses in the period in which they are incurred are:

(a) abnormal amounts of wasted materials, labour, or other production costs;

(b) storage costs, unless those costs are necessary in the production process prior to a further production stage;

(c) administrative overheads that do not contribute to bringing inventories to their present location and condition; and

(d) selling costs.

Cost of Inventories  Cost of Inventories of a Service Provider

12 The cost of inventories of a service provider consists primarily of the labour and other costs of personnel directly engaged in providing the service, including supervisory personnel, and attributable overheads. Labour and other costs relating to sales and general administrative personnel are not included but are recognised as expenses in the period in which they are incurred.

Cost of Inventories  Techniques for the Measurement of Cost

13 Techniques for the measurement of the cost of inventories, such as the standard cost method or the retail method, may be used for convenience if the results approximate cost. Standard costs take into account normal levels of materials and supplies, labour, efficiency and capacity utilisation. They are regularly reviewed and, if necessary, revised in the light of current conditions.

14 The retail method is often used in the retail industry for measuring inventories of large numbers of rapidly changing items, that have similar margins and for which it is impracticable to use other costing methods. The cost of the inventory is determined by reducing the sales value of the inventory by the appropriate percentage gross margin. The percentage used takes into consideration inventory which has been marked down
to below its original selling price. An average percentage for each retail department is often used.

Cost Formulas

15 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.

16 Specific identification of cost means that specific costs are attributed to identified items of inventory. This is an appropriate treatment for items that are segregated for a specific project, regardless of whether they have been bought or produced. However, specific identification of costs is inappropriate when there are large numbers of items of inventory which are ordinarily interchangeable. In such circumstances, the method of selecting those items that remain in inventories could be used to obtain predetermined effects on the net profit or loss for the period.

Cost Formulas

17 The cost of inventories, other than those dealt with in paragraph [.15], should be assigned by using the first-in, first-out (FIFO) or weighted average cost formulas.

18 The FIFO formula assumes that the items of inventory which were purchased first are sold first, and consequently the items remaining in inventory at the end of the period are those most recently purchased or produced. Under the weighted average cost formula, the cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period and the cost of similar items purchased or produced during the period. The average may be calculated on a periodic basis, or as each additional shipment is received, depending upon the circumstances of the enterprise.

Net Realizable Value

19 The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may also not be recoverable if the estimated costs of completion or the estimated costs to be incurred to make the sale have increased. The practice of writing inventories down below cost to net realisable value is consistent with the view that assets should not be carried in excess of amounts expected to be realised from their sale or use.

20 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. This may be the case with items of inventory relating to the same product line that have similar purposes or end uses, are produced and marketed in the same geographical area, and cannot be practicably evaluated separately from other items in that product line. It is not appropriate to write inventories down based on a classification of inventory, for example, finished goods, or all the inventories in a particular industry or geographical segment. Service providers generally accumulate
costs in respect of each service for which a separate selling price will be charged. Therefore, each such service is treated as a separate item.

21 Estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made as to the amount the inventories are expected to realise. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period.

22 Estimates of net realisable value also take into consideration the purpose for which the inventory is held. For example, the net realisable value of the quantity of inventory held to satisfy firm sales or service contracts is based on the contract price. If the sales contracts are for less than the inventory quantities held, the net realisable value of the excess is based on general selling prices. Contingent losses on firm sales contracts in excess of inventory quantities held and contingent losses on firm purchase contracts are dealt with in accordance with Cambodian Accounting Standard CAS 10, Events After the Balance Sheet Date.

23 Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. However, when a decline in the price of materials indicates that the cost of the finished products will exceed net realisable value, the materials are written down to net realisable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realisable value.

24 A new assessment is made of net realisable value in each subsequent period. When the circumstances which previously caused inventories to be written down below cost no longer exist, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised net realisable value. This occurs, for example, when an item of inventory, which is carried at net realisable value because its selling price has declined, is still on hand in a subsequent period and its selling price has increased.

Recognition as an Expense

25 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 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.

26 The process of recognising as an expense the carrying amount of inventories sold results in the matching of costs and revenues.

27 Some inventories may be allocated to other asset accounts, for example, inventory used as a component of self-constructed property, plant or equipment. Inventories allocated
to another asset in this way are recognised as an expense during the useful life of that asset.

Disclosure

28 The financial statements should disclose:

(a) the accounting policies adopted in measuring inventories, including the cost formula used;

(b) the total carrying amount of inventories and the carrying amount in classifications appropriate to the enterprise;

(c) the carrying amount of inventories carried at net realisable value;

(d) the amount of any reversal of any write-down that is recognised as income in the period in accordance with paragraph[.25];

(e) the circumstances or events that led to the reversal of a write-down of inventories in accordance with paragraph[.25]; and

(f) the carrying amount of inventories pledged as security for liabilities.

29 Information about the carrying amounts held in different classifications of inventories and the extent of the changes in these assets is useful to financial statement users. Common classifications of inventories are merchandise, production supplies, materials, work in progress and finished goods. The inventories of a service provider may simply be described as work in progress.

30 The financial statements should disclose either:

(a) the cost of inventories recognised as an expense during the period; or

(b) the operating costs, applicable to revenues, recognised as an expense during the period, classified by their nature.

31 The cost of inventories recognised as an expense during the period consists of those costs previously included in the measurement of the items of inventory sold and unallocated production overheads and abnormal amounts of production costs of inventories. The circumstances of the enterprise may also warrant the inclusion of other costs, such as distribution costs.

32 Some enterprises adopt a different format for the income statement which results in different amounts being disclosed instead of the cost of inventories recognised as an expense during the period. Under this different format, an enterprise discloses the amounts of operating costs, applicable to revenues for the period, classified by their nature. In this case, the enterprise discloses the costs recognised as an expense for raw materials and consumables, labour costs and other operating costs together with the amount of the net change in inventories for the period.
A write-down to net realisable value may be of such size, incidence or nature to require disclosure under Cambodian Accounting Standard CAS 8, Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies.

Effective Date

This Cambodian Accounting Standard becomes operative for financial statements covering periods beginning on or after [             ]. Earlier application is encouraged.

CAS7

Introduction

This Cambodian Accounting Standard (“CAS 7”) sets out the required accounting treatment and disclosures for cash flow statements. It is a requirement of Cambodian Law that financial statements for all Accounting Entities (as defined by the Law) are to be prepared in accordance with International Accounting Standards. Therefore, this CAS 7 includes all the relevant paragraphs from the equivalent International Accounting Standard (“IAS 7”). This Standard has been expanded to include background material and implementation guidance for Cambodia.

The required accounting treatment is that a cash flow statement should report flows of cash, including cash equivalents, classified by: operating activities, investment activities and financing activities. The direct method should be used, whereby major classes of gross operating cash receipts and payments are disclosed. Generally speaking, cash flows are not to be reported on a net basis, except for certain activities of financial institutions.

The components of cash and cash equivalents should be disclosed and should be reconciled with the equivalent items reported in the balance sheet. Disclosure should be made of any significant balances not available for use by the enterprise, together with a commentary by management. Non-cash transactions should be excluded from the cash flow statement and disclosure provided in a note.

The Standard uses the term “enterprise” to refer to all Accounting Entities that are required to prepare financial statements in accordance with Cambodian Accounting Standards.

This Standard is not intended to apply to immaterial items.

Objective

Information about the cash flows of an enterprise is useful in providing users of financial statements with a basis to assess the ability of the enterprise to generate cash and cash equivalents and the needs of the enterprise to utilise those cash flows. The economic decisions that are taken by users require an evaluation of the ability of an enterprise to generate cash and cash equivalents and the timing and certainty of their generation.
The objective of this Standard is to require the provision of information about the historical changes in cash and cash equivalents of an enterprise by means of a cash flow statement which classifies cash flows during the period from operating, investing and financing activities.

Scope

1 An enterprise should prepare a cash flow statement in accordance with the requirements of this Standard and should present it as an integral part of its financial statements for each period for which financial statements are presented.

2 Users of an enterprise's financial statements are interested in how the enterprise generates and uses cash and cash equivalents. This is the case regardless of the nature of the enterprise's activities and irrespective of whether cash can be viewed as the product of the enterprise, as may be the case with a financial institution. Enterprises need cash for essentially the same reasons however different their principal revenue-producing activities might be. They need cash to conduct their operations, to pay their obligations, and to provide returns to their investors. Accordingly, this Standard requires all enterprises to present a cash flow statement.

Benefits of cash flow information

3 A cash flow statement, when used in conjunction with the rest of the financial statements, provides information that enables users to evaluate the changes in net assets of an enterprise, its financial structure (including its liquidity and solvency) and its ability to affect the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities. Cash flow information is useful in assessing the ability of the enterprise to generate cash and cash equivalents and enables users to develop models to assess and compare the present value of the future cash flows of different enterprises. It also enhances the comparability of the reporting of operating performance by different enterprises because it eliminates the effects of using different accounting treatments for the same transactions and events.

4 Historical cash flow information is often used as an indicator of the amount, timing and certainty of future cash flows. It is also useful in checking the accuracy of past assessments of future cash flows and in examining the relationship between profitability and net cash flow and the impact of changing prices.

Definitions

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

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

Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Financing activities are activities that result in changes in the size and composition of the equity capital and borrowings of the enterprise.

**Cash and cash equivalents**

6 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.

7 Bank borrowings are generally considered to be financing activities. However, bank overdrafts which are repayable on demand may form an integral part of an enterprise'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.

8 Cash flows exclude movements between items that constitute cash or cash equivalents because these components are part of the cash management of an enterprise rather than part of its operating, investing and financing activities. Cash management includes the investment of excess cash in cash equivalents.

**Presentation of a cash flow statement**

9 The cash flow statement should report cash flows during the period classified by operating, investing and financing activities.

10 An enterprise 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 enterprise and the amount of its cash and cash equivalents. This information may also be used to evaluate the relationships among those activities.

11 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.

**Presentation of a cash flow statement Operating Activities**

12 The amount of cash flows arising from operating activities is a key indicator of the extent to which the operations of the enterprise have generated sufficient cash flows to
repay loans, maintain the operating capability of the enterprise, 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.

13 Cash flows from operating activities are primarily derived from the principal revenue-producing activities of the enterprise. 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 employees;
(e) cash receipts and cash payments of an insurance enterprise for premiums and claims, annuities and other policy benefits; and
(f) cash payments or refunds of income taxes unless they can be specifically identified with financing and investing activities.

Some transactions, such as the sale of an item of plant, may give rise to a gain or loss which is included in the determination of net profit or loss. However, the cash flows relating to such transactions are cash flows from investing activities.

Presentation of a cash flow statement  Investing Activities

14 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. 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 advances and loans made to other parties (other than advances and loans made by a financial institution); and
(d) cash receipts from the repayments of advances and loans made to other parties (other than advances and loans of a financial institution).

Presentation of a cash flow statement  Financing Activities
15 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 enterprise. 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 acquire or redeem the enterprise’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.

Reporting cash flows from operating activities

16 An enterprise should report cash flows from operating activities using the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed.

17 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) is not a permitted method under this Standard.

18 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 enterprise; or

(b) any 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 statement 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.

Reporting cash flows from investing and financing activities

19 An enterprise 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 paragraphs 21 and 22 are reported on a net basis.
Reporting cash flows on a net basis

20 Under the net basis, only the net effect of a transaction or financial arrangement is reported. The gross cash receipts, cash payments, assets and liabilities are not reported.

21 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 and not those of the enterprise; and

(b) cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short.

22 Examples of cash receipts and payments referred to in paragraph 21 (a) are:

(a) the acceptance and repayment of demand deposits of a bank;

(b) funds held for customers by an investment enterprise; and

(c) rents collected on behalf of, and paid over to, the owners of properties.

Examples of cash receipts and payments referred to in paragraph 21(b) are advances made for, and the repayment of:

(a) principal amounts relating to credit card customers;

(b) the purchase and sale of investments; and

(c) other short-term borrowings, for example, those which have a maturity period of three months or less.

23 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

24 Cash flows arising from transactions in a foreign currency should be recorded in an enterprise's reporting currency by applying to the foreign currency amount the
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.

Cash flows denominated in a foreign currency may be translated at an exchange rate that approximates the actual rate. For example, a weighted average exchange rate for a period may be used for recording foreign currency transactions or the translation of the cash flows of a foreign subsidiary. However, this Standard does not permit use of the exchange rate at the balance sheet date when translating the cash flows of a foreign subsidiary.

The value of cash and cash equivalents held or due in a foreign currency will change from the beginning to the end of a period as a result of exchange rates changes. The 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, as a reconciling item between cash and cash equivalents at the beginning and end of the period. It includes the differences, if any, had cash flows from operating, investing and financing activities been reported at end of period exchange rates.

Extraordinary items

The cash flows associated with extraordinary items should be classified as arising from operating, investing or financing activities as appropriate and separately disclosed.

The cash flows associated with extraordinary items are disclosed separately as arising from operating, investing or financing activities in the cash flow statement, to enable users to understand their nature and effect on the present and future cash flows of the enterprise.

Interest and dividends

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.

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 capitalized as part of the cost of an asset.

Interest paid and interest and dividends received are usually classified as operating cash flows for a financial institution. Interest paid and interest and dividends received should be classified as operating cash flows for other types of enterprises because they enter into the determination of net profit or loss.
Dividends paid should be classified as a financing cash flow because they are a cost of obtaining financial resources.

Taxes on income

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 and investing activities.

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 and joint ventures

When accounting for an investment in an associate or a subsidiary 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, to dividends and advances.

An enterprise which reports its interest in a jointly controlled entity using proportionate consolidation, includes in its consolidated cash flow statement its proportionate share of the jointly controlled entity’s cash flows. An enterprise 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 entity, and distributions and other payments or receipts between it and the jointly controlled entity.

Acquisitions and disposals of subsidiaries and other business units

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.

An enterprise 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.

40 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.

41 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

42 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.

Components of cash and cash equivalents

43 An enterprise 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.

44 An enterprise should disclose the policy which it adopts in determining the composition of cash and cash equivalents.

45 The effect of any change in the policy for determining components of cash and cash equivalents, for example, a change in the classification of financial instruments previously considered to be part of an enterprise's investment portfolio, should be reported.

Other disclosures

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

47 There are various circumstances in which cash and cash equivalent balances held by an enterprise 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.

Effective date

48 48 This Cambodian Accounting Standard becomes operative for financial statements covering periods beginning on or after [                   ]. Earlier application is encouraged.

Appendix 1 - Cash flow statement for an enterprise other than a financial institution

The appendix is illustrative only and does not form part of the Standard. The purpose of the appendix is to illustrate the application of the Standard to assist in clarifying its meaning.

The examples show only current period amounts. Corresponding amounts for the preceding period are also required to be presented.

Information from the income statement and balance sheet is provided to show how the statement of cash flows has been derived.

The following additional information is also relevant for the preparation of the statement of cash flows:

* all of the shares of a subsidiary were acquired for $590. The fair values of assets acquired and liabilities assumed were as follows:

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<tr>
<td>property, plant and equipment</td>
<td>650</td>
</tr>
<tr>
<td>trade payables</td>
<td>100</td>
</tr>
<tr>
<td>long-term debt</td>
<td>200</td>
</tr>
</tbody>
</table>

* $250 was raised from the issue of share capital and a further $250 was raised from long-term borrowings.
* interest expense was $400 of which $170 was paid during the period. $100 relating to interest expense of the prior period was also paid during the period.
* dividends paid were $1,200.
* the liability for tax at the beginning and end of the period was $1,000 and $400 respectively. During the period, a further $200 tax was provided for. Withholding tax on dividends received amounted to $100.
* during the period, property, plant and equipment was acquired at an aggregate cost of $1,250 of which $900 was acquired by means of capital leases. Cash payments of $350 were made to purchase property, plant and equipment.
* plant with an original cost of $80 and accumulated depreciation of $60 was sold for $20.
* accounts receivable as at end of 20x2 include $100 of interest receivable.

Consolidated income statement for the period ended 20x2

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$ 30,650</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(26,000)</td>
</tr>
<tr>
<td></td>
<td>--------</td>
</tr>
</tbody>
</table>
Gross profit 4,650
Depreciation (450)
Administrative and selling expenses (910)
Interest expense (400)
Investment income 500
Foreign exchange loss (40)

Net income before taxation and extraordinary item 3,350

Extraordinary item - proceeds from flood disaster settlement 180

Net income after extraordinary item 3,530

Taxes on income (300)

Net income $ 3,230

Consolidated balance sheet as at end of 20x2

<table>
<thead>
<tr>
<th>20x2</th>
<th>20x1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 410</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>1,900</td>
</tr>
<tr>
<td>Inventory</td>
<td>1,000</td>
</tr>
<tr>
<td>Portfolio investments</td>
<td>2,500</td>
</tr>
<tr>
<td>Property, plant and equipment at cost</td>
<td>$3,730</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(1,450)</td>
</tr>
<tr>
<td><strong>Property, plant and equipment net</strong></td>
<td>2,280</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$8,090</td>
</tr>
</tbody>
</table>

| **Liabilities** | | |
| Trade payables | $ 250 | $1,890 |
| Interest payable | 230 | 100 |
| Income taxes payable | 400 | 1,000 |
| Long term debt | 2,300 | 1,040 |
| **Total liabilities** | 3,180 | 4,030 |

| **Shareholders Equity** | | |
| Share capital | 1,500 | 1,250 |
| Retained earnings | 3,410 | 1,380 |
| **Total shareholders equity** | 4,910 | 2,630 |
| **Total liabilities and shareholders equity** | $8,090 | $6,660 |

| **Cash flow statement** | | |

הוא מסמך מסכם כלכלי ופיננסי של חברה, המתאר את תקציבו, תואריותיו, dividן והכנסותיו. המסמך כולל רישום מתכונתי של תקציבו ו＄3,230 פעמיים של נט הכנסה אחרי הכנסות יוצאות ו yılıון מסים של ＄3,230. נוספים לרשימה מחשבון אגף והנסיכים של החברה, כולל תקציבי מסחר והכנסות מסחר, ויוספונים של מסי וاريةים. מחשבון אגף מתאר את הכנסותיו, תקציביו, תואריותיו והכנסותיו של החברה, ומאפשר למשתמשים להביןclipboard ו_INFORMATION על תקציב החברה ופעילותה. מחשבון אגף כולל מספר טבלאות שונות שמספקים פורמט של נתונים וぃ買い物ונים של כל פלטוט כדי לה awk ולגנוב נתונים פיננסיים במשתמשים. ניתן.ls ו-Toy הכנסות, תקציבים, תואריות, תואריות, מסי, וידי מהרשימה במסמך. מחשבון אגף כולל טבלאות של כל תקציבו של החברה, כולל פרויטים, מסחר, מסי וпромышленיות, ומספקים נתונים פיננסיים במשתמשים. mad על לוגו של החברה ומשתמשים יכולים.Read more:  

Wikipedia: Accounting balance sheet

www.example.com: Example of a consolidated balance sheet

www.example.org: Example of a cash flow statement
Cash flows from operating activities

Cash receipts from customers $ 30,150
Cash paid to suppliers and employees (27,600)

Cash generated from operations 2,550
Interest paid (270)
Income taxes paid (900)

Cash flow before extraordinary item 1,380
Proceeds from flood disaster settlement 180

Net cash from operating activities $1,560

Cash flows from investing activities

Acquisition of subsidiary X, net of cash acquired (Note A) (550)
Purchase of property, plant and equipment (Note B) (350)
Proceeds from sale of equipment 20
Interest received 200
Dividends received 200

Net cash used in investing activities (480)

Cash flows from financing activities

Proceeds from issuance of share capital 250
Proceeds from long-term borrowings 250
Payment of capital lease liabilities (90)
Dividends paid* (1,200)

Net cash used in financing activities (790)

Net increase in cash and cash equivalents 290
Cash and cash equivalents at beginning of period (Note C) 120

Cash and cash equivalents at end of period (Note C) 410

Notes to the cash flow statement

A. Acquisition of subsidiary

During the period, subsidiary X was acquired. The fair values of assets acquired and liabilities assumed were as follows:

Cash $ 40
Inventories 100
Accounts receivable 100
Property, plant and equipment 650
Trade payables (100)
Long-term debt (200)

Total purchase price 590
B.

Property, plant and equipment

During the period, property, plant and equipment was acquired at an aggregate cost of $1,250 of which $900 was acquired by means of capital leases. Cash payments of $350 were made to purchase property, plant and equipment.

C.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks, and investments in money market instruments. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

<table>
<thead>
<tr>
<th></th>
<th>20x2</th>
<th>20x1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash on hand and balances with banks</td>
<td>$40</td>
<td>$25</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>370</td>
<td>135</td>
</tr>
<tr>
<td>Cash and cash equivalents as previously reported</td>
<td>410</td>
<td>160</td>
</tr>
<tr>
<td>Effect of exchange rate changes</td>
<td>-</td>
<td>(40)</td>
</tr>
<tr>
<td>Cash and cash equivalents as restated</td>
<td>$410</td>
<td>$120</td>
</tr>
</tbody>
</table>

Cash and cash equivalents at the end of the period include deposits with banks of $100 held by a subsidiary which are not freely remissible to the holding company because of currency exchange restrictions. The Group has undrawn borrowing facilities of $2,000 of which $700 may be used only for future expansion.

Appendix 2 - Cash flow statement for a financial institution

The appendix is illustrative only and does not form part of the Standard. The purpose of the appendix is to illustrate the application of the Standard to assist in clarifying its meaning.

The examples show only current period amounts. Corresponding amounts for the preceding period are also required to be presented.

Cash flows from operating activities

<table>
<thead>
<tr>
<th></th>
<th>20x2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest and other income</td>
<td>$28,447</td>
</tr>
<tr>
<td>Interest payments</td>
<td>(23,463)</td>
</tr>
<tr>
<td>Recoveries on loans previously written off</td>
<td>237</td>
</tr>
<tr>
<td>Cash payments to employees and suppliers</td>
<td>(997)</td>
</tr>
<tr>
<td>Operating income before changes in operating assets</td>
<td>4,224</td>
</tr>
</tbody>
</table>

*Decrease in operating assets:*

Net increase in deposits with banks | (416)
Net increase in loans                                          (288)
Net increase in credit card receivables                        (360)
Net increase in trading securities                             (120)

Increase (decrease) in operating liabilities:
Net increase in deposits from customers                         400
Net cash from operating activities before income tax    3,440
Income taxes paid                                              (100)

Net cash from operating activities                          3,340

Cash flows from investing activities
Disposal of subsidiary Y                                        50
Dividends received                                             200
Interest received                                              300
Proceeds from sales of investment securities                 1,200
Purchase of investment securities                             (600)
Purchase of property, plant and equipment                     (500)

Net cash from investing activities                          650

Cash flows from financing activities
Issue of subordinated debt                                   1,000
Repayment of subordinated debt                                (200)
Issue of preference shares by subsidiary                       800
Net decrease in other borrowings                            (1,000)
Dividends paid                                                (400)

Net cash from financing activities                          200

Effects of exchange rate changes on cash and cash equivalents    600

Net increase in cash and cash equivalents                   4,790
Cash and cash equivalents at beginning of period               4,050

Cash and cash equivalents at end of period                         $8,840

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**CAS8**

**Introduction**

This Cambodian Accounting Standard (“CAS 8”) sets out the required accounting treatment and disclosures for income and expense items, fundamental errors, changes in accounting policies and changes in accounting estimates. It is a requirement of Cambodian Law that financial statements for all Accounting Entities (as defined by the Law) are to be prepared in accordance with International Accounting Standards. Therefore, this CAS 8 includes all the relevant paragraphs from the equivalent International Accounting Standard (“IAS 8”). This
Standard has been expanded to include background material and implementation guidance for Cambodia.

All income and expense items should be included in net profit or loss, unless another Standard requires otherwise. The income statement should separately disclose income and expenses from ordinary and extraordinary items.

Changes in accounting policies are appropriate only if they are required by statute or by a Cambodian Accounting Standard.

Fundamental errors in a previous period are errors of such significance that the financial statements of the previous period can no longer be considered as being reliable.

Fundamental errors and changes in accounting policies should be reported by adjusting the opening retained earnings for the current period and amending comparative information for prior periods where practicable. There is an allowed alternative treatment for changes in accounting policy only when the amount of the resulting adjustment that relates to prior periods is not reasonably determinable. In this situation, the resulting adjustment is separately disclosed in the current period income statement as part of net profit or loss, and comparative figures are not restated.

The effects of changes in accounting estimates should be included in net profit or loss in the period of change if the change affects the period only, or in the period of change and future periods if the change affects both.

The required disclosures include the nature and amount of each extraordinary item, fundamental error and change in accounting policy or accounting estimate. Required disclosures also include the nature and amount of exceptional items of income and expense within ordinary income, of such size, nature or incidence that their disclosure is relevant to explain the enterprise’s performance.

The Standard uses the term “enterprise” to refer to all Accounting Entities that are required to prepare financial statements in accordance with Cambodian Accounting Standards.

This Standard is not intended to apply to immaterial items.

Objective

The objective of this Standard is to prescribe the classification, disclosure and accounting treatment of certain items in the income statement so that all enterprises prepare and present an income statement on a consistent basis. This enhances comparability both with the enterprise's financial statements of previous periods and with the financial statements of other enterprises. Accordingly, this Standard requires the classification and disclosure of extraordinary items and the disclosure of certain items within profit or loss from ordinary activities. It also specifies the accounting treatment for changes in accounting estimates, changes in accounting policies and the correction of fundamental errors.

Scope
This Standard should be applied in presenting profit or loss from ordinary activities and extraordinary items in the income statement and in accounting for changes in accounting estimates, fundamental errors and changes in accounting policies.

This Standard deals with, among other things, the disclosure of certain items of net profit or loss for the period. These disclosures are made in addition to any other disclosures required by other Standards.

This Standard also deals with certain disclosures relating to discontinued operations. It does not deal with the recognition and measurement issues related to discontinued operations.

The tax effects of extraordinary items, fundamental errors and changes in accounting policies are accounted for and disclosed in accordance with the Standard which addresses taxation.

Definitions

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

**Extraordinary items** are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and therefore are not expected to recur frequently or regularly.

**Ordinary activities** are any activities which are undertaken by an enterprise as part of its business and such related activities in which the enterprise engages in furtherance of, incidental to, or arising from these activities.

A **discontinued operation** results from the sale or abandonment of an operation that represents a separate, major line of business of an enterprise and of which the assets, net profit or loss and activities can be distinguished physically, operationally and for financial reporting purposes.

**Fundamental errors** are errors discovered in the current period that are of such significance that the financial statements of one or more prior periods can no longer be considered to have been reliable at the date of their issue.

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

Net profit or loss for the period

All items of income and expense recognised in a period should be included in the determination of the net profit or loss for the period unless another Standard requires otherwise.

Normally, all items of income and expense recognised in a period are included in the determination of the net profit or loss for the period. This includes extraordinary items and the effects of changes in accounting estimates. However, circumstances may exist when certain items may be excluded from net profit or loss for the current period. This
Standard deals with two such circumstances: the correction of fundamental errors and the effect of changes in accounting policies.

8 Other Standards deal with items which may meet definitions of income or expense but which are usually excluded from the determination of the net profit or loss. Examples include revaluation surpluses and gains and losses arising on the translation of the financial statements of a foreign entity.

9 The net profit or loss for the period comprises the following components, each of which should be disclosed on the face of the income statement:

(a) profit or loss from ordinary activities; and

(b) extraordinary items.

Net profit or loss for the period

Extraordinary items

10 The nature and the amount of each extraordinary item should be separately disclosed.

11 Virtually all items of income and expense included in the determination of net profit or loss for the period arise in the course of the ordinary activities of the enterprise. Therefore, only on rare occasions does an event or transaction give rise to an extraordinary item.

12 Whether an event or transaction is clearly distinct from the ordinary activities of the enterprise is determined by the nature of the event or transaction in relation to the business ordinarily carried on by the enterprise rather than by the frequency with which such events are expected to occur. Therefore, an event or transaction may be extraordinary for one enterprise but not extraordinary for another enterprise because of the differences between their respective ordinary activities. For example, losses sustained as a result of a flood may qualify as an extraordinary item for many enterprises. However, claims from policyholders arising from a flood do not qualify as an extraordinary item for an insurance enterprise that insures against such risks.

13 Examples of events or transactions that generally give rise to extraordinary items for most enterprises are:

(a) the expropriation of assets; or

(b) a flood or other natural disaster.

14 The disclosure of the nature and amount of each extraordinary item may be made on the face of the income statement, or when this disclosure is made in the notes to the financial statements, the total amount of all extraordinary items is disclosed on the face of the income statement.

Net profit or loss for the period

Profit or loss from ordinary activities

15 When items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to
explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately.

16 Although the items of income and expense described in paragraph 15 are not extraordinary items, the nature and amount of such items may be relevant to users of financial statements in understanding the financial position and performance of an enterprise and in making projections about financial position and performance. Disclosure of such information is usually made in the notes to the financial statements.

17 Circumstances which may give rise to the separate disclosure of items of income and expense in accordance with paragraph 15 include:

(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) a restructuring of the activities of an enterprise and the reversal of any provisions for the costs of restructuring;

(c) disposals of items of property, plant and equipment;

(d) disposals of long-term investments;

(e) discontinued operations;

(f) other reversals of provisions.

Net profit or loss for the period  Discontinued operations

18 While the disposal of investments or other major assets may be sufficiently important to warrant disclosure of the related items of income or expense, occasionally an enterprise sells or abandons a separate, major line of business which is distinguishable from other business activities. When this constitutes a discontinued operation as defined in this Standard, the disclosures contained in paragraph 19 are relevant to users of financial statements.

19 The following disclosures should be made for each discontinued operation:

(a) the nature of the discontinued operation;

(b) the effective date of discontinuance for accounting purposes;

(c) the manner of discontinuance (sale or abandonment);

(d) the gain or loss on discontinuance and the accounting policy used to measure that gain or loss; and

(e) the revenue and profit or loss from the ordinary activities of the operation for the period, together with the corresponding amounts for each prior period presented.
20. The results of a discontinued operation are generally included in profit or loss from ordinary activities. However, in the rare circumstances that the discontinuation is the result of events or transactions that are clearly distinct from the ordinary activities of the enterprise and therefore are not expected to recur frequently or regularly, the income or expenses that arise from the discontinuance are treated as extraordinary items. The disclosure requirements in paragraph 19 are applied for all discontinued operations including those that give rise to extraordinary items.

21. When it is known at the date on which the financial statements are authorised for issue that an operation was discontinued after the balance sheet date or that it will be discontinued, the disclosure requirements of paragraph 19 are applied to the extent that the information can be reliably estimated.

Net profit or loss for the period  Changes in accounting estimates

22. As a result of the uncertainties inherent in business activities, many financial statement items cannot be measured with precision but can only be estimated. The estimation process involves judgments based on the latest information available. Estimates may be required, for example, of bad debts, inventory obsolescence or the useful lives or expected pattern of consumption of economic benefits of depreciable assets. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.

23. An estimate may have to be revised if changes occur regarding the circumstances on which the estimate was based or as a result of new information, more experience or subsequent developments. By its nature, the revision of the estimate does not bring the adjustment within the definitions of an extraordinary item or a fundamental error.

24. Sometimes it is difficult to distinguish between a change in accounting policy and a change in an accounting estimate. In such cases, the change is treated as a change in an accounting estimate, with appropriate disclosure.

25. The effect of a change in an accounting estimate should be included in the determination of net profit or loss in:

   (a) the period of the change, if the change affects the period only; or

   (b) the period of the change and future periods, if the change affects both.

26. A change in an accounting estimate may affect the current period only or both the current period and future periods. For example, a change in the estimate of the amount of bad debts affects only the current period and therefore is recognised immediately. However, a change in the estimated useful life or the expected pattern of consumption of economic benefits of a depreciable asset affects the depreciation expense in the current period and in each period during the remaining useful life of the asset. In both cases, the effect of the change relating to the current period is recognised as income or expense in the current period. The effect, if any, on future periods is recognised in future periods.
27 The effect of a change in an accounting estimate should be included in the same income statement classification as was used previously for the estimate.

28 To ensure the comparability of financial statements of different periods, the effect of a change in an accounting estimate for estimates which were previously included in the profit or loss from ordinary activities is included in that component of net profit or loss. The effect of a change in an accounting estimate for an estimate which was previously included as an extraordinary item is reported as an extraordinary item.

29 The nature and amount of a change in an accounting estimate that has a material effect in the current period or which is expected to have a material effect in subsequent periods should be disclosed. If it is impracticable to quantify the amount, this fact should be disclosed.

Fundamental errors

30 Errors in the preparation of the financial statements of one or more prior periods may be discovered in the current period. Errors may occur as a result of mathematical mistakes, mistakes in applying accounting policies, misinterpretation of facts, fraud or oversights. The correction of these errors is normally included in the determination of net profit or loss for the current period.

31 On rare occasions, an error has such a significant effect on the financial statements of one or more periods that those financial statements can no longer be considered to have been reliable at the date of their issue. These errors are referred to as fundamental errors. An example of a fundamental error is the inclusion in the financial statements of a previous period of material amounts of work in progress and receivables in respect of fraudulent contracts which cannot be enforced. The correction of fundamental errors that relate to prior periods requires the restatement of the comparative information.

32 The correction of fundamental errors can be distinguished from changes in accounting estimates. Accounting estimates by their nature are approximations that may need revision as additional information becomes known. For example, the gain or loss recognised on the outcome of a contingency which previously could not be estimated reliably does not constitute the correction of a fundamental error.

33 The amount of the correction of a fundamental error that relates to prior periods should be reported by adjusting the opening balance of retained earnings. Comparative information should be restated, unless it is impracticable to do so.

34 The financial statements, including the comparative information for prior periods, are presented as if the fundamental error had been corrected in the period in which it was made. Therefore, the amount of the correction that relates to each period presented is included within the net profit or loss for that period. The amount of the correction relating to periods prior to those included in the comparative information in the financial statements is adjusted against the opening balance of retained earnings in the earliest period presented. Any other information reported with respect to prior periods, such as historical summaries of financial data, is also restated.
An enterprise should disclose the following:

(a) the nature of the fundamental error;

(b) the amount of the correction for the current period and for each prior period presented;

(c) the amount of the correction relating to periods prior to those included in the comparative information; and

(d) the fact that comparative information has been restated or that it is impracticable to do so.

Changes in accounting policies

Users need to be able to compare the financial statements of an enterprise over a period of time to identify trends in its financial position, performance and cash flows. Therefore, the same accounting policies are normally adopted in each period.

A change in accounting policy should be made only if required by statute or by a Cambodian Accounting Standard.

The following are not changes in accounting policies:

(a) the adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions; and

(b) the adoption of a new accounting policy for events or transactions which did not occur previously or that were immaterial.

The initial adoption of a policy to carry assets at revalued amounts is a change in accounting policy but it is dealt with as a revaluation in accordance with the relevant Standard rather than in accordance with this Standard. Therefore, paragraphs 43 to 50 of this Standard are not applicable to such changes in accounting policy.

A change in accounting policy is applied retrospectively or prospectively in accordance with the requirements of this Standard. Retrospective application results in the new accounting policy being applied to events and transactions as if the new accounting policy had always been in use. Therefore, the accounting policy is applied to events and transactions from the date of origin of such items. Prospective application means that the new accounting policy is applied to the events and transactions occurring after the date of the change. No adjustments relating to prior periods are made either to the opening balance of retained earnings or in reporting the net profit or loss for the current period because existing balances are not recalculated. However, the new accounting policy is applied to existing balances as from the date of the change.

Adoption of a Cambodian Accounting Standard
A change in accounting policy which is made on the adoption of a Cambodian Accounting Standard should be accounted for in accordance with the specific transitional provisions, if any, in that Cambodian Accounting Standard. In the absence of any transitional provisions, the change in accounting policy should be applied in accordance with the benchmark treatment in paragraphs 43, 45 and 46 or the allowed alternative treatment in paragraphs 47, 49 and 50.

The transitional provisions in a Cambodian Accounting Standard may require either a retrospective or a prospective application of a change in accounting policy.

When an enterprise has not adopted a new Cambodian Accounting Standard which has been published but which has not yet come into effect, the enterprise is encouraged to disclose the nature of the future change in accounting policy and an estimate of the effect of the change on its net profit or loss and financial position.

Changes in accounting policies

Other changes in accounting policies - benchmark treatment

A change in accounting policy should be applied retrospectively unless the amount of any resulting adjustment that relates to prior periods is not reasonably determinable. Any resulting adjustment should be reported as an adjustment to the opening balance of retained earnings. Comparative information should be restated unless it is impracticable to do so.

The financial statements, including the comparative information for prior periods, are presented as if the new accounting policy had always been in use. Therefore, comparative information is restated in order to reflect the new accounting policy. The amount of the adjustment relating to periods prior to those included in the financial statements is adjusted against the opening balance of retained earnings of the earliest period presented. Any other information with respect to prior periods, such as historical summaries of financial data, is also restated.

The change in accounting policy should be applied prospectively when the amount of the adjustment to the opening balance of retained earnings required by paragraph 43 cannot be reasonably determined.

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

(a) the reasons for the change;

(b) the amount of the adjustment for the current period and for each 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 it is impracticable to do so.
Changes in accounting policies  Other changes in accounting policies - allowed alternative treatment

47 A change in accounting policy should be applied retrospectively unless the amount of any resulting adjustment that relates to prior periods is not reasonably determinable. Any resulting adjustment should be included in the determination of the net profit or loss for the current period. Comparative information should be presented as reported in the financial statements of the prior period. Additional pro forma comparative information, prepared in accordance with paragraph 43, should be presented unless it is impracticable to do so.

48 Adjustments resulting from a change in accounting policy are included in the determination of the net profit or loss for the period. However, additional comparative information is presented, often as separate columns, in order to show the net profit or loss and the financial position of the current period and any prior periods presented as if the new accounting policy had always been applied.

49 The change in accounting policy should be applied prospectively when the amount to be included in net profit or loss for the current period required by paragraph 47 cannot be reasonably determined.

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

(a) the reasons for the change;

(b) the amount of the adjustment recognised in net profit or loss in the current period; and

(c) the amount of the adjustment included in each period for which pro forma information is presented and the amount of the adjustment relating to periods prior to those included in the financial statements. If it is impracticable to present pro forma information, this fact should be disclosed.

Effective date

51 This Cambodian Accounting Standard becomes operative for financial statements covering periods beginning on or after [________]. Earlier application is encouraged.

Appendix

The appendix is illustrative only and does not form part of the Standard. The purpose of the appendix is to illustrate the application of the Standard to assist in clarifying its meaning. Extracts from income statements and statements of retained earnings are provided to show the effects on these financial statements of the transactions described below. These extracts do not necessarily conform with all the disclosure and presentation requirements of other Cambodian Accounting Standards.

Extraordinary Items and Discontinued Operations
**Angkor Co**

*Extract from the Income Statement*

<table>
<thead>
<tr>
<th></th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross profit</td>
<td>10,000</td>
<td>12,000</td>
</tr>
<tr>
<td>Loss on sale of truck engine valve manufacturing operation (Note 1)</td>
<td>(3,000)</td>
<td>-</td>
</tr>
<tr>
<td>Income taxes</td>
<td>(2,100)</td>
<td>(3,600)</td>
</tr>
<tr>
<td>Profit from ordinary activities</td>
<td>4,900</td>
<td>8,400</td>
</tr>
<tr>
<td>Extraordinary item - loss on expropriation of car engine valve manufacturing operation in country R (Net of income tax of 1,350) (Note 2)</td>
<td>-</td>
<td>(3,150)</td>
</tr>
<tr>
<td><strong>Net profit</strong></td>
<td>4,900</td>
<td>5,250</td>
</tr>
</tbody>
</table>

*Extracts from notes to the Financial Statements*

1. On 1 July 20X1, Angkor Co sold its truck engine valve manufacturing operation. The loss is the difference between the proceeds from the sale of the operation and the net carrying amount of the assets and liabilities of the operation at the date of sale. The revenues recognised relating to this operation from 1 January 20X1 until 1 July 20X1 were 15,000 (35,000 - 20X0) and the profits before tax were 5,000 (10,000 - 20X0).

2. On 1 October 20X0, Angkor Co’s car engine valve manufacturing operations in country R were expropriated, without compensation, by the Government. The loss arising from the expropriation has been accounted for as an extraordinary item. The loss arising from the expropriation is the net carrying amount of the assets and liabilities of the operation at the date of expropriation. The revenues recognised relating to this operation from 1 January 20X0 until 1 October 20X0 were 10,000 and the profits before tax were 2,000.

**Fundamental Errors**

During 20X2, Bayon Co discovered that certain products that had been sold during 20X1 were incorrectly included in inventory at 31 December 20X1 at 6,500.

Bayon Co’s accounting records for 20X2 show sales of 104,000, cost of goods sold of 86,500 (including 6,500 for error in opening inventory), and income taxes of 5,250.

In 20X1, Bayon Co reported:

- Sales: 73,500
- Cost of goods sold: 53,500
- Profit from ordinary activities before income taxes: 20,000
- Income taxes: 6,000
- Net Profit: 14,000

20X1 opening retained earnings was 20,000 and closing retained earnings was 34,000. Bayon Co’s income tax rate was 30% for 20X2 and 20X1.

**Bayon Co**

*Extract from the Income Statement*

<table>
<thead>
<tr>
<th></th>
<th>20X2</th>
<th>20X1 (restated)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>104,000</td>
<td>73,500</td>
</tr>
</tbody>
</table>
Cost of goods sold     (80,000)     (60,000)
Profit from ordinary activities before income taxes 24,000   13,500
Income taxes     (7,200)     (4,050)
Net Profit      16,800       9,450

Bayon Co
Statement of Retained Earnings

<table>
<thead>
<tr>
<th></th>
<th>20X2</th>
<th>20X1 (restated)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening retained earnings as previously reported</td>
<td>34,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Correction of fundamental error (Net of income taxes of 1,950) (Note 1)</td>
<td>(4,550)</td>
<td>-</td>
</tr>
<tr>
<td>Opening retained earnings as restated</td>
<td>29,450</td>
<td>20,000</td>
</tr>
<tr>
<td>Net Profit</td>
<td>16,800</td>
<td>9,450</td>
</tr>
<tr>
<td>Closing Retained Earnings</td>
<td>46,250</td>
<td>29,450</td>
</tr>
</tbody>
</table>

Extracts from notes to the Financial Statements

1. Certain products that had been sold in 20X1 were incorrectly included in inventory at 31 December 20X1 at 6,500. The financial statements of 20X1 have been restated to correct this error.

Changes in Accounting Policy

During 20X2, Cam Co changed its accounting policy with respect to the treatment of borrowing costs that are directly attributable to the acquisition of a hydro-electric power station which is in the course of construction for use by Cam Co. In previous periods, Cam Co has capitalised such costs, net of income taxes. Cam Co has now decided to expense, rather than capitalise, these costs in order to conform with the benchmark treatment in CAS XX.

Cam Co capitalised borrowing costs incurred of 2,600 during 20X1 and 5,200 in periods prior to 20X1. All borrowing costs incurred in previous years in respect to the acquisition of the power station were capitalised.

Cam Co's accounting records for 20X2 show profit from ordinary activities before interest and income taxes of 30,000; interest expense of 3,000 (which relates only to 20X2); and income taxes of 8,100.

Cam Co has not yet recognised any depreciation on the power station because it is not yet in use.

In 20X1, Cam Co reported:
Profit from ordinary activities before interest and income taxes 18,000
Interest expense -
Profit from ordinary activities before income taxes 18,000
Income taxes (5,400)
Net Profit 12,600

20X1 opening retained earnings was 20,000 and closing retained earnings was 32,600. Cam Co's tax rate was 30% for 20X2 and 20X1.

Cam Co
**Extract from the Income Statement under the Benchmark Treatment**

<table>
<thead>
<tr>
<th></th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit from ordinary activities before interest and income taxes</td>
<td>30,000</td>
<td>18,000</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(3,000)</td>
<td>(2,600)</td>
</tr>
<tr>
<td>Profit from ordinary activities before income taxes</td>
<td>27,000</td>
<td>15,400</td>
</tr>
<tr>
<td>Income taxes</td>
<td>(8,100)</td>
<td>(4,620)</td>
</tr>
<tr>
<td>Net Profit</td>
<td>18,900</td>
<td>10,780</td>
</tr>
</tbody>
</table>

**Cam Co**

**Statement of Retained Earnings under the Benchmark Treatment**

<table>
<thead>
<tr>
<th></th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening retained earnings as previously reported</td>
<td>32,600</td>
<td>20,000</td>
</tr>
<tr>
<td>Change in accounting policy with respect to the capitalisation of interest (Net of income taxes of 2,340 for 20X2 and 1,560 for 20X1) (Note 1)</td>
<td>(5,460)</td>
<td>(3,640)</td>
</tr>
<tr>
<td>Opening retained earnings as restated</td>
<td>27,140</td>
<td>16,360</td>
</tr>
<tr>
<td>Net profit</td>
<td>18,900</td>
<td>10,780</td>
</tr>
<tr>
<td>Closing Retained Earnings</td>
<td>46,040</td>
<td>27,140</td>
</tr>
</tbody>
</table>

**Extracts from notes to the Financial Statements**

1. During 20X2, Cam Co changed its accounting policy with respect to the treatment of borrowing costs related to a hydro-electric power station which is in course of construction for use by Cam Co. In order to conform with the benchmark treatment in CAS XX, the enterprise now expenses rather than capitalises such costs. This change in accounting policy has been accounted for retrospectively. The comparative statements for 20X1 have been restated to conform to the changed policy. The effect of the change is an increase in interest expense of 3,000 (20X2) and 2,600 (20X1). Opening retained earnings for 20X1 have been reduced by 5,200 which is the amount of the adjustment relating to periods prior to 20X1.

**Cam Co**

**Extract from the Income Statement under the Allowed Alternative Treatment**

<table>
<thead>
<tr>
<th></th>
<th>20X2</th>
<th>20X1</th>
<th>Pro forma</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>20X2</td>
<td>20X1</td>
<td>20X2 (restated)</td>
</tr>
<tr>
<td>Profit from ordinary activities before interest and income taxes</td>
<td>30,000</td>
<td>18,000</td>
<td>30,000</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(3,000)</td>
<td>-</td>
<td>(3,000)</td>
</tr>
<tr>
<td>Cumulative effect of change in accounting policy</td>
<td>(7,800)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Profit from ordinary activities before income taxes</td>
<td>19,200</td>
<td>18,000</td>
<td>27,000</td>
</tr>
<tr>
<td>Income taxes (includes the effect of a change in accounting policy)</td>
<td>(5,760)</td>
<td>(5,400)</td>
<td>(8,100)</td>
</tr>
<tr>
<td>Net Profit</td>
<td>13,440</td>
<td>12,600</td>
<td>18,900</td>
</tr>
</tbody>
</table>

**Cam Co**

**Statement of Retained Earnings under the Allowed Alternative Treatment**

<table>
<thead>
<tr>
<th></th>
<th>Pro forma</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>20X2</td>
</tr>
<tr>
<td></td>
<td>20X2</td>
</tr>
<tr>
<td>Opening retained earnings as previously reported</td>
<td>32,600</td>
</tr>
<tr>
<td>Change in accounting policy with respect to the capitalisation of interest (Net of income taxes of 2,340 for 20X2 and 1,560 for 20X1) (Note 1)</td>
<td>(5,460)</td>
</tr>
<tr>
<td>Opening retained earnings as restated</td>
<td>27,140</td>
</tr>
<tr>
<td>Net profit</td>
<td>18,900</td>
</tr>
<tr>
<td>Closing Retained Earnings</td>
<td>46,040</td>
</tr>
</tbody>
</table>
### Opening retained earnings as previously reported

<table>
<thead>
<tr>
<th></th>
<th>20X2</th>
<th>20X1</th>
<th>20X2 (restated)</th>
<th>20X1 (restated)</th>
</tr>
</thead>
<tbody>
<tr>
<td>20X2</td>
<td>32,600</td>
<td>20,000</td>
<td>32,600</td>
<td>20,000</td>
</tr>
<tr>
<td>Change in accounting policy with respect to the capitalization of interest (Net of income taxes of 2,340 for 20X2 and 1,560 for 20X1) (Note 1)</td>
<td>-</td>
<td>-</td>
<td>(5,460)</td>
<td>(3,640)</td>
</tr>
<tr>
<td>20X2</td>
<td>32,600</td>
<td>20,000</td>
<td>27,140</td>
<td>16,360</td>
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<tr>
<td>Net profit</td>
<td>13,440</td>
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<tr>
<td>Closing Retained Earnings</td>
<td>46,040</td>
<td>32,600</td>
<td>46,040</td>
<td>27,140</td>
</tr>
</tbody>
</table>

### Extracts from notes to the Financial Statements

1. An adjustment of 7,800 has been made in the income statement for 20X2 representing the effect of a change in accounting policy with respect to the treatment of borrowing costs related to a hydro-electric power station which is in course of construction for use by Cam Co. In order to conform with the benchmark treatment in CAS XX, the enterprise now expenses rather than capitalises such costs. This change in accounting policy has been accounted for retrospectively. Restated pro forma information, which assumes that the new policy had always been in use, is presented. Opening retained earnings in the pro-forma information for 20X1 have been reduced by 5,200 which is the amount of the adjustment relating to periods prior to 20X1.

### CAS 10

#### Introduction

This Cambodian Accounting Standard (“CAS 10”) sets out the required accounting treatment and disclosures for events that occur after the balance sheet date. It is a requirement of Cambodian law that financial statements for all Accounting Entities (as defined by the Law) are to be prepared in accordance with International Accounting Standards. Therefore, this CAS 10 includes all the relevant paragraphs from the equivalent International Accounting Standard (“IAS 10”). This Standard has been expanded to include background material and implementation guidance for Cambodia.

Subsequent events are defined as those events, both favorable and unfavorable, that occur after the balance sheet date but before the financial statements are authorized for issue.

Assets and liabilities should be adjusted for subsequent events that provide further evidence of conditions that existed at the balance sheet date. When an event occurs after the balance sheet date and it does not relate to conditions that existed at the balance sheet date, the assets and liabilities are not adjusted.

Disclosure should be made of the nature and the estimated financial effect of those subsequent events that do not give rise to adjustments as at the balance sheet date. This is required only
for events that are material that is they are of such importance that non-disclosure would affect the ability of users of the financial statements to make proper evaluations and decisions. This includes the proposal or declaration of dividends after the balance sheet date for the period covered by the financial statements.

The date of authorization for issue of the financial statements is the cut-off point for considering information after the balance sheet date. This will normally be the date on which the statements are authorized for issue outside the enterprise – that is, signed by the directors as approved for publication or disclosure to third parties. This date should be disclosed in the financial statements.

The Standard uses the term “enterprise” to refer to all Accounting Entities that are required to prepare financial statements in accordance with Cambodian Accounting Standards.

This Standard is not intended to apply to immaterial items.

Objective

The objective of this Standard is to prescribe:

(a) When an enterprise should adjust its financial statements for events after the balance sheet date; and

(b) The disclosures that an enterprise should give about the date when the financial statements were authorized for issue and about events after the balance sheet date.

The Standard also requires that an enterprise should not prepare its financial statements on a going concern basis if events after the balance sheet date indicate that the going concern assumption is not appropriate.

Scope

1. This Standard should be applied in the accounting for, and disclosure of, events after the balance sheet date.

Definitions

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

Events after the balance sheet date are those events, both favorable and unfavorable, that occur between the balance sheet date and the date when the financial statements are authorized for issue. Two types of events can be identified:

(a) those that provide evidence of conditions that existed at the balance sheet date (adjusting events after the balance sheet date); and

(b) those that are indicative of conditions that arose after the balance sheet date (non-adjusting events after the balance sheet date).

3. The process involved in authorising the financial statements for issue will vary depending upon the management structure, statutory requirements and procedures followed in preparing and finalising the financial statements.
4. In some cases, an enterprise is required to submit its financial statements to its shareholders for approval after the financial statements have already been issued. In such cases, the financial statements are authorised for issue on the date of original issuance, not on the date when shareholders approve the financial statements.

3. **Example**

*The management of an enterprise completes draft financial statements for the year to 31 December 20X1 on 28 February 20X2. On 18 March 20X2, the board of directors reviews the financial statements and authorizes them for issue. The enterprise announces its profit and selected other financial information on 19 March 20X2. The financial statements are made available to shareholders and others on 1 April 20X2. The annual meeting of shareholders approves the financial statements on 15 May 20X2 and the approved financial statements are then filed with a regulatory body on 17 May 20X2.*

*The financial statements are authorized for issue on 18 March 20X2 (date of Board a issue).*

46. Events after the balance sheet date include all events up to the date when the financial statements are authorized for issue, even if those events occur after the publication of a profit announcement or of other selected financial information.

**Recognition and Measurement**  
**Adjusting Events After the Balance Sheet Date**  

57. *An enterprise should adjust the amounts recognized in its financial statements to reflect adjusting events after the balance sheet date.*

68. The following are examples of adjusting events after the balance sheet date that require an enterprise to adjust the amounts recognized in its financial statements, or to recognize items that were not previously recognized:

(a) The resolution after the balance sheet date of a court case which, because it confirms that an enterprise already had a present obligation at the balance sheet date, requires the enterprise to adjust a provision already recognized, or to recognize a provision instead of merely disclosing 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 recognized impairment loss for that asset needs to be adjusted. For example:

(i) The bankruptcy of a customer which occurs after the balance sheet date usually confirms that a loss already existed at the balance sheet date on a trade receivable account and that the enterprise 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 realizable 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 enterprise had a present legal or constructive obligation at the balance sheet date to make such payments as a result of events before that date (see IAS 19, Employee Benefits); and

(e) The discovery of fraud or errors that show that the financial statements were incorrect.

Recognition and Measurement  Non-Adjusting Events After the Balance Sheet Date

79. An enterprise should not adjust the amounts recognized in its financial statements to reflect non-adjusting events after the balance sheet date.

810. An example of a non-adjusting event after the balance sheet date is a decline in market value of investments between the balance sheet date and the date when the financial statements are authorized for issue. The fall in market value does not normally relate to the condition of the investments at the balance sheet date, but reflects circumstances that have arisen in the following period. Therefore, an enterprise does not adjust the amounts recognized in its financial statements for the investments. Similarly, the enterprise 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 820.

Recognition and Measurement  Dividends

911. If dividends to holders of equity instruments (as defined in IAS 32, Financial Instruments: Disclosure and Presentation) are proposed or declared after the balance sheet date, an enterprise should not recognize those dividends as a liability at the balance sheet date.

012. IAS 1, Presentation of Financial Statements, requires an enterprise to disclose the amount of dividends that were proposed or declared after the balance sheet date but before the financial statements were authorized for issue. IAS 1 permits an enterprise to make this disclosure either:

(a) On the face of the balance sheet as a separate component of equity; or

(b) In the notes to the financial statements.

Going Concern

113. An enterprise 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 enterprise or to cease trading, or that it has no realistic alternative but to do so.

214. Deterioration in operating results and financial position after the balance sheet date may indicate a need to consider whether the going concern assumption is still appropriate. If the going concern assumption is no longer appropriate, the effect is so pervasive that this Standard requires a fundamental change in the basis of accounting, rather than an adjustment to the amounts recognized within the original basis of accounting.
IAS 1, Presentation of Financial Statements, requires certain disclosures if:

(a) The financial statements are not prepared on a going concern basis; or
(b) Management is aware of material uncertainties related to events or conditions that may cast significant doubt upon the enterprise’s ability to continue as a going concern. The events or conditions requiring disclosure may arise after the balance sheet date.

Disclosure **Date of Authorization for Issue**

An enterprise should disclose the date when the financial statements were authorized for issue and who gave that authorization. If the enterprise’s owners or others have the power to amend the financial statements after issuance, the enterprise should disclose that fact.

It is important for users to know when the financial statements were authorized for issue, as the financial statements do not reflect events after this date.

Disclosure **Updating Disclosure about Conditions at the Balance Sheet Date**

If an enterprise receives information after the balance sheet date about conditions that existed at the balance sheet date, the enterprise should update disclosures that relate to these conditions, in the light of the new information.

In some cases, an enterprise needs to update the disclosures in its financial statements to reflect information received after the balance sheet date, even when the information does not affect the amounts that the enterprise recognizes in its financial statements. One example of the need to update disclosures is when evidence becomes available after the balance sheet date about a contingent liability that existed at the balance sheet date. In addition to considering whether it should now recognize a provision under IAS 37, Provisions, Contingent Liabilities and Contingent Assets, an enterprise updates its disclosures about the contingent liability in the light of that evidence.

Disclosure **Non-Adjusting Events After the Balance Sheet Date**

Where non-adjusting events after the balance sheet date are of such importance that non-disclosure would affect the ability of the users of the financial statements to make proper evaluations and decisions, an enterprise should disclose the following information for each significant 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.

The following are examples of non-adjusting events after the balance sheet date that may be of such importance that non-disclosure would affect the ability of the users of the financial statements to make proper evaluations and decisions:
(a) A major business combination after the balance sheet date (IAS 22, Business Combinations, requires specific disclosures in such cases) or disposing of a major subsidiary;

(b) Announcing a plan to discontinue an operation, disposing of assets or settling liabilities attributable to a discontinuing operation or entering into binding agreements to sell such assets or settle such liabilities (see IAS 35, Discontinuing Operations);

(c) Major purchases and disposals of assets, or expropriation of major assets by government;

(d) The destruction of a major production plant by a fire after the balance sheet date;

(e) Announcing, or commencing the implementation of, a major restructuring (see IAS 37, Provisions, Contingent Liabilities and Contingent Assets);

(f) Major ordinary share transactions and potential ordinary share transactions after the balance sheet date (IAS 33, Earnings Per Share, encourages an enterprise to disclose a description of such transactions, other than capitalisation issues and share splits);

(g) Abnormally large changes after the balance sheet date in asset prices or foreign exchange rates;

(h) Changes in tax rates or tax laws enacted or announced after the balance sheet date that have a significant effect on current and deferred tax assets and liabilities (see IAS 12, Income Taxes);

(i) Entering into significant commitments or contingent liabilities, for example, by issuing significant guarantees; and

(j) Commencing major litigation arising solely out of events that occurred after the balance sheet date.

Effective Date

022. This International Accounting Standard becomes operative for annual financial statements covering periods beginning on or after 1 January 2000.23. Contingencies and Events Occurring After the Balance Sheet Date, that dealt with contingencies. This Standard supersedes the rest of that Standard.

IAS 2, Inventories (paragraph 28)

28. Estimates of net realisable value also take into consideration the purpose for which the inventory is held. For example, the net realisable value of the quantity of inventory held to satisfy firm sales or service contracts is based on the contract price. If the sales contracts are for less than the inventory quantities held, the net realisable value of the
excess is based on general selling prices. Provisions or contingent liabilities may arise from contingent losses on firm sales contracts in excess of inventory quantities held or from contingent losses on firm purchase contracts. Such provisions or contingent liabilities are dealt with under IAS 37, Provisions, Contingent Liabilities and Contingent Assets in accordance with IAS 10, Contingencies, Liabilities and Events Occurring After the Balance Sheet Date.

**IAS 11, Construction Contracts (paragraph 45)**

45. An enterprise discloses any contingent liabilities and contingent assets gains and losses in accordance with International Accounting Standard 10, Contingencies and Events Occurring After the Balance Sheet Date IAS 37, Provisions, Contingent Liabilities and Contingent Assets. Contingent liabilities and contingent assets gains and contingent losses may arise from such items as warranty costs, claims, penalties or possible losses.

**IAS 12, Income Taxes (paragraph 88)**

88. An enterprise discloses any tax-related contingent liabilities gains and contingent assets losses in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets IAS 10, Contingencies and Events Occurring After the Balance Sheet Date. Contingent liabilities gains and contingent assets losses may arise, for example, from unresolved disputes with the taxation authorities. Similarly, where changes in tax rates or tax laws are enacted or announced after the balance sheet date, an enterprise discloses any significant effect of those changes on its current and deferred tax assets and liabilities (see IAS 10, Events After the Balance Sheet Date).

**IAS 18, Revenue (paragraph 36)**

36. An enterprise discloses any contingent gains liabilities and contingent assets losses in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets IAS 10, Contingencies and Events Occurring After the Balance Sheet Date. Contingent gains liabilities and contingent assets losses may arise from items such as warranty costs, claims, penalties or possible losses.

**IAS 19, Employee Benefits (paragraphs 125 and 141)**

125. Where required by IAS 37, Provisions, Contingent Liabilities and Contingent Assets IAS 10, Contingencies and Events Occurring After the Balance Sheet Date, an enterprise discloses information about contingent liabilities contingencies arising from post-employment benefit obligations.

141. A contingency exists where there is uncertainty about the number of employees who will accept an offer of termination benefits, a contingent liability exists. As required by IAS 37, Provisions, Contingent Liabilities and Contingent Assets IAS 10, Contingencies and Events Occurring After the Balance Sheet Date, an enterprise discloses information about the contingency unless the possibility of a loss an outflow in settlement is remote.
IAS 20, Accounting for Government Grants and Disclosure of Government Assistance (paragraph 11)

11. Once a government grant is recognised, any related contingency would be contingent liability or contingent asset is treated in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets IAS 10, Contingencies and Events Occurring After the Balance Sheet Date.

IAS 28, Accounting for Investments in Associates (paragraph 26)

26. In accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets IAS 10, Contingencies and Events Occurring After the Balance Sheet Date, the investor discloses:

(a) its share of the contingencies contingent liabilities and capital commitments of an associate for which it is also contingently liable; and

(b) those contingencies contingent liabilities that arise because the investor is severally liable for all the liabilities of the associate.

IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, (paragraphs 26, 27, 50 and 51)

26. A bank should disclose the following contingencies contingent liabilities and commitments required by IAS 10, Contingencies and Events Occurring After the Balance Sheet Date:

(a) the nature and amount of commitments to extend credit that are irrevocable because they cannot be withdrawn at the discretion of the bank without the risk of incurring significant penalty or expense; and

(b) the nature and amount of contingencies contingent liabilities and commitments arising from off balance sheet items including those relating to:

(i) direct credit substitutes including general guarantees of indebtedness, bank acceptance guarantees and standby letters of credit serving as financial guarantees for loans and securities;

(ii) certain transaction-related—contingencies contingent liabilities including performance bonds, bid bonds, warranties and standby letters of credit related to particular transactions;

(iii) short-term self-liquidating trade-related—contingencies contingent liabilities arising from the movement of goods, such as documentary credits where the underlying shipment is used as security;

(iv) those sale and repurchase agreements not recognised in the balance sheet;

(v) interest and foreign exchange rate related items including swaps, options and futures; and

(vi) other commitments, note issuance facilities and revolving underwriting facilities.

27. IAS 10, Contingencies and Events Occurring After the Balance Sheet Date, IAS 37, Provisions, Contingent Liabilities and Contingent Assets, deals generally with accounting for, and disclosure of, contingencies contingent liabilities. The Standard is of particular relevance to banks because banks often become engaged in many types of contingent liabilities contingencies and commitments, some revocable and others
irrevocable, which are frequently significant in amount and substantially larger than those of other commercial enterprises.

50. Any amounts set aside in respect of general banking risks, including future losses and other unforeseeable risks or contingencies in addition to those for which accrual must be made in accordance with IAS 10, Contingencies and Events Occurring After the Balance Sheet Date, should be separately disclosed as appropriations of retained earnings. Any credits resulting from the reduction of such amounts result in an increase in retained earnings and should not be included in the determination of net profit or loss for the period.

51. Local circumstances or legislation may require or allow a bank to set aside amounts for general banking risks, including future losses or other unforeseeable risks, in addition to the charges for losses on loans and advances determined in accordance with paragraph 45. A bank may also be required or allowed to set aside amounts for contingencies in addition to those for which accrual is required by IAS 10, Contingencies and Events Occurring After the Balance Sheet Date. Such amounts for general banking risks and contingencies do not qualify for recognition as provisions under IAS 37, Provisions, Contingent Liabilities and Contingent Assets. Therefore, a bank recognises such amounts as appropriations of retained earnings. These charges may result in This is necessary to avoid the overstatement of liabilities, understatement of assets, undisclosed accruals and provisions and . They present the opportunity to distort net income and equity.

IAS 31, Financial Reporting of Interests in Joint Ventures (paragraph 45)

45. In accordance with IAS 10, Contingencies and Events Occurring After the Balance Sheet Date, a venturer should disclose the aggregate amount of the following contingencies—contingent liabilities, unless the probability of loss is remote, separately from the amount of other contingencies—contingent liabilities:

(a) any contingencies—contingent liabilities that the venturer has incurred in relation to its interests in joint ventures and its share in each of the contingent liabilities—contingencies which have been incurred jointly with other venturers;
(b) its share of the contingent liabilities—contingencies of the joint ventures themselves for which it is contingently liable; and
(c) those contingent liabilities—contingencies that arise because the venturer is contingently liable for the liabilities of the other venturers of a joint venture.

IAS 35, Discontinuing Operations (paragraphs 20, 21, 29, 30 and 32)

20. A discontinuing operation is a restructuring as that term is expected to be defined in IAS 37, Provisions, Contingent Liabilities and Contingent Assets the forthcoming Standard on provisions. That Standard will provide guidance for certain of the requirements of this Standard, including:

(a) what constitutes a "detailed, formal plan for the discontinuance" as that term is used in paragraph 16(b) of this Standard; and
21. The Standard on provisions will IAS 37 defines when a provision should and will address the circumstances in which be recognised. In some cases, the event that obligates the enterprise occurs after the end of a financial reporting period but before the financial statements for that period have been authorised for issue approved by the board of directors. Paragraph 29 of this Standard would requires disclosures about a discontinuing operation in such cases circumstances.

29. If an initial disclosure event occurs after the end of an enterprise’s financial reporting period but before the financial statements for that period are authorised for issue approved by the board of directors or similar governing body, those financial statements should include the disclosures specified in paragraph 27 for the period covered by those financial statements.

30. For example, the board of directors of an enterprise whose financial year ends 31 December 20x5 approves a plan for a discontinuing operation on 15 December 20x5 and announces that plan on 10 January 20x6. The board approves authorises the financial statements for 20x5 for issue on 20 March 20x6. The financial statements for 20x5 include the disclosures required by paragraph 27.

32. The asset disposals, liability settlements, and binding sale agreements referred to in the preceding paragraph may occur concurrently with the initial disclosure event, or in the period in which the initial disclosure event occurs, or in a later period. In accordance with IAS 10, Contingencies and Events Occurring After the Balance Sheet Date, if some of the assets attributable to a discontinuing operation have actually been sold or are the subject of one or more binding sale agreements entered into after the financial year end but before the board approves the financial statements for issue, the financial statements include the disclosures required by paragraph 31 if non-disclosure would affect the ability of the users of the financial statements to make proper evaluations and decisions.

CAS 12

Income taxes

IAS 12, Accounting for Taxes on Income, was approved in March 1979.

In November 1994, IAS 12 was revised as part of the project on Comparability and Improvements of Financial Statements. It became IAS 12 (reformatted 1994), Accounting for Taxes on Income.

In October 1996, the Board approved a revised Standard, IAS 12 (revised 1996), Income Taxes which superseded IAS 12 (reformatted 1994), Accounting for Taxes on Income. The revised Standard became effective for financial statements covering periods beginning on or after 1 January 1998.
In May 1999, IAS 10 (revised 1999), Events After the Balance Sheet Date, amended paragraph 88. The amended text became effective when IAS 10 (revised 1999) became effective - i.e., for annual financial statements covering periods beginning on or after 1 January 2000.

In October 2000, the Board approved amendments to IAS 12 which added paragraphs 52A, 52B, 65A, 81(i), 82A, 87A, 87B, 87C and 91 and deleted paragraphs 3 and 50. The limited revisions specify the accounting treatment for income tax consequences of dividends. The revised text becomes effective for annual financial statements covering periods beginning on or after 1 January 2001. Earlier adoption is encouraged. If earlier adoption affects the financial statements, an enterprise should disclose that fact. Two SIC Interpretations relate to IAS 12:

1. SIC-21, Income Taxes - Recovery of Revalued Non-Depreciable Assets; and
2. SIC-25, Income Taxes - Changes in the Tax Status of an Enterprise or its Shareholders.

Objective

The objective of this Standard is to prescribe the accounting treatment for income taxes. The principal issue in accounting for income taxes is how to account for the current and future tax consequences of:

(a) the future recovery (settlement) of the carrying amount of assets (liabilities) that are recognised in an enterprise's balance sheet; and

(b) transactions and other events of the current period that are recognised in an enterprise's financial statements.

It is inherent in the recognition of an asset or liability that the reporting enterprise expects to recover or settle the carrying amount of that asset or liability. If it is probable that recovery or settlement of that carrying amount will make future tax payments larger (smaller) than they would be if such recovery or settlement were to have no tax consequences, this Standard requires an enterprise to recognise a deferred tax liability (deferred tax asset), with certain limited exceptions.

This Standard requires an enterprise to account for the tax consequences of transactions and other events in the same way that it accounts for the transactions and other events themselves. Thus, for transactions and other events recognised in the income statement, any related tax effects are also recognised in the income statement. For transactions and other events recognised directly in equity, any related tax effects are also recognised directly in equity. Similarly, the recognition of deferred tax assets and liabilities in a business combination affects the amount of goodwill or negative goodwill arising in that business combination.

This Standard also deals with the recognition of deferred tax assets arising from unused tax losses or unused tax credits, the presentation of income taxes in the financial statements and the disclosure of information relating to income taxes.

Scope
1. This Standard should be applied in accounting for income taxes.

2. For the purposes of this Standard, income taxes include all domestic and foreign taxes which are based on taxable profits. Income taxes also include taxes, such as withholding taxes, which are payable by a subsidiary, associate or joint venture on distributions to the reporting enterprise.

3. [Paragraph 3 deleted]

4. This Standard does not deal with the methods of accounting for government grants (see IAS 20, Accounting for Government Grants and Disclosure of Government Assistance) or investment tax credits. However, this Standard does deal with the accounting for temporary differences that may arise from such grants or investment tax credits.

Definitions

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

   **Accounting profit** is net profit or loss for a period before deducting tax expense.

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

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

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

   **Deferred tax liabilities** are the amounts of income taxes payable in future periods in respect of taxable temporary differences.

   **Deferred tax assets** are the amounts of income taxes recoverable in future periods in respect of:

   (a) deductible temporary differences;
   (b) the carry-forward of unused tax losses; and
   (c) the carry-forward of unused tax credits.

   **Temporary differences** are differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Temporary differences may be either:

   (a) **taxable temporary differences**, which are temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled; or

   (b) **deductible temporary differences**, which are temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.
The **tax base** of an asset or liability is the amount attributed to that asset or liability for tax purposes.

6. Tax expense (tax income) comprises current tax expense (current tax income) and deferred tax expense (deferred tax income).

**Tax Base**

7. The tax base of an asset is the amount that will be deductible for tax purposes against any taxable economic benefits that will flow to an enterprise when it recovers the carrying amount of the asset. If those economic benefits will not be taxable, the tax base of the asset is equal to its carrying amount.

**Examples**

1. A machine cost 100. For tax purposes, depreciation of 30 has already been deducted in the current and prior periods and the remaining cost will be deductible in future periods, either as depreciation or through a deduction on disposal. Revenue generated by using the machine is taxable, any gain on disposal of the machine will be taxable and any loss on disposal will be deductible for tax purposes. *The tax base of the machine is 70.*

2. Interest receivable has a carrying amount of 100. The related interest revenue will be taxed on a cash basis. *The tax base of the interest receivable is nil.*

3. Trade receivables have a carrying amount of 100. The related revenue has already been included in taxable profit (tax loss). *The tax base of the trade receivables is 100.*

4. Dividends receivable from a subsidiary have a carrying amount of 100. The dividends are not taxable. In substance, the entire carrying amount of the asset is deductible against the economic benefits. *Consequently, the tax base of the dividends receivable is 100.*

5. A loan receivable has a carrying amount of 100. The repayment of the loan will have no tax consequences. *The tax base of the loan is 100.*

The tax base of a liability is its carrying amount, less any amount that will be deductible for tax purposes in respect of that liability in future periods. In the case of revenue which is received in advance, the tax base of the resulting liability is its carrying amount, less any amount of the revenue that will not be taxable in future periods.

**Examples**

1. Current liabilities include accrued expenses with a carrying amount of 100. The related expense will be deducted for tax purposes on a cash basis. The tax base of the accrued expenses is nil. [Delete this example. Example 3 is similar and more relevant for CB purposes.]
2. Current liabilities include interest revenue received in advance, with a carrying amount of 100. The related interest revenue was taxed on a cash basis. The tax base of the interest received in advance is nil.

3. Current liabilities include accrued expenses with a carrying amount of 100. The related expense has already been deducted for tax purposes. The tax base of the accrued expenses is 100.

4. Current liabilities include accrued fines and penalties with a carrying amount of 100. Fines and penalties are not deductible for tax purposes. The tax base of the accrued fines and penalties is 100.

5. A loan payable has a carrying amount of 100. The repayment of the loan will have no tax consequences. The tax base of the loan is 100.

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1 Under this analysis, there is no taxable temporary difference. An alternative analysis is that the accrued dividends receivable have a tax base of nil and that a tax rate of nil is applied to the resulting taxable temporary difference of 100. Under both analyses, there is no deferred tax liability.

2 Under this analysis, there is no deductible temporary difference. An alternative analysis is that the accrued fines and penalties payable have a tax base of nil and that a tax rate of nil is applied to the resulting deductible temporary difference of 100. Under both analyses, there is no deferred tax asset.

9. Some items have a tax base but are not recognised as assets and liabilities in the balance sheet. For example, research costs are recognised as an expense in determining accounting profit in the period in which they are incurred but may not be permitted as a deduction in determining taxable profit (tax loss) until a later period. The difference between the tax base of the research costs, being the amount the taxation authorities will permit as a deduction in future periods, and the carrying amount of nil is a deductible temporary difference that results in a deferred tax asset.

10. Where the tax base of an asset or liability is not immediately apparent, it is helpful to consider the fundamental principle upon which this Standard is based: that an enterprise should, with certain limited exceptions, recognise a deferred tax liability (asset) whenever recovery or settlement of the carrying amount of an asset or liability would make future tax payments larger (smaller) than they would be if such recovery or settlement were to have no tax consequences. Example C following Paragraph 52 illustrates circumstances when it may be helpful to consider this fundamental principle, for example, when the tax base of an asset or liability depends on the expected manner of recovery or settlement. [Delete this.]

11. In consolidated financial statements, temporary differences are determined by comparing the carrying amounts of assets and liabilities in the consolidated financial statements with the appropriate tax base. The tax base is determined by reference to a consolidated tax return in those jurisdictions in which such a return is filed. In other jurisdictions, the tax base is determined by reference to the tax returns of each enterprise in the group.
Recognition of Current Tax Liabilities and Current Tax Assets

12. 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.

13. 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. When a tax loss is used to recover current tax of a previous period, an enterprise recognises the benefit as an asset in the period in which the tax loss occurs because it is probable that the benefit will flow to the enterprise and the benefit can be reliably measured.

Recognition of Deferred Tax Liabilities and Deferred Tax Assets

Taxable Temporary Differences

15. A deferred tax liability should be recognised for all taxable temporary differences, unless the deferred tax liability arises from:

(a) goodwill for which amortisation is not deductible for tax purposes; or [can delete this or, if you want the standard to be more flexible to future tax changes, reword as – amortisation of goodwill, if not deductible for tax purposes;]
(b) the initial recognition of an asset or liability in a transaction which:

   (i) is not a business combination; and
   (ii) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

However, for taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, a deferred tax liability should be recognised in accordance with paragraph 39.

16. It is inherent in the recognition of an asset that its carrying amount will be recovered in the form of economic benefits that flow to the enterprise in future periods. When the carrying amount of the asset exceeds its tax base, the amount of taxable economic benefits will exceed the amount that will be allowed as a deduction for tax purposes. This difference is a taxable temporary difference and the obligation to pay the resulting income taxes in future periods is a deferred tax liability. As the enterprise recovers the carrying amount of the asset, the taxable temporary difference will reverse and the enterprise will have taxable profit. This makes it probable that economic benefits will flow from the enterprise in the form of tax payments. Therefore, this Standard requires the recognition of all deferred tax liabilities, except in certain circumstances described in paragraphs 15 and 39.

Example

An asset which cost 150 has a carrying amount of 100. Cumulative depreciation for tax purposes is 90 and the tax rate is 25%.
The tax base of the asset is 60 (cost of 150 less cumulative tax depreciation of 90). To recover the carrying amount of 100, the enterprise must earn taxable income of 100, but will only be able to deduct tax depreciation of 60. Consequently, the enterprise will pay income taxes of 10 (40 at 25%) when it recovers the carrying amount of the asset. The difference between the carrying amount of 100 and the tax base of 60 is a taxable temporary difference of 40. Therefore, the enterprise recognises a deferred tax liability of 10 (40 at 25%) representing the income taxes that it will pay when it recovers the carrying amount of the asset.

17. Some temporary differences arise when income or expense is included in accounting profit in one period but is included in taxable profit in a different period. Such temporary differences are often described as timing differences. The following are examples of temporary differences of this kind which are taxable temporary differences and which therefore result in deferred tax liabilities:

(a) interest revenue is included in accounting profit on a time proportion basis but may, in some jurisdictions, be included in taxable profit when cash is collected. The tax base of any receivable recognised in the balance sheet with respect to such revenues is nil because the revenues do not affect taxable profit until cash is collected; [Delete this.]

(b) depreciation used in determining taxable profit (tax loss) may differ from that used in determining accounting profit. The temporary difference is the difference between the carrying amount of the asset and its tax base which is the original cost of the asset less all deductions in respect of that asset permitted by the taxation authorities in determining taxable profit of the current and prior periods. A taxable temporary difference arises, and results in a deferred tax liability, when tax depreciation is accelerated (if tax depreciation is less rapid than accounting depreciation, a deductible temporary difference arises, and results in a deferred tax asset); and

(c) development costs may be capitalised and amortised over future periods in determining accounting profit but deducted in determining taxable profit in the period in which they are incurred. Such development costs have a tax base of nil as they have already been deducted from taxable profit. The temporary difference is the difference between the carrying amount of the development costs and their tax base of nil.

18. Temporary differences also arise when:

(a) the cost of a business combination that is an acquisition is allocated to the identifiable assets and liabilities acquired by reference to their fair values but no equivalent adjustment is made for tax purposes (see paragraph 19);
(b) assets are revalued and no equivalent adjustment is made for tax purposes (see paragraph 20);
(d) the tax base of an asset or liability on initial recognition differs from its initial carrying amount, for example when an enterprise benefits from non-taxable government grants related to assets (see paragraphs 22 and 33); or
(e) the carrying amount of investments in subsidiaries, branches and associates or interests in joint ventures becomes different from the tax base of the investment or interest (see paragraphs 38-45).
19. In a business combination that is an acquisition, the cost of the acquisition is allocated to the identifiable assets and liabilities acquired by reference to their fair values at the date of the exchange transaction. Temporary differences arise when the tax bases of the identifiable assets and liabilities acquired are not affected by the business combination or are affected differently. For example, when the carrying amount of an asset is increased to fair value but the tax base of the asset remains at cost to the previous owner, a taxable temporary difference arises which results in a deferred tax liability. The resulting deferred tax liability affects goodwill (see paragraph 66). [This is not dealt with in CB Tax Law but I cannot see any harm in leaving it here.]

20. International Cambodian Accounting Standards permit certain assets to be carried at fair value or to be revalued (see, for example, IAS 16, Property, Plant and Equipment, and IAS 25, Accounting for Investments). In some jurisdictions, the revaluation or other restatement of an asset to fair value affects taxable profit (tax loss) for the current period. As a result, the tax base of the asset is adjusted and no temporary difference arises. In other jurisdictions, the revaluation or restatement of an asset does not affect taxable profit in the period of the revaluation or restatement and, consequently, the tax base of the asset is not adjusted. Nevertheless, the future recovery of the carrying amount will result in a taxable flow of economic benefits to the enterprise and the amount that will be deductible for tax purposes will differ from the amount of those economic benefits. The difference between the carrying amount of a revalued asset and its tax base is a temporary difference and gives rise to a deferred tax liability or asset. This is true even if:

(a) the enterprise does not intend to dispose of the asset. In such cases, the revalued carrying amount of the asset will be recovered through use and this will generate taxable income which exceeds the depreciation that will be allowable for tax purposes in future periods; or

(b) tax on capital gains is deferred if the proceeds of the disposal of the asset are invested in similar assets. In such cases, the tax will ultimately become payable on sale or use of the similar assets. [This section look OK to me. Just make changes as above.]

21. Goodwill is the excess of the cost of an acquisition over the acquirer's interest in the fair value of the identifiable assets and liabilities acquired. Many taxation authorities do not allow the amortisation of goodwill as a deductible expense in determining taxable profit. Moreover, in such jurisdictions, the cost of goodwill is often not deductible when a subsidiary disposes of its underlying business. In such jurisdictions, goodwill has a tax base of nil. Any difference between the carrying amount of goodwill and its tax base of nil is a taxable temporary difference. However, this Standard does not permit the recognition of the resulting deferred tax liability because goodwill is a residual and the recognition of the deferred tax liability would increase the carrying amount of goodwill. [Not relevant to CB but does not create a problem if left in.]
Recognition of Deferred Tax Liabilities and Deferred Tax Assets  Initial Recognition of an Asset or Liability

22. A temporary difference may arise on initial recognition of an asset or liability, for example if part or all of the cost of an asset will not be deductible for tax purposes. The method of accounting for such a temporary difference depends on the nature of the transaction which led to the initial recognition of the asset:

(a) in a business combination, an enterprise recognises any deferred tax liability or asset and this affects the amount of goodwill or negative goodwill (see paragraph 19);
(b) if the transaction affects either accounting profit or taxable profit, an enterprise recognises any deferred tax liability or asset and recognises the resulting deferred tax expense or income in the income statement (see paragraph 59);
(c) if the transaction is not a business combination, and affects neither accounting profit nor taxable profit, an enterprise would, in the absence of the exemption provided by paragraphs 15 and 24, recognise the resulting deferred tax liability or asset and adjust the carrying amount of the asset or liability by the same amount. Such adjustments would make the financial statements less transparent. Therefore, this Standard does not permit an enterprise to recognise the resulting deferred tax liability or asset, either on initial recognition or subsequently (see example on next page). Furthermore, an enterprise does not recognise subsequent changes in the unrecognised deferred tax liability or asset as the asset is depreciated.

23. In accordance with IAS 32, Financial Instruments: Disclosure and Presentation, the issuer of a compound financial instrument (for example, a convertible bond) classifies the instrument’s liability component as a liability and the equity component as equity. In some jurisdictions, the tax base of the liability component on initial recognition is equal to the initial carrying amount of the sum of the liability and equity components. The resulting taxable temporary difference arises from the initial recognition of the equity component separately from the liability component. Therefore, the exception set out in paragraph 15(b) does not apply. Consequently, an enterprise recognises the resulting deferred tax liability. In accordance with paragraph 61, the deferred tax is charged directly to the carrying amount of the equity component. In accordance with paragraph 58, subsequent changes in the deferred tax liability are recognised in the income statement as deferred tax expense (income).

Example Illustrating Paragraph 22(c)

An enterprise intends to use an asset which cost 1,000 throughout its useful life of five years and then dispose of it for a residual value of nil. The tax rate is 40%. Depreciation of the asset is not deductible for tax purposes. On disposal, any capital gain would not be taxable and any capital loss would not be deductible. [Capital gains/losses are treated as normal income/deduction. I think this example can stay.]

As it recovers the carrying amount of the asset, the enterprise will earn taxable income of 1,000 and pay tax of 400. The enterprise does not recognise the resulting deferred tax liability of 400 because it results from the initial recognition of the asset.

In the following year, the carrying amount of the asset is 800. In earning taxable
income of 800, the enterprise will pay tax of 320. The enterprise does not recognise the deferred tax liability of 320 because it results from the initial recognition of the asset.

Deductible Temporary Differences

24. A deferred tax asset should be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from:

(a) negative goodwill which is treated as deferred income in accordance with IAS 22, Business Combinations; or
(b) the initial recognition of an asset or liability in a transaction which:

   (i) is not a business combination; and
   (ii) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

However, for deductible temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, a deferred tax asset should be recognised in accordance with paragraph 44.

25. It is inherent in the recognition of a liability that the carrying amount will be settled in future periods through an outflow from the enterprise of resources embodying economic benefits. When resources flow from the enterprise, part or all of their amounts may be deductible in determining taxable profit of a period later than the period in which the liability is recognised. In such cases, a temporary difference exists between the carrying amount of the liability and its tax base. Accordingly, a deferred tax asset arises in respect of the income taxes that will be recoverable in the future periods when that part of the liability is allowed as a deduction in determining taxable profit. Similarly, if the carrying amount of an asset is less than its tax base, the difference gives rise to a deferred tax asset in respect of the income taxes that will be recoverable in future periods.

Example

An enterprise recognises a liability of 100 for accrued product warranty costs. For tax purposes, the product warranty costs will not be deductible until the enterprise pays claims. The tax rate is 25%.

The tax base of the liability is nil (carrying amount of 100, less the amount that will be deductible for tax purposes in respect of that liability in future periods). In settling the liability for its carrying amount, the enterprise will reduce its future taxable profit by an amount of 100 and, consequently, reduce its future tax payments by 25 (100 at 25%). The difference between the carrying amount of 100 and the tax base of nil is a deductible temporary difference of 100. Therefore, the enterprise recognises a deferred tax asset of 25 (100 at 25%), provided that it is probable that the enterprise will earn sufficient taxable profit in future periods to benefit from a reduction in tax payments.
26. The following are examples of deductible temporary differences which result in deferred tax assets:

(a) retirement benefit costs may be deducted in determining accounting profit as service is provided by the employee, but deducted in determining taxable profit either when contributions are paid to a fund by the enterprise or when retirement benefits are paid by the enterprise. A temporary difference exists between the carrying amount of the liability and its tax base; the tax base of the liability is usually nil. Such a deductible temporary difference results in a deferred tax asset as economic benefits will flow to the enterprise in the form of a deduction from taxable profits when contributions or retirement benefits are paid;

(b) research costs are recognised as an expense in determining accounting profit in the period in which they are incurred but may not be permitted as a deduction in determining taxable profit (tax loss) until a later period. The difference between the tax base of the research costs, being the amount the taxation authorities will permit as a deduction in future periods, and the carrying amount of nil is a deductible temporary difference that results in a deferred tax asset;

(c) in a business combination that is an acquisition, the cost of the acquisition is allocated to the assets and liabilities recognised, by reference to their fair values at the date of the exchange transaction. When a liability is recognised on the acquisition but the related costs are not deducted in determining taxable profits until a later period, a deductible temporary difference arises which results in a deferred tax asset. A deferred tax asset also arises where the fair value of an identifiable asset acquired is less than its tax base. In both cases, the resulting deferred tax asset affects goodwill (see paragraph 66); and

(d) certain assets may be carried at fair value, or may be revalued, without an equivalent adjustment being made for tax purposes (see paragraph 20). A deductible temporary difference arises if the tax base of the asset exceeds its carrying amount.

27. The reversal of deductible temporary differences results in deductions in determining taxable profits of future periods. However, economic benefits in the form of reductions in tax payments will flow to the enterprise only if it earns sufficient taxable profits against which the deductions can be offset. Therefore, an enterprise recognises deferred tax assets only when it is probable that taxable profits will be available against which the deductible temporary differences can be utilised.

28. It is probable that taxable profit will be available against which a deductible temporary difference can be utilised when there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity which are expected to reverse:

(a) in the same period as the expected reversal of the deductible temporary difference; or

(b) in periods into which a tax loss arising from the deferred tax asset can be carried back or forward.

In such circumstances, the deferred tax asset is recognised in the period in which the deductible temporary differences arise.
29. When there are insufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, the deferred tax asset is recognised to the extent that:

(a) it is probable that the enterprise will have sufficient taxable profit relating to the same taxation authority and the same taxable entity in the same period as the reversal of the deductible temporary difference (or in the periods into which a tax loss arising from the deferred tax asset can be carried back or forward). In evaluating whether it will have sufficient taxable profit in future periods, an enterprise ignores taxable amounts arising from deductible temporary differences that are expected to originate in future periods, because the deferred tax asset arising from these deductible temporary differences will itself require future taxable profit in order to be utilised; or

(b) tax planning opportunities are available to the enterprise that will create taxable profit in appropriate periods.

30. Tax planning opportunities are actions that the enterprise would take in order to create or increase taxable income in a particular period before the expiry of a tax loss or tax credit carry-forward. For example, in some jurisdictions, taxable profit may be created or increased by:

(a) electing to have interest income taxed on either a received or receivable basis;
(b) deferring the claim for certain deductions from taxable profit;
(c) selling, and perhaps leasing back, assets that have appreciated but for which the tax base has not been adjusted to reflect such appreciation; and
(d) selling an asset that generates non-taxable income (such as, in some jurisdictions, a government bond) in order to purchase another investment that generates taxable income.

Where tax planning opportunities advance taxable profit from a later period to an earlier period, the utilisation of a tax loss or tax credit carry-forward still depends on the existence of future taxable profit from sources other than future originating temporary differences.

31. When an enterprise has a history of recent losses, the enterprise considers the guidance in paragraphs 35 and 36.

Deductible Temporary Differences  Negative Goodwill

32. This Standard does not permit the recognition of a deferred tax asset arising from deductible temporary differences associated with negative goodwill which is treated as deferred income in accordance with IAS 22, Business Combinations, because negative goodwill is a residual and the recognition of the deferred tax asset would increase the carrying amount of negative goodwill.

Deductible Temporary Differences  Initial Recognition of an Asset or Liability

33. One case when a deferred tax asset arises on initial recognition of an asset is when a non-taxable government grant related to an asset is deducted in arriving at the carrying amount of the asset but, for tax purposes, is not deducted from the asset's depreciable amount (in other words its tax base); the carrying amount of the asset is less than its tax
base and this gives rise to a deductible temporary difference. Government grants may also be set up as deferred income in which case the difference between the deferred income and its tax base of nil is a deductible temporary difference. Whichever method of presentation an enterprise adopts, the enterprise does not recognise the resulting deferred tax asset, for the reason given in paragraph 22.

Unused Tax Losses and Unused Tax Credits

34. A deferred tax asset should be recognised for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.

35. The criteria for recognising deferred tax assets arising from the carry-forward of unused tax losses and tax credits are the same as the criteria for recognising deferred tax assets arising from deductible temporary differences. However, the existence of unused tax losses is strong evidence that future taxable profit may not be available. Therefore, when an enterprise has a history of recent losses, the enterprise recognises a deferred tax asset arising from unused tax losses or tax credits only to the extent that the enterprise has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilised by the enterprise. In such circumstances, paragraph 82 requires disclosure of the amount of the deferred tax asset and the nature of the evidence supporting its recognition.

36. An enterprise considers the following criteria in assessing the probability that taxable profit will be available against which the unused tax losses or unused tax credits can be utilised:

(a) whether the enterprise has sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, which will result in taxable amounts against which the unused tax losses or unused tax credits can be utilised before they expire;
(b) whether it is probable that the enterprise will have taxable profits before the unused tax losses or unused tax credits expire;
(c) whether the unused tax losses result from identifiable causes which are unlikely to recur; and
(d) whether tax planning opportunities (see paragraph 30) are available to the enterprise that will create taxable profit in the period in which the unused tax losses or unused tax credits can be utilised.

To the extent that it is not probable that taxable profit will be available against which the unused tax losses or unused tax credits can be utilised, the deferred tax asset is not recognised.

Re-assessment of Unrecognised Deferred Tax Assets

37. At each balance sheet date, an enterprise re-assesses unrecognised deferred tax assets. The enterprise recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. For example, an improvement in trading conditions may make it more
probable that the enterprise will be able to generate sufficient taxable profit in the future for the deferred tax asset to meet the recognition criteria set out in paragraphs 24 or 34. Another example is when an enterprise re-assesses deferred tax assets at the date of a business combination or subsequently (see paragraphs 67 and 68).

Investments in Subsidiaries, Branches and Associates and Interests in Joint Ventures

38. Temporary differences arise when the carrying amount of investments in subsidiaries, branches and associates or interests in joint ventures (namely the parent or investor’s share of the net assets of the subsidiary, branch, associate or investee, including the carrying amount of goodwill) becomes different from the tax base (which is often cost) of the investment or interest. Such differences may arise in a number of different circumstances, for example:

(a) the existence of undistributed profits of subsidiaries, branches, associates and joint ventures; [Delete this]
(b) changes in foreign exchange rates when a parent and its subsidiary are based in different countries; and
(c) a reduction in the carrying amount of an investment in an associate to its recoverable amount.

In consolidated financial statements, the temporary difference may be different from the temporary difference associated with that investment in the parent’s separate financial statements if the parent carries the investment in its separate financial statements at cost or revalued amount.

39. An enterprise should recognise a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, except to the extent that both of the following conditions are satisfied:

(a) the parent, investor or venturer is able to control the timing of the reversal of the temporary difference; and
(b) it is probable that the temporary difference will not reverse in the foreseeable future.

40. As a parent controls the dividend policy of its subsidiary, it is able to control the timing of the reversal of temporary differences associated with that investment (including the temporary differences arising not only from undistributed profits but also from any foreign exchange translation differences). Furthermore, it would often be impracticable to determine the amount of income taxes that would be payable when the temporary difference reverses. Therefore, when the parent has determined that those profits will not be distributed in the foreseeable future the parent does not recognise a deferred tax liability. The same considerations apply to investments in branches.

41. An enterprise accounts in its own currency for the non-monetary assets and liabilities of a foreign operation that is integral to the enterprise’s operations (see IAS 21, The Effects of Changes in Foreign Exchange Rates). Where the foreign operation’s taxable profit or tax loss (and, hence, the tax base of its non-monetary assets and liabilities) is determined in the foreign currency, changes in the exchange rate give rise to temporary differences. Because such temporary differences relate to the foreign operation’s own
assets and liabilities, rather than to the reporting enterprise's investment in that foreign operation, the reporting enterprise recognises the resulting deferred tax liability or (subject to paragraph 24) asset. The resulting deferred tax is charged or credited in the income statement (see paragraph 58).

An investor in an associate does not control that enterprise and is usually not in a position to determine its dividend policy. Therefore, in the absence of an agreement requiring that the profits of the associate will not be distributed in the foreseeable future, an investor recognises a deferred tax liability arising from taxable temporary differences associated with its investment in the associate. In some cases, an investor may not be able to determine the amount of tax that would be payable if it recovers the cost of its investment in an associate, but can determine that it will equal or exceed a minimum amount. In such cases, the deferred tax liability is measured at this amount.

43. The arrangement between the parties to a joint venture usually deals with the sharing of the profits and identifies whether decisions on such matters require the consent of all the venturers or a specified majority of the venturers. When the venturer can control the sharing of profits and it is probable that the profits will not be distributed in the foreseeable future, a deferred tax liability is not recognised.

44. An enterprise should recognise a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries, branches and associates, and interests in joint ventures, to the extent that, and only to the extent that, it is probable that:

(a) the temporary difference will reverse in the foreseeable future; and
(b) taxable profit will be available against which the temporary difference can be utilised.

45. In deciding whether a deferred tax asset is recognised for deductible temporary differences associated with its investments in subsidiaries, branches and associates, and its interests in joint ventures, an enterprise considers the guidance set out in paragraphs 28 to 31.

Measurement

46. 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.

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

48. Current and deferred tax assets and liabilities are usually measured using the tax rates (and tax laws) that have been enacted. However, in some jurisdictions, announcements of tax rates (and tax laws) by the government have the substantive effect of actual enactment, which may follow the announcement by a period of several months. In
these circumstances, tax assets and liabilities are measured using the announced tax rate (and tax laws).

49. When different tax rates apply to different levels of taxable income, deferred tax assets and liabilities are measured using the average rates that are expected to apply to the taxable profit (tax loss) of the periods in which the temporary differences are expected to reverse.

[Paragraph 50 deleted]

51. The measurement of deferred tax liabilities and deferred tax assets should reflect the tax consequences that would follow from the manner in which the enterprise expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

52. In some jurisdictions, the manner in which an enterprise recovers (settles) the carrying amount of an asset (liability) may affect either or both of:

(a) the tax rate applicable when the enterprise recovers (settles) the carrying amount of the asset (liability); and

(b) the tax base of the asset (liability).

In such cases, an enterprise measures deferred tax liabilities and deferred tax assets using the tax rate and the tax base that are consistent with the expected manner of recovery or settlement.

Example A

An asset has a carrying amount of 100 and a tax base of 60. The enterprise is currently in a tax holiday period and enjoys a 0% tax rate. This rate A tax rate of 20% would apply if the asset were sold. The taxpayers prevail in tax rate would apply if the asset continued to be used after the holiday period ceased, and a tax rate of 30% would apply to other income.

The enterprise recognises a deferred tax liability of 8 0 (40 at 200%) if it expects to sell the asset without further use and a deferred tax liability equal to the carrying value of the asset at the end of the tax holiday multiplied by the prevailing tax rate of 12 (40 at 30%) if it expects to retain the asset and recover its carrying amount through use.

52A. In some jurisdictions, income taxes are payable at a higher or lower rate if part or all of the net profit or retained earnings is paid out as a dividend to shareholders of the enterprise. In some other jurisdictions, income taxes may be refundable or payable if part or all of the net profit or retained earnings is paid out as a dividend to shareholders of the enterprise. In these circumstances, current and deferred tax assets and liabilities are measured at the tax rate applicable to undistributed profits. [Delete this]

52B. In the circumstances described in paragraph 52A, the income tax consequences of
dividends are recognised when a liability to pay the dividend is recognised. The income tax consequences of dividends are more directly linked to past transactions or events than to distributions to owners. Therefore, the income tax consequences of dividends are recognised in net profit or loss for the period as required by paragraph 58 except to the extent that the income tax consequences of dividends arise from the circumstances described in paragraph 58 (a) and (b). [Delete this]

Example Illustrating Paragraphs 52A and 52B [Delete this example]

The following example deals with the measurement of current and deferred tax assets and liabilities for an enterprise in a jurisdiction where income taxes are payable at a higher rate on undistributed profits (50%) with an amount being refundable when profits are distributed. The tax rate on distributed profits is 35%. At the balance sheet date, 31 December 20X1, the enterprise does not recognise a liability for dividends proposed or declared after the balance sheet date. As a result, no dividends are recognised in the year 20X1. Taxable income for 20X1 is 100,000. The net taxable temporary difference for the year 20X1 is 40,000.

The enterprise recognises a current tax liability and a current income tax expense of 50,000. No asset is recognised for the amount potentially recoverable as a result of future dividends. The enterprise also recognises a deferred tax liability and deferred tax expense of 20,000 (40,000 at 50%) representing the income taxes that the enterprise will pay when it recovers or settles the carrying amounts of its assets and liabilities based on the tax rate applicable to undistributed profits.

Subsequently, on 15 March 20X2 the enterprise recognises dividends of 10,000 from previous operating profits as a liability.

On 15 March 20X2, the enterprise recognises the recovery of income taxes of 1,500 (15% of the dividends recognised as a liability) as a current tax asset and as a reduction of current income tax expense for 20X2.

53. Deferred tax assets and liabilities should not be discounted. [I am not sure why Para 53 and 54 are deleted. This is complex by Cambodian standards but still relevant. Are you trying to simplify the issue by just retaining the first sentence in Para 55?]

54. The reliable determination of deferred tax assets and liabilities on a discounted basis requires detailed scheduling of the timing of the reversal of each temporary difference. In many cases such scheduling is impracticable or highly complex. Therefore, it is inappropriate to require discounting of deferred tax assets and liabilities. To permit, but not to require, discounting would result in deferred tax assets and liabilities which would not be comparable between enterprises. Therefore, this Standard does not require or permit the discounting of deferred tax assets and liabilities.

55. Temporary differences are determined by reference to the carrying amount of an asset or liability. This applies even where that carrying amount is itself determined on a discounted basis, for example in the case of retirement benefit obligations (see IAS 19, Retirement Benefit Costs).
The carrying amount of a deferred tax asset should be reviewed at each balance sheet date. An enterprise should reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised. Any such reduction should be reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Recognition of Current and Deferred Tax

Accounting for the current and deferred tax effects of a transaction or other event is consistent with the accounting for the transaction or event itself. Paragraphs 58 to 68 implement this principle.

Recognition of Current and Deferred Tax Income Statement

Current and deferred tax should be recognised as income or an expense and included in the net profit or loss for the period, except to the extent that the tax arises from:

(a) a transaction or event which is recognised, in the same or a different period, directly in equity (see paragraphs 61 to 65); or
(b) a business combination that is an acquisition (see paragraphs 66 to 68).

Most deferred tax liabilities and deferred tax assets arise where income or expense is included in accounting profit in one period, but is included in taxable profit (tax loss) in a different period. The resulting deferred tax is recognised in the income statement. An example is when: (b) development costs have been capitalised in accordance with IAS 9, Research and Development Costs, and are being amortised in the income statement, but were deducted for tax purposes when they were incurred.

The carrying amount of deferred tax assets and liabilities may change even though there is no change in the amount of the related temporary differences. This can result, for example, from:

(a) a change in tax rates or tax laws;
(b) a re-assessment of the recoverability of deferred tax assets; or
(c) a change in the expected manner of recovery of an asset.

The resulting deferred tax is recognised in the income statement, except to the extent that it relates to items previously charged or credited to equity (see paragraph 63).

Recognition of Current and Deferred Tax Items Credited or Charged Directly to Equity

Current tax and deferred 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.

International Accounting Standards require or permit certain items to be credited or charged directly to equity. Examples of such items are:
(a) a change in carrying amount arising from the revaluation of property, plant and equipment (see IAS 16, Property, Plant and Equipment) or long-term investments (see IAS 25, Accounting for Investments);
(b) an adjustment to the opening balance of retained earnings resulting from either a change in accounting policy that is applied retrospectively or the correction of a fundamental error (see IAS 8, Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies);
(c) exchange differences arising on the translation of the financial statements of a foreign entity (see IAS 21, The Effects of Changes in Foreign Exchange Rates); and
(d) amounts arising on initial recognition of the equity component of a compound financial instrument (see paragraph 23).

63. In exceptional circumstances it may be difficult to determine the amount of current and deferred tax that relates to items credited or charged to equity. This may be the case, for example, when:

(a) there are graduated rates of income tax and it is impossible to determine the rate at which a specific component of taxable profit (tax loss) has been taxed;
(b) a change in the tax rate or other tax rules affects a deferred tax asset or liability relating (in whole or in part) to an item that was previously charged or credited to equity; or
(c) an enterprise determines that a deferred tax asset should be recognised, or should no longer be recognised in full, and the deferred tax asset relates (in whole or in part) to an item that was previously charged or credited to equity.

In such cases, the current and deferred tax related to items that are credited or charged to equity is based on a reasonable pro rata allocation of the current and deferred tax of the entity in the tax jurisdiction concerned, or other method that achieves a more appropriate allocation in the circumstances.

64. IAS 16, Property, Plant and Equipment, does not specify whether an enterprise should transfer each year from revaluation surplus to retained earnings an amount equal to the difference between the depreciation or amortisation on a revalued asset and the depreciation or amortisation based on the cost of that asset. If an enterprise makes such a transfer, the amount transferred is net of any related deferred tax. Similar considerations apply to transfers made on disposal of an item of property, plant or equipment or an investment (see IAS 25, Accounting for Investments).

65. When an asset is revalued for tax purposes and that revaluation is related to an accounting revaluation of an earlier period, or to one that is expected to be carried out in a future period, the tax effects of both the asset revaluation and the adjustment of the tax base are credited or charged to equity in the periods in which they occur. However, if the revaluation for tax purposes is not related to an accounting revaluation of an earlier period, or to one that is expected to be carried out in a future period, the tax effects of the adjustment of the tax base are recognised in the income statement.

Recognition of Current and Deferred Tax  Deferred Tax Arising from a Business Combination
66. As explained in paragraphs 19 and 26(c), temporary differences may arise in a business combination that is an acquisition. In accordance with IAS 22, Business Combinations, an enterprise recognises any resulting deferred tax assets (to the extent that they meet the recognition criteria in paragraph 24) or deferred tax liabilities as identifiable assets and liabilities at the date of the acquisition. Consequently, those deferred tax assets and liabilities affect goodwill or negative goodwill. However, in accordance with paragraphs 15(a) and 24(a), an enterprise does not recognise deferred tax liabilities arising from goodwill itself (if amortisation of the goodwill is not deductible for tax purposes) and deferred tax assets arising from non-taxable negative goodwill which is treated as deferred income.

67. As a result of a business combination, an acquirer may consider it probable that it will recover its own deferred tax asset that was not recognised prior to the business combination. For example, the acquirer may be able to utilise the benefit of its unused tax losses against the future taxable profit of the acquiree. In such cases, the acquirer recognises a deferred tax asset and takes this into account in determining the goodwill or negative goodwill arising on the acquisition.

68. When an acquirer did not recognise a deferred tax asset of the acquiree as an identifiable asset at the date of a business combination and that deferred tax asset is subsequently recognised in the acquirer's consolidated financial statements, the resulting deferred tax income is recognised in the income statement. In addition, the acquirer:

(a) adjusts the gross carrying amount of the goodwill and the related accumulated amortisation to the amounts that would have been recorded if the deferred tax asset had been recognised as an identifiable asset at the date of the business combination; and
(b) recognises the reduction in the net carrying amount of the goodwill as an expense.

However, the acquirer does not recognise negative goodwill, nor does it increase the carrying amount of negative goodwill.

Example
An enterprise acquired a subsidiary which had deductible temporary differences of 300. The tax rate at the time of the acquisition was 20%. The resulting deferred tax asset of 60 was not recognised as an identifiable asset in determining the goodwill of 500 resulting from the acquisition. The goodwill is amortised over 10 years. 2 years after the acquisition, the enterprise assessed that future taxable profit would probably be sufficient for the enterprise to recover the benefit of all the deductible temporary differences.

The enterprise recognises a deferred tax asset of 60 (300 at 20%) and, in the income statement, deferred tax income of 60. It also reduces the cost of the goodwill by 60 and the accumulated amortisation by 12 (representing 2 years’ amortisation). The balance of 48 is recognised as an expense in the income statement. Consequently, the cost of the goodwill, and the related accumulated amortisation, are reduced to the amounts (440 and 88) that would have been recorded if a deferred tax asset of 60 had been recognised as an identifiable asset at the date of the business combination.
If the tax rate has increased to 25%, the enterprise recognises a deferred tax asset of 75 (300 at 25%) and, in the income statement, deferred tax income of 75. If the tax rate has decreased to 15%, the enterprise recognises a deferred tax asset of 45 (300 at 15%) and deferred tax income of 45. In both cases, the enterprise also reduces the cost of the goodwill by 60 and the accumulated amortisation by 12 and recognises the balance of 48 as an expense in the income statement.

Presentation Tax Assets and Tax Liabilities

69. Tax assets and tax liabilities should be presented separately from other assets and liabilities in the balance sheet. Deferred tax assets and liabilities should be distinguished from current tax assets and liabilities.

70. When an enterprise makes a distinction between current and non-current assets and liabilities in its financial statements, it should not classify deferred tax assets (liabilities) as current assets (liabilities).

Presentation Offset

71. An enterprise should offset current tax assets and current tax liabilities if, and only if, the enterprise:

   (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.

72. Although current tax assets and liabilities are separately recognised and measured they are offset in the balance sheet subject to criteria similar to those established for financial instruments in IAS 32, Financial Instruments: Disclosure and Presentation. An enterprise will normally have a legally enforceable right to set off a current tax asset against a current tax liability when they relate to income taxes levied by the same taxation authority and the taxation authority permits the enterprise to make or receive a single net payment.

73. In consolidated financial statements, a current tax asset of one enterprise in a group is offset against a current tax liability of another enterprise in the group if, and only if, the enterprises concerned have a legally enforceable right to make or receive a single net payment and the enterprises intend to make or receive such a net payment or to recover the asset and settle the liability simultaneously.

74. An enterprise should offset deferred tax assets and deferred tax liabilities if, and only if:

   (a) the enterprise has a legally enforceable right to set off current tax assets against current tax liabilities; and
   (b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

   (i) the same taxable entity; or (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise
the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

75. To avoid the need for detailed scheduling of the timing of the reversal of each temporary difference, this Standard requires an enterprise to set off a deferred tax asset against a deferred tax liability of the same taxable entity if, and only if, they relate to income taxes levied by the same taxation authority and the enterprise has a legally enforceable right to set off current tax assets against current tax liabilities.

76. In rare circumstances, an enterprise may have a legally enforceable right of set-off, and an intention to settle net, for some periods but not for others. In such rare circumstances, detailed scheduling may be required to establish reliably whether the deferred tax liability of one taxable entity will result in increased tax payments in the same period in which a deferred tax asset of another taxable entity will result in decreased payments by that second taxable entity.

Presentation Tax Expense

Tax Expense (Income) related to Profit or Loss from Ordinary Activities

77. The tax expense (income) related to profit or loss from ordinary activities should be presented on the face of the income statement.

Exchange Differences on Deferred Foreign Tax Liabilities or Assets

78. IAS 21, The Effects of Changes in Foreign Exchange Rates, requires certain exchange differences to be recognised as income or expense but does not specify where such differences should be presented in the income statement. Accordingly, where exchange differences on deferred foreign tax liabilities or assets are recognised in the income statement, such differences may be classified as deferred tax expense (income) if that presentation is considered to be the most useful to financial statement users.

Disclosure

79. The major components of tax expense (income) should be disclosed separately.

80. 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;
(c) the amount of deferred tax expense (income) relating to the origination and reversal of temporary differences;
(d) the amount of deferred tax expense (income) relating to changes in tax rates or the imposition of new taxes;
(e) the amount of the benefit arising from a previously unrecognised tax loss, tax credit or temporary difference of a prior period that is used to reduce current tax expense;
(f) the amount of the benefit from a previously unrecognised tax loss, tax credit or temporary difference of a prior period that is used to reduce deferred tax expense;
(g) deferred tax expense arising from the write-down, or reversal of a previous write-down, of a deferred tax asset in accordance with paragraph 56; and
(h) the amount of tax expense (income) relating to those changes in accounting policies and fundamental errors which are included in the determination of net profit or loss for the period in accordance with the allowed alternative treatment in IAS 8, Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies.

81. The following should also be disclosed separately:

the aggregate current and deferred tax relating to items that are charged or credited to equity;
(b) tax expense (income) relating to extraordinary items recognised during the period;
(c) an explanation of the relationship between tax expense (income) and accounting profit in either or both of the following forms:
   (i) a numerical reconciliation between tax expense (income) and the product of accounting profit multiplied by the applicable tax rate(s), disclosing also the basis on which the applicable tax rate(s) is (are) computed; or
   (ii) a numerical reconciliation between the average effective tax rate and the applicable tax rate, disclosing also the basis on which the applicable tax rate is computed;
(d) an explanation of changes in the applicable tax rate(s) compared to the previous accounting period;
(e) the amount (and expiry date, if any) of deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax asset is recognised in the balance sheet;
(f) the aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates and interests in joint ventures, for which deferred tax liabilities have not been recognised (see paragraph 39);
(g) in respect of each type of temporary difference, and in respect of each type of unused tax losses and unused tax credits:
   (i) the amount of the deferred tax assets and liabilities recognised in the balance sheet for each period presented;
   (ii) the amount of the deferred tax income or expense recognised in the income statement, if this is not apparent from the changes in the amounts recognised in the balance sheet; and
(h) in respect of discontinued operations, the tax expense relating to:
   (i) the gain or loss on discontinuance; and
   (ii) the profit or loss from the ordinary activities of the discontinued operation for the period, together with the corresponding amounts for each prior period presented.

82. An enterprise should disclose the amount of a deferred tax asset and the nature of the evidence supporting its recognition, when:

(a) the utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences; and
(b) the enterprise has suffered a loss in either the current or preceding period in the tax
jurisdiction to which the deferred tax asset relates.

83. An enterprise discloses the nature and amount of each extraordinary item either on the face of the income statement or in the notes to the financial statements. When this disclosure is made in the notes to the financial statements, the total amount of all extraordinary items is disclosed on the face of the income statement, net of the aggregate related tax expense (income). Although financial statement users may find the disclosure of the tax expense (income) related to each extraordinary item useful, it is sometimes difficult to allocate tax expense (income) between such items. Under these circumstances tax expense (income) relating to extraordinary items may be disclosed in the aggregate.

84. The disclosures required by paragraph 81(c) enable users of financial statements to understand whether the relationship between tax expense (income) and accounting profit is unusual and to understand the significant factors that could affect that relationship in the future. The relationship between tax expense (income) and accounting profit may be affected by such factors as revenue that is exempt from taxation, expenses that are not deductible in determining taxable profit (tax loss), the effect of tax losses and the effect of foreign tax rates.

85. In explaining the relationship between tax expense (income) and accounting profit, an enterprise uses an applicable tax rate that provides the most meaningful information to the users of its financial statements. Often, the most meaningful rate is the domestic rate of tax in the country in which the enterprise is domiciled, aggregating the tax rate applied for national taxes with the rates applied for any local taxes which are computed on a substantially similar level of taxable profit (tax loss). However, for an enterprise operating in several jurisdictions, it may be more meaningful to aggregate separate reconciliations prepared using the domestic rate in each individual jurisdiction. The following example illustrates how the selection of the applicable tax rate affects the presentation of the numerical reconciliation.

86. The average effective tax rate is the tax expense (income) divided by the accounting profit.

87. It would often be impracticable to compute the amount of unrecognised deferred tax liabilities arising from investments in subsidiaries, branches and associates and interests in joint ventures (see paragraph 39). Therefore, this Standard requires an enterprise to disclose the aggregate amount of the underlying temporary differences but does not require disclosure of the deferred tax liabilities. Nevertheless, where practicable, enterprises are encouraged to disclose the amounts of the unrecognised deferred tax liabilities because financial statement users may find such information useful.

88. An enterprise discloses any contingent gains and losses in accordance with IAS 10, Contingencies and Events Occurring After the Balance Sheet Date. Contingent gains and losses may arise, for example, from unresolved disputes with the taxation authorities. Similarly, where changes in tax rates or tax laws are enacted or announced after the balance sheet date, an enterprise discloses any significant effect of those changes on its current and deferred tax assets and liabilities.

Example Illustrating Paragraph 85
In 19X2, an enterprise has accounting profit in its own jurisdiction (country A) of 1,500 (19X1: 2,000) and in country B of 1,500 (19X1: 500). The tax rate is 30% in country A and 20% in country B. In country A, expenses of 100 (19X1: 200) are not deductible for tax purposes.

The following is an example of a reconciliation to the domestic tax rate.

<table>
<thead>
<tr>
<th></th>
<th>19X1</th>
<th>19X2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting profit</td>
<td>2,500</td>
<td>3,000</td>
</tr>
<tr>
<td>Tax at the domestic rate of 30%</td>
<td>750</td>
<td>900</td>
</tr>
<tr>
<td>Tax effect of expenses that are not deductible for tax purposes</td>
<td>60</td>
<td>30</td>
</tr>
<tr>
<td>Effect of lower tax rates in country B</td>
<td>(50)</td>
<td>(150)</td>
</tr>
<tr>
<td>Tax expense</td>
<td>760</td>
<td>780</td>
</tr>
</tbody>
</table>

The following is an example of a reconciliation prepared by aggregating separate reconciliations for each national jurisdiction. Under this method, the effect of differences between the reporting enterprise's own domestic tax rate and the domestic tax rate in other jurisdictions does not appear as a separate item in the reconciliation. An enterprise may need to discuss the effect of significant changes in either tax rates, or the mix of profits earned in different jurisdictions, in order to explain changes in the applicable tax rate(s), as required by paragraph 81(d).

<table>
<thead>
<tr>
<th></th>
<th>19X1</th>
<th>19X2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting profit</td>
<td>2,500</td>
<td>3,000</td>
</tr>
<tr>
<td>Tax at the domestic rates applicable to profits in the country concerned</td>
<td>700</td>
<td>750</td>
</tr>
<tr>
<td>Tax effect of expenses that are not deductible for tax purposes</td>
<td>60</td>
<td>30</td>
</tr>
<tr>
<td>Tax expense</td>
<td>760</td>
<td>780</td>
</tr>
</tbody>
</table>

Effective Date

89. This International Accounting Standard becomes operative for financial statements covering periods beginning on or after 1 January, 1998. If an enterprise applies this Standard for financial statements covering periods beginning before 1 January 1998, the enterprise should disclose the fact it has applied this Standard instead of IAS 12, Accounting for Taxes on Income, approved in 1979.

90. This Standard supersedes IAS 12, Accounting for Taxes on Income, approved in 1979.

Appendix 1

Examples of Temporary Differences

The appendix is illustrative only and does not form part of the standards. The purpose of the appendix is to illustrate the application of the standards to assist in clarifying their meaning.
A. EXAMPLES OF CIRCUMSTANCES THAT GIVE RISE TO TAXABLE TEMPORARY DIFFERENCES

All taxable temporary differences give rise to a deferred tax liability.

Transactions that affect the income statement

1. Revenue from the sale of goods is included in accounting profit when goods are delivered but is included in taxable profit when cash is collected.

2. Depreciation of an asset is accelerated for tax purposes.

3. Development costs have been capitalised and will be amortised to the income statement but were deducted in determining taxable profit in the period in which they were incurred.

4. Prepaid expenses have already been deducted on a cash basis in determining the taxable profit of the current or previous periods.

Transactions that affect the balance sheet

5. Depreciation of an asset is not deductible for tax purposes and no deduction will be available for tax purposes when the asset is sold or scrapped. (note: paragraph 14(b) of the Standard prohibits recognition of the resulting deferred tax liability unless the asset was acquired in a business combination, see also paragraph 21 of the Standard).

6. A borrower records a loan at the proceeds received (which equal the amount due at maturity), less transaction costs. Subsequently, the carrying amount of the loan is increased by amortisation of the transaction costs to accounting profit. The transaction costs were deducted for tax purposes in the period when the loan was first recognised. (notes: (1) the taxable temporary difference is the amount of transaction costs already deducted in determining the taxable profit of current or prior periods, less the cumulative amount amortised to accounting profit; and (2) as the initial recognition of the loan affects taxable profit, the exception in paragraph 14(b) of the Standard does not apply. Therefore, the borrower recognises the deferred tax liability)

7. A loan payable was measured on initial recognition at the amount of the net proceeds, net of transaction costs. The transaction costs are amortised to accounting profit over the life of the loan. Those transaction costs are not deductible in determining the taxable profit of future, current or prior periods. (notes: (1) the taxable temporary difference is the amount of unamortised transaction costs; and (2) paragraph 14(b) of the Standard prohibits recognition of the resulting deferred tax liability)

8. The liability component of a compound financial instrument (for example a convertible bond) is measured at a discount to the amount repayable on maturity, after assigning a portion of the cash proceeds to the equity component (see IAS 32, Financial Instruments: Disclosure and Presentation). The discount is not deductible in determining taxable profit (tax loss). (notes: (1) the taxable temporary difference is the amount of unamortised discount, see example 4 in appendix 2; and (2) an enterprise recognises the resulting deferred tax liability and charges the deferred tax directly to the
Fair value adjustments and revaluations

8. Current investments or financial instruments are carried at fair value which exceeds cost but no equivalent adjustment is made for tax purposes.

9. An enterprise revalues property, plant and equipment (under the allowed alternative treatment in IAS 16, Property, Plant and Equipment) but no equivalent adjustment is made for tax purposes. (note: paragraph 58 of the Standard requires the related deferred tax to be charged directly to equity).

Business combinations and consolidation

10. The carrying amount of an asset is increased to fair value in a business combination that is an acquisition and no equivalent adjustment is made for tax purposes. (note: on initial recognition, the resulting deferred tax liability increases goodwill or decreases negative goodwill, see paragraph 62 of the Standard).

11. Amortisation of goodwill is not deductible in determining taxable profit and the cost of the goodwill would not be deductible on disposal of the business (note: paragraph 14(a) of the Standard prohibits recognition of the resulting deferred tax liability).

12. Unrealised losses resulting from intragroup transactions are eliminated by inclusion in the carrying amount of inventory or property, plant and equipment.

13. Retained earnings of subsidiaries, branches, associates and joint ventures are included in consolidated retained earnings, but income taxes will be payable if the profits are distributed to the reporting parent. (note: paragraph 37 of the Standard prohibits recognition of the resulting deferred tax liability if the parent, investor or venturer is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future).

14. Investments in foreign subsidiaries, branches or associates or interests in foreign joint ventures are affected by changes in foreign exchange rates. (notes: (1) there may be either a taxable temporary difference or a deductible temporary difference; and (2) paragraph 37 of the Standard prohibits recognition of the resulting deferred tax liability if the parent, investor or venturer is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future).

15. An enterprise accounts in its own currency for the cost of the non-monetary assets of a foreign operation that is integral to the reporting enterprise's operations but the taxable profit or tax loss of the foreign operation is determined in the foreign currency. (notes: (1) there may be either a taxable temporary difference or a deductible temporary difference; (2) where there is a taxable temporary difference, the resulting deferred tax liability is recognised, because it relates to the foreign operation's own assets and liabilities, rather than to the reporting enterprise's investment in that foreign operation.
(paragraph 37 of the Standard); and (3) the deferred tax is charged in the income statement, see paragraph 55 of the Standard).

Hyperinflation

18. Non-monetary assets are restated in terms of the measuring unit current at the balance sheet date (see IAS 29, Financial Reporting in Hyperinflationary Economies) and no equivalent adjustment is made for tax purposes. (notes: (1) the deferred tax is charged in the income statement; and (2) if, in addition to the restatement, the non-monetary assets are also revalued, the deferred tax relating to the revaluation is charged to equity and the deferred tax relating to the restatement is charged in the income statement).

B. EXAMPLES OF CIRCUMSTANCES THAT GIVE RISE TO DEDUCTIBLE TEMPORARY DIFFERENCES

All deductible temporary differences give rise to a deferred tax asset. However, some deferred tax assets may not satisfy the recognition criteria in paragraph 22 of the Standard.

Transactions that affect the income statement

1. Accumulated depreciation of an asset in the financial statements is greater than the cumulative depreciation allowed up to the balance sheet date for tax purposes.

2. The cost of inventories sold before the balance sheet date is deducted in determining accounting profit when goods or services are delivered but is deducted in determining taxable profit when cash is collected. (note: as explained in A2 above, there is also a taxable temporary difference associated with the related trade receivable).

3. The net realisable value of an item of inventory, or the recoverable amount of an item of property, plant or equipment, is less than the previous carrying amount and an enterprise therefore reduces the carrying amount of the asset, but that reduction is ignored for tax purposes until the asset is sold.

4. Research costs (or organisation or other start up costs) are recognised as an expense in determining accounting profit but are not permitted as a deduction in determining taxable profit until a later period.

5. Income is deferred in the balance sheet but has already been included in taxable profit in current or prior periods.

6. A government grant which is included in the balance sheet as deferred income will not be taxable in future periods. (note: paragraph 22 of the Standard prohibits the recognition of the resulting deferred tax asset, see also paragraph 31 of the Standard).

Fair value adjustments and revaluations

7. Current investments or financial instruments are carried at fair value which is less than cost, but no equivalent adjustment is made for tax purposes.

Business combinations and consolidation

8. A liability is recognised at its fair value in a business combination that is an acquisition, but none of the related expense is deducted in determining taxable profit until a later
period. (note: the resulting deferred tax asset decreases goodwill or increases negative goodwill, see paragraph 62 of the Standard).

10. Unrealised profits resulting from intragroup transactions are eliminated from the carrying amount of assets, such as inventory or property, plant or equipment, but no equivalent adjustment is made for tax purposes.

11. Investments in foreign subsidiaries, branches or associates or interests in foreign joint ventures are affected by changes in foreign exchange rates. (notes: (1) there may be a taxable temporary difference or a deductible temporary difference; and (2) paragraph 44 of the Standard requires recognition of the resulting deferred tax asset to the extent, and only to the extent, that it is probable that: (a) the temporary difference will reverse in the foreseeable future; and (b) taxable profit will be available against which the temporary difference can be utilised).

12. An enterprise accounts in its own currency for the cost of the non-monetary assets of a foreign operation that is integral to the reporting enterprise's operations but the taxable profit or tax loss of the foreign operation is determined in the foreign currency. (notes: (1) there may be either a taxable temporary difference or a deductible temporary difference; (2) where there is a deductible temporary difference, the resulting deferred tax asset is recognised to the extent that it is probable that sufficient taxable profit will be available, because the deferred tax asset relates to the foreign operation's own assets and liabilities, rather than to the reporting enterprise's investment in that foreign operation (paragraph 41 of the Standard); and (3) the deferred tax is charged in the income statement, see paragraph 58 of the Standard).

C. EXAMPLES OF CIRCUMSTANCES WHERE THE CARRYING AMOUNT OF AN ASSET OR LIABILITY IS EQUAL TO ITS TAX BASE

1. Accrued expenses have already been deducted in determining an enterprise's current tax liability for the current or earlier periods.

2. A loan payable is measured at the amount originally received and this amount is the same as the amount repayable on final maturity of the loan.

3. Accrued expenses will never be deductible for tax purposes.

4. Accrued income will never be taxable.

Appendix 2

Illustrative Computations and Presentation

The appendix is illustrative only and does not form part of the standards. The purpose of the appendix is to illustrate the application of the standards to assist in clarifying their meaning. Extracts from income statements and balance sheets are provided to show the effects on these financial statements of the transactions described below. These extracts do
not necessarily conform with all the disclosure and presentation requirements of other International Accounting Standards.

All the examples in this appendix assume that the enterprises concerned have no transaction other than those described.

Example 1 - Depreciable Assets

An enterprise buys equipment for 10,000 and depreciates it on a straight line basis over its expected useful life of five years. For tax purposes, the equipment is depreciated at 25% per annum on a straight line basis. Tax losses may be carried back against taxable profit of the previous five years. In year 0, the enterprise's taxable profit was 5,000. The tax rate is 40%.

The enterprise will recover the carrying amount of the equipment by using it to manufacture goods for resale. Therefore, the enterprise's current tax computation is as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxable income</td>
<td>2,000</td>
<td>2,000</td>
<td>2,000</td>
<td>2,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Depreciation for tax</td>
<td>2,500</td>
<td>2,500</td>
<td>2,500</td>
<td>2,500</td>
<td>0</td>
</tr>
<tr>
<td>Taxable profit (tax loss)</td>
<td>(500)</td>
<td>(500)</td>
<td>(500)</td>
<td>(500)</td>
<td>2,000</td>
</tr>
<tr>
<td>Current tax expense (income) at 40%</td>
<td>(200)</td>
<td>(200)</td>
<td>(200)</td>
<td>(200)</td>
<td>800</td>
</tr>
</tbody>
</table>

The enterprise recognises a current tax asset at the end of years 1 to 4 because it recovers the benefit of the tax loss against the taxable profit of year 0.

The temporary differences associated with the equipment and the resulting deferred tax asset and liability and deferred tax expense and income are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carrying Amount</td>
<td>8,000</td>
<td>6,000</td>
<td>4,000</td>
<td>2,000</td>
<td>0</td>
</tr>
<tr>
<td>Tax base</td>
<td>7,500</td>
<td>5,000</td>
<td>2,500</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Taxable temporary difference</td>
<td>500</td>
<td>1,000</td>
<td>1,500</td>
<td>2,000</td>
<td>0</td>
</tr>
<tr>
<td>Opening deferred tax liability</td>
<td>0</td>
<td>200</td>
<td>400</td>
<td>600</td>
<td>800</td>
</tr>
<tr>
<td>Deferred tax expense (income)</td>
<td>200</td>
<td>200</td>
<td>200</td>
<td>200</td>
<td>(800)</td>
</tr>
<tr>
<td>Closing deferred tax liability</td>
<td>200</td>
<td>400</td>
<td>600</td>
<td>800</td>
<td>0</td>
</tr>
</tbody>
</table>

The enterprise recognises the deferred tax liability in years 1 to 4 because the reversal of the taxable temporary difference will create taxable income in subsequent years. The enterprise's income statement is as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>
Example 2 - Deferred Tax Assets and Liabilities

The example deals with an enterprise over the two year period, X5 and X6. In X5 the enacted income tax rate was 40% of taxable profit. In X6 the enacted income tax rate was 35% of taxable profit.

Charitable donations are recognised as an expense when they are paid and are not deductible for tax purposes.

In X5, the enterprise was notified by the relevant authorities that they intend to pursue an action against the enterprise with respect to sulphur emissions. Although as at December X6 the action had not yet come to court the enterprise recognised a liability of 700 in X5 being its best estimate of the fine arising from the action. Fines are not deductible for tax purposes.

In X2, the enterprise incurred 1,250 of costs in relation to the development of a new product. These costs were deducted for tax purposes in X2. For accounting purposes, the enterprise capitalised this expenditure and amortised it on the straight line basis over five years. At 31/12/X4, the unamortised balance of these product development costs was 500.

In X5, the enterprise entered into an agreement with its existing employees to provide health care benefits to retirees. The enterprise recognises as an expense the cost of this plan as employees provide service. No payments to retirees were made for such benefits in X5 or X6. Health care costs are deductible for tax purposes when payments are made to retirees. The enterprise has determined that it is probable that taxable profit will be available against which any resulting deferred tax asset can be utilised.

Buildings are depreciated for accounting purposes at 5% a year on a straight line basis and at 10% a year on a straight line basis for tax purposes. Motor vehicles are depreciated for accounting purposes at 20% a year on a straight line basis and at 25% a year on a straight line basis for tax purposes. A full year's depreciation is charged for accounting purposes in the year that an asset is acquired.

At 1/1/X6, the building was revalued to 65,000 and the enterprise estimated that the remaining useful life of the building was 20 years from the date of the revaluation. The revaluation did not affect taxable profit in X6 and the taxation authorities did not adjust the tax base of the building to reflect the revaluation. In X6, the enterprise transferred 1,033 from revaluation reserve to retained earnings. This represents the difference of 1,590

<table>
<thead>
<tr>
<th>Income</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation</td>
<td>2,000</td>
<td>2,000</td>
<td>2,000</td>
<td>2,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Current tax expense (income)</td>
<td>(200)</td>
<td>(200)</td>
<td>(200)</td>
<td>(200)</td>
<td>800</td>
</tr>
<tr>
<td>Deferred tax expense (income)</td>
<td>200</td>
<td>200</td>
<td>200</td>
<td>200</td>
<td>0</td>
</tr>
<tr>
<td>Total expenses (income)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>(800)</td>
</tr>
<tr>
<td>Net profit for the period</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>
between the actual depreciation on the building (3,250) and equivalent depreciation based on the cost of the building (1,660, which is the book value at 1/1/X6 of 33,200 divided by the remaining useful life of 20 years), less the related deferred tax of 557 (see paragraph 64 of the Standard).

Current Tax Expense

<table>
<thead>
<tr>
<th></th>
<th>X5</th>
<th>X6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting profit</td>
<td>8,775</td>
<td>8,740</td>
</tr>
<tr>
<td>Add</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation for accounting purposes</td>
<td>4,800</td>
<td>8,250</td>
</tr>
<tr>
<td>Charitable donations</td>
<td>500</td>
<td>350</td>
</tr>
<tr>
<td>Fine for environmental pollution</td>
<td>700</td>
<td>-</td>
</tr>
<tr>
<td>Product development costs</td>
<td>250</td>
<td>250</td>
</tr>
<tr>
<td>Health care benefits</td>
<td>2,000</td>
<td>1,000</td>
</tr>
<tr>
<td></td>
<td>17,025</td>
<td>18,590</td>
</tr>
<tr>
<td>Deduct</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation for tax purposes</td>
<td>(8,100)</td>
<td>(11,850)</td>
</tr>
<tr>
<td>Taxable Profit</td>
<td>8,925</td>
<td>6,740</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current tax expense at 40%</td>
<td>3,570</td>
<td></td>
</tr>
<tr>
<td>Current tax expense at 35%</td>
<td></td>
<td>2,359</td>
</tr>
</tbody>
</table>

Carrying Amounts of Property, Plant and Equipment

<table>
<thead>
<tr>
<th>Cost</th>
<th>Building</th>
<th>Motor Vehicles</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at 31/12/X4</td>
<td>50,000</td>
<td>10,000</td>
<td>60,000</td>
</tr>
<tr>
<td>Additions X5</td>
<td>6,000</td>
<td>-</td>
<td>6,000</td>
</tr>
<tr>
<td>Balance at 31/12/X5</td>
<td>56,000</td>
<td>10,000</td>
<td>66,000</td>
</tr>
<tr>
<td>Elimination of accumulated depreciation on revaluation at 1/1/X6</td>
<td>(22,800)</td>
<td>-</td>
<td>(22,800)</td>
</tr>
<tr>
<td>Revaluation at 1/1/X6</td>
<td>31,800</td>
<td>-</td>
<td>31,800</td>
</tr>
<tr>
<td>Balance at 1/1/X6</td>
<td>65,000</td>
<td>10,000</td>
<td>75,000</td>
</tr>
<tr>
<td>Additions X6</td>
<td>-</td>
<td>15,000</td>
<td>15,000</td>
</tr>
<tr>
<td></td>
<td>65,000</td>
<td>25,000</td>
<td>90,000</td>
</tr>
<tr>
<td>Accumulated Depreciation</td>
<td>5%</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td>Balance at 31/12/X4</td>
<td>20,000</td>
<td>4,000</td>
<td>24,000</td>
</tr>
<tr>
<td>Depreciation X5</td>
<td>2,800</td>
<td>2,000</td>
<td>4,800</td>
</tr>
<tr>
<td>Balance at 31/12/X5</td>
<td>22,800</td>
<td>6,000</td>
<td>28,800</td>
</tr>
<tr>
<td>Revaluation at 1/1/X6</td>
<td>(22,800)</td>
<td>-</td>
<td>(22,800)</td>
</tr>
<tr>
<td>Balance at 1/1/X6</td>
<td>-</td>
<td>6,000</td>
<td>6,000</td>
</tr>
<tr>
<td>Depreciation X6</td>
<td>3,250</td>
<td>5,000</td>
<td>8,250</td>
</tr>
</tbody>
</table>
### Tax Base of Property, Plant and Equipment

<table>
<thead>
<tr>
<th></th>
<th>Cost</th>
<th>Building</th>
<th>Motor Vehicles</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at 31/12/X4</td>
<td>50,000</td>
<td>10,000</td>
<td>60,000</td>
<td></td>
</tr>
<tr>
<td>Additions X5</td>
<td>6,000</td>
<td>-</td>
<td>6,000</td>
<td></td>
</tr>
<tr>
<td>Balance at 31/12/X5</td>
<td>56,000</td>
<td>10,000</td>
<td>66,000</td>
<td></td>
</tr>
<tr>
<td>Additions X6</td>
<td>-</td>
<td>15,000</td>
<td>15,000</td>
<td></td>
</tr>
<tr>
<td>Balance at 31/12/X6</td>
<td>56,000</td>
<td>25,000</td>
<td>81,000</td>
<td></td>
</tr>
</tbody>
</table>

### Deferred Tax Assets, Liabilities and Expense at 31/12/X4

<table>
<thead>
<tr>
<th></th>
<th>Carrying Amount</th>
<th>Tax Base</th>
<th>Temporary Differences</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts receivable</td>
<td>500</td>
<td>500</td>
<td>-</td>
</tr>
<tr>
<td>Inventory</td>
<td>2,000</td>
<td>2,000</td>
<td>-</td>
</tr>
<tr>
<td>Product development costs</td>
<td>500</td>
<td>-</td>
<td>500</td>
</tr>
<tr>
<td>Investments</td>
<td>33,000</td>
<td>33,000</td>
<td>-</td>
</tr>
<tr>
<td>Property, plant &amp; equipment</td>
<td>36,000</td>
<td>15,000</td>
<td>21,000</td>
</tr>
<tr>
<td>TOTAL ASSETS</td>
<td>72,000</td>
<td>50,500</td>
<td>21,500</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Current income taxes payable</th>
<th>Accounts payable</th>
<th>Fines payable</th>
<th>Liability for health care benefits</th>
<th>Long term debt</th>
<th>Deferred income taxes</th>
<th>TOTAL LIABILITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3,000</td>
<td>500</td>
<td>-</td>
<td>-</td>
<td>20,000</td>
<td>8,600</td>
<td>32,100</td>
</tr>
<tr>
<td>TOTAL LIABILITIES</td>
<td>32,100</td>
<td>32,100</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
Deferred Tax Assets, Liabilities and Expense at 31/12/X5

<table>
<thead>
<tr>
<th>Carrying Amount</th>
<th>Tax Base</th>
<th>Temporary Differences</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts receivable</td>
<td>500</td>
<td>500</td>
</tr>
<tr>
<td>Inventory</td>
<td>2,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Product development costs</td>
<td>250</td>
<td>-</td>
</tr>
<tr>
<td>Investments</td>
<td>33,000</td>
<td>33,000</td>
</tr>
<tr>
<td>Property, plant &amp; equipment</td>
<td>37,200</td>
<td>12,900</td>
</tr>
<tr>
<td>TOTAL ASSETS</td>
<td>72,950</td>
<td>48,400</td>
</tr>
</tbody>
</table>

Current income taxes payable | 3,570   | 3,570 | -
Accounts payable        | 500     | 500   | -
Fines payable          | 700     | 700   | -
Liability for health care benefits | 2,000 | - | (2,000)
Long term debt         | 12,475  | 12,475 | -
Deferred income taxes  | 9,020   | 9,020 | -
TOTAL LIABILITIES      | 28,265  | 26,265 | (2,000)

Deferred tax liability   | 24,550 at 40% | 9,820
Deferred tax asset      | (2,000) at 40% | (800)
Net deferred tax liability | 9,020
Less: Opening deferred tax liability | (8,600)
Deferred tax expense (income) related to the origination and reversal of temporary differences | 420
Deferred Tax Assets, Liabilities and Expense at 31/12/X6

<table>
<thead>
<tr>
<th>Carrying Amount</th>
<th>Tax Base</th>
<th>Temporary Differences</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts receivable</td>
<td>500</td>
<td>500</td>
</tr>
<tr>
<td>Inventory</td>
<td>2,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Product development costs</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Investments</td>
<td>33,000</td>
<td>33,000</td>
</tr>
<tr>
<td>Property, plant &amp; equipment</td>
<td>75,750</td>
<td>16,050</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td><strong>111,250</strong></td>
<td><strong>51,550</strong></td>
</tr>
<tr>
<td>Current income taxes payable</td>
<td>2,359</td>
<td>2,359</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>500</td>
<td>500</td>
</tr>
<tr>
<td>Fines payable</td>
<td>700</td>
<td>700</td>
</tr>
<tr>
<td>Liability for health care benefits</td>
<td>3,000</td>
<td>-</td>
</tr>
<tr>
<td>Long term debt</td>
<td>12,805</td>
<td>12,805</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>19,845</td>
<td>19,845</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES</strong></td>
<td><strong>39,209</strong></td>
<td><strong>36,209</strong></td>
</tr>
<tr>
<td>Share capital</td>
<td>5,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Revaluation surplus</td>
<td>19,637</td>
<td>-</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>47,404</td>
<td>10,341</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES / EQUITY</strong></td>
<td><strong>111,250</strong></td>
<td><strong>51,550</strong></td>
</tr>
</tbody>
</table>

**TEMPORARY DIFFERENCES**

| Deferred tax liability | 59,700 at 35% | 20,895 |
| Deferred tax asset | (3,000 at 35%) | (1,050) |

Net deferred tax liability | 19,845 |
Less: Opening deferred tax liability | (9,020) |
Adjustment to opening deferred tax liability resulting from reduction in tax rate | 22,550 at 5 % | 1,127 |
Deferred tax attributable to revaluation surplus | 31,800 at 35% | (11,130) |
Deferred tax expense (income) related to the origination and reversal of temporary differences | 822 |

Illustrative Disclosure

The amounts to be disclosed in accordance with the Standard are as follows:

Major components of tax expense (income) (paragraph 72)

<table>
<thead>
<tr>
<th>X5</th>
<th>X6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current tax expense</td>
<td>3,570</td>
</tr>
<tr>
<td>Deferred tax expense relating to the origination and reversal of temporary differences:</td>
<td>420</td>
</tr>
</tbody>
</table>
Deferred tax expense (income) resulting from reduction in tax rate

- (1,127)

Tax expense 3,990 2,054

Aggregate current and deferred tax relating to items charged or credited to equity (paragraph 74(a))

Deferred tax relating to revaluation of building - (11,130)

In addition, deferred tax of 557 was transferred in X6 from retained earnings to revaluation reserve. This relates to the difference between the actual depreciation on the building and equivalent depreciation based on the cost of the building.

Explanation of the relationship between tax expense and accounting profit (paragraph 74(c))

The Standard permits two alternative methods of explaining the relationship between tax expense (income) and accounting profit. Both of these formats are illustrated on the next page.

(i) (i) a numerical reconciliation between tax expense (income) and the product of accounting profit multiplied by the applicable tax rate(s), disclosing also the basis on which the applicable tax rate(s) is (are) computed

<table>
<thead>
<tr>
<th>X5</th>
<th>X6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting profit</td>
<td>8,775</td>
</tr>
<tr>
<td>Tax at the applicable tax rate of 35% (X5: 40%)</td>
<td>3,510</td>
</tr>
<tr>
<td>Tax effect of expenses that are not deductible in determining taxable profit:</td>
<td></td>
</tr>
<tr>
<td>Charitable donations</td>
<td>200</td>
</tr>
<tr>
<td>Fines for environmental pollution</td>
<td>280</td>
</tr>
<tr>
<td>Reduction in opening deferred taxes resulting from reduction in tax rate</td>
<td>-</td>
</tr>
<tr>
<td>Tax expense</td>
<td>3,990</td>
</tr>
</tbody>
</table>

The applicable tax rate is the aggregate of the national income tax rate of 30% (X5: 35%) and the local income tax rate of 5%.

(ii) (ii) a numerical reconciliation between the average effective tax rate and the applicable tax rate, disclosing also the basis on which the applicable tax rate is computed

<table>
<thead>
<tr>
<th>X5</th>
<th>X6</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>40.0</td>
<td>35.0</td>
</tr>
</tbody>
</table>

Tax effect of expenses that are not deductible for tax purposes:

<table>
<thead>
<tr>
<th></th>
<th>X5</th>
<th>X6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charitable donations</td>
<td>2.3</td>
<td>1.4</td>
</tr>
<tr>
<td>Fines for environmental pollution</td>
<td>3.2</td>
<td>-</td>
</tr>
</tbody>
</table>
Effect on opening deferred taxes of reduction in tax rate

\[
\begin{array}{ccc}
\text{Effect on opening deferred taxes of reduction} & - & (12.9) \\
\text{in tax rate} & & \\
\text{Average effective tax rate (tax expense divided by profit before tax)} & 45.5 & 23.5
\end{array}
\]

The applicable tax rate is the aggregate of the national income tax rate of 30% (X5: 35%) and the local income tax rate of 5%.

An explanation of changes in the applicable tax rate(s) compared to the previous accounting period (paragraph 74(d))

In X6, the government enacted a change in the national income tax rate from 35% to 30%.

In respect of each type of temporary difference, and in respect of each type of unused tax losses and unused tax credits:

(i) the amount of the deferred tax assets and liabilities recognised in the balance sheet for each period presented;
(ii) the amount of the deferred tax income or expense recognised in the income statement for each period presented, if this is not apparent from the changes in the amounts recognised in the balance sheet (paragraph 74(g))

<table>
<thead>
<tr>
<th></th>
<th>X5</th>
<th>X6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accelerated depreciation for tax purposes</td>
<td>9,720</td>
<td>10,322</td>
</tr>
<tr>
<td>Liabilities for health care benefits that are deducted for tax purposes only when paid</td>
<td>(800)</td>
<td>(1,050)</td>
</tr>
<tr>
<td>Product development costs deducted from taxable profit in earlier years</td>
<td>100</td>
<td>-</td>
</tr>
<tr>
<td>Revaluation, net of related depreciation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred tax liability</td>
<td>9,020</td>
<td>19,845</td>
</tr>
</tbody>
</table>

(note: the amount of the deferred tax income or expense recognised in the income statement for the current year is apparent from the changes in the amounts recognised in the balance sheet)

Example 3 - Business Combinations

On 1 January X5 enterprise A acquired 100% of the shares of enterprise B at a cost of 600. A amortises goodwill over 5 years. Goodwill amortisation is not deductible for tax purposes. The tax rate in A’s tax jurisdiction is 30% and the tax rate in B’s tax jurisdiction is 40%.

The fair value of the identifiable assets and liabilities (excluding deferred tax assets and liabilities) acquired by A is set out in the following table, together with their tax base in B’s tax jurisdiction and the resulting temporary differences.
<table>
<thead>
<tr>
<th>Asset/ Liability</th>
<th>Cost of Acquisition</th>
<th>Tax Base</th>
<th>Temporary Differences</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property, plant and equipment</td>
<td>270</td>
<td>155</td>
<td>115</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>210</td>
<td>210</td>
<td>-</td>
</tr>
<tr>
<td>Inventory</td>
<td>174</td>
<td>124</td>
<td>50</td>
</tr>
<tr>
<td>Retirement benefit obligations</td>
<td>(30)</td>
<td>-</td>
<td>(30)</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>(120)</td>
<td>(120)</td>
<td>-</td>
</tr>
<tr>
<td>Fair value of the identifiable assets and liabilities acquired, excluding deferred tax</td>
<td>504</td>
<td>369</td>
<td>135</td>
</tr>
</tbody>
</table>

The deferred tax asset arising from the retirement benefit obligations is offset against the deferred tax liabilities arising from the property, plant and equipment and inventory (see paragraph 69 of the Standard).

No deduction is available in B's tax jurisdiction for the cost of the goodwill. Therefore, the tax base of the goodwill (in B's jurisdiction) is nil. However, in accordance with paragraph 14(a) of the Standard, A recognises no deferred tax liability for the taxable temporary difference associated, in B's tax jurisdiction, with the goodwill.

The carrying amount, in A's consolidated financial statements, of its investment in B is made up as follows:

- Fair value of identifiable assets and liabilities acquired, excluding deferred tax: 504
- Deferred tax liability (135 at 40%): (54)
- Fair value of identifiable assets and liabilities acquired: 450
- Goodwill (net of amortisation of nil): 150
- Carrying amount: 600

At the date of acquisition, the tax base, in A's tax jurisdiction, of A's investment in B is 600. Therefore, no temporary difference is associated, in A's jurisdiction, with the investment.

During X5, B's equity (incorporating the fair value adjustments made on acquisition) changed as follows:

- At 1 January X5: 450
- Retained profit for X5 (net profit of 150, less dividend payable of 80): 70
- At 31 December X5: 520

A recognises a liability for any withholding tax or other taxes that it will suffer on the accrued dividend receivable of 80.

At 31 December X5, the carrying amount of A's underlying investment in B, excluding the accrued dividend receivable, is as follows:

- Net assets of B: 520
- Goodwill (net of amortisation of 30): 120
- Carrying amount: 640
The temporary difference associated with A’s underlying investment is 40 as follows:

- Cumulative retained profit since acquisition: 70
- Cumulative amortisation of goodwill: (30)
- **Total:** 40

If A has determined that it will not sell the investment in the foreseeable future and that B will not distribute its retained profits in the foreseeable future, no deferred tax liability is recognised in relation to A’s investment in B (see paragraphs 37 and 38 of the Standard). Note that this exception would apply for an investment in an associate only if there is an agreement requiring that the profits of the associate will not be distributed in the foreseeable future (see paragraph 40 of the Standard). A discloses the amount (40) of the temporary difference for which no deferred tax is recognised (see paragraph 74(f) of the Standard).

If A expects to sell the investment in B, or that B will distribute its retained profits in the foreseeable future, A recognises a deferred tax liability to the extent that the temporary difference is expected to reverse. The tax rate reflects the manner in which A expects to recover the carrying amount of its investment (see paragraph 48 of the Standard). A credits or charges the deferred tax to equity to the extent that the deferred tax results from foreign exchange translation differences which have been charged or credited directly to equity (paragraph 61 of the Standard). A discloses separately:

(a) the amount of deferred tax which has been charged or credited directly to equity (paragraph 74(a) of the Standard); and
(b) the amount of any remaining temporary difference which is not expected to reverse in the foreseeable future and for which, therefore, no deferred tax is recognised (see paragraph 74(f) of the Standard).

**CAS 16**

**Introduction**

This Cambodian Accounting Standard (“CAS 16”) sets out the required accounting treatment and disclosures for property, plant and equipment. It is a requirement of Cambodian law that financial statements for all Accounting Entities (as defined by the Law) are to be prepared in accordance with International Accounting Standards. Therefore, this CAS 16 includes all the relevant paragraphs from the equivalent International Accounting Standard (“IAS 16”). This Standard has been expanded to include background material and implementation guidance for Cambodia.

An item of property, plant and equipment should be recognised as an asset when it is probable that future economic benefits associated with the asset will flow to the enterprise, and the cost of the asset to the enterprise can be measured reliably.
The cost of an item of property, plant and equipment should be capitalised. Subsequent related expenditures should be capitalised only if they increase the future economic benefit beyond the item’s previously assessed standard of performance.

When expenditure on an asset is required for safety or environmental reasons, such expenditure, while not directly increasing the future economic benefits from the existing asset, may be necessary in order for the enterprise to obtain the future economic benefits from the existing asset. This expenditure can be capitalised to the extent that the resulting carrying amount of the asset does not exceed the total recoverable amount of that asset.

Property, plant and equipment may be carried at either depreciated historical cost (the benchmark treatment) or at a revalued amount (the allowed alternative treatment). Historical cost consists of the purchase price and any directly attributable costs to bring the asset to working condition.

Where assets are carried at a revalued amount, the revaluations should be applied to an entire class of assets and should be kept current. An upward revaluation of assets should be credited directly to a revaluation reserve in shareholders equity unless it reverses a decrease on the same asset previously charged to income. In this case, an amount will be credited to income which is equal to the lower of the upward revaluation or the previous decrease. A downward revaluation should be charged to expense unless there is a balance in the revaluation reserve arising from a previous upward revaluation of the same asset. In this case, an amount will be debited to the revaluation reserve which is equal to the lower of the downward revaluation or the balance in the revaluation reserve relating to that asset.

The depreciable amount of an asset is its cost (or valuation) less its residual value. The residual value is the net amount which an enterprise expects to obtain for an asset at the end of its useful life.

The depreciable amount should be allocated on a systematic basis over the asset’s useful life. The depreciation method and rate should reflect the pattern of expected economic benefit and should be applied consistently unless circumstances (which should be reviewed periodically) alter and justify a change. Changes in method or rate are treated as a change in accounting estimate (that is, are applied prospectively).

An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount. An impairment should be recognised when the recoverable amount has declined below the carrying amount and should be reversed if circumstances subsequently improve and there is persuasive evidence that the improved circumstances will persist.

On disposal, the difference between the net proceeds and the net carrying amount should be recognised as income or expense. Any surplus in the revaluation reserve relating to an eliminated asset may be transferred to retained earnings.

The required disclosures include (for each major class of asset) the bases used for determining the gross carrying amount (and, when more than one basis has been used, the gross carrying amount for that basis in each category), depreciation methods used, useful lives (or depreciation rates used), total depreciation for the period and a reconciliation of the carrying amount at the beginning and end of the period.
The Standard uses the term “enterprise” to refer to all Accounting Entities that are required to prepare financial statements in accordance with Cambodian Accounting Standards.

This Standard is not intended to apply to immaterial items.

Objective

The objective of this Standard is to prescribe the accounting treatment for property, plant and equipment. The principal issues in accounting for property, plant and equipment are the timing of recognition of the assets, the determination of their carrying amounts and the depreciation charges to be recognised in relation to them.

Scope

1. This Standard should be applied in accounting for property, plant and equipment except when another Cambodian Accounting Standard requires or permits a different accounting treatment.

2. This Standard does not apply to:
   (a) forests and similar regenerative natural resources; and
   (b) mineral rights, the exploration for and extraction of minerals, oil, natural gas and similar non-regenerative resources.

   However, this Standard does apply to property, plant and equipment used to develop or maintain the activities or assets covered in (a) or (b) but separable from those activities or assets.

3. In some circumstances other Standards may permit the initial recognition of the carrying amount of property, plant and equipment to be determined using an approach different from that prescribed in this Standard. For example property, plant and equipment acquired in a business combination may be measured initially at fair value even when it exceeds cost. However, in such cases all other aspects of the accounting treatment for these assets, including depreciation, are determined by the requirements of this Standard.

Definitions

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

**Property, plant and equipment** are tangible assets that:
   (a) are held by an enterprise for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
   (b) are expected to be used during more than one period.

**Depreciation** is the systematic allocation of the depreciable amount of an asset over its useful life.
Depreciable amount is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.

Useful life is either:

(a) the period of time over which an asset is expected to be used by the enterprise; or
(b) the number of production or similar units expected to be obtained from the asset by the enterprise.

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 or construction.

Residual value is the net amount which the enterprise expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.

Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm’s length transaction.

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

Carrying amount is the amount at which an asset is recognised in the balance sheet after deducting any accumulated depreciation and accumulated impairment losses thereon.

Recognition of Property, Plant and Equipment

5. An item of property, plant and equipment should be recognised as an asset when:

(a) it is probable that future economic benefits associated with the asset will flow to the enterprise; and
(b) the cost of the asset to the enterprise can be measured reliably.

6. Property, plant and equipment is often a major portion of the total assets of an enterprise, and therefore is significant in the presentation of its financial position. Furthermore, the determination of whether an expenditure represents an asset or an expense can have a significant effect on an enterprise’s reported results of operations.

7. In determining whether an item satisfies the first criterion for recognition, an enterprise needs to assess the degree of certainty attaching to the flow of future economic benefits on the basis of the available evidence at the time of initial recognition. Existence of sufficient certainty that the future economic benefits will flow to the enterprise necessitates an assurance that the enterprise will receive the rewards attaching to the asset and will undertake the associated risks. This assurance is usually only available when the risks and rewards have passed to the enterprise. Before this occurs, the transaction to acquire the asset can usually be cancelled without significant penalty and, therefore, the asset is not recognised.

8. The second criterion for recognition is usually readily satisfied because the exchange transaction evidencing the purchase of the asset identifies its cost. In the case of a self-constructed asset, a reliable measurement of the cost can be made from the
transactions with parties external to the enterprise for the acquisition of the materials, labour and other inputs used during the construction process.

9. In identifying what constitutes a separate item of property, plant and equipment, judgement is required in applying the criteria in the definition to specific circumstances or specific types of enterprises. It may be appropriate to aggregate individually insignificant items, such as moulds, tools and dies, and to apply the criteria to the aggregate value. Most spare parts and servicing equipment are usually carried as inventory and recognised as an expense as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when the enterprise expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment and their use is expected to be irregular, they are accounted for as property, plant and equipment and are depreciated over a time period not exceeding the useful life of the related asset.

10. In certain circumstances, it is appropriate to allocate the total expenditure on an asset to its component parts and account for each component separately. This is the case when the component assets have different useful lives or provide benefits to the enterprise in a different pattern, thus necessitating use of different depreciation rates and methods. For example, an aircraft and its engines need to be treated as separate depreciable assets if they have different useful lives.

11. Property, plant and equipment may be acquired for safety or environmental reasons. The acquisition of such property, plant and equipment, while not directly increasing the future economic benefits of any particular existing item of property, plant and equipment may be necessary in order for the enterprise to obtain the future economic benefits from its other assets. When this is the case, such acquisitions of property, plant and equipment qualify for recognition as assets, in that they enable future economic benefits from related assets to be derived by the enterprise in excess of what it could derive if they had not been acquired. However, such assets are only recognised to the extent that the resulting carrying amount of such an asset and related assets does not exceed the total recoverable amount of that asset and its related assets. For example, a chemical manufacturer may have to install certain new chemical handling processes in order to comply with environmental requirements on the production and storage of dangerous chemicals; related plant enhancements are recognised as an asset to the extent they are recoverable because, without them, the enterprise is unable to manufacture and sell chemicals.

**Initial Measurement of Property, Plant and Equipment**

12. An item of property, plant and equipment which qualifies for recognition as an asset should initially be measured at its cost.

**Components of Cost**

13. 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 are:

(a) the cost of site preparation;
(b) initial delivery and handling costs;
(c) installation costs;
(d) professional fees such as for architects and engineers; 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.

14. When payment for an item of property, plant and equipment is deferred beyond normal credit terms, its cost is the cash price equivalent; the difference between this amount and the total payments is recognised as interest expense over the period of credit.

15. 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 achieving planned performance are recognised as an expense.

16. The cost of a self-constructed asset is determined using the same principles as for an acquired asset. If an enterprise makes similar assets for sale in the normal course of business, the cost of the asset is usually the same as the cost of producing the assets for sale. Therefore, any internal profits are eliminated in arriving at such costs. Similarly, the cost of abnormal amounts of wasted material, labour, or other resources incurred in the production of a self-constructed asset is not included in the cost of the asset. A separate Standard establishes criteria which need to be satisfied before interest costs can be recognised as a component of property, plant and equipment cost.

**Exchanges of Assets**

17. 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 is equivalent to the fair value of the asset given up adjusted by the amount of any cash or cash equivalents transferred.

18. An item of property, plant and equipment may be acquired in exchange for a similar asset that has a similar use in the same line of business and which has a similar fair value. Since the earnings process is incomplete, no gain or loss is recognised on the transaction. Instead, the cost of the new asset is the carrying amount of the asset given up. However, the fair value of the asset received may provide evidence of an impairment in the asset given up. Under these circumstances the asset given up is written down and this written down value assigned to the new asset.

**Subsequent Expenditure**
19. 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 enterprise. All other subsequent expenditure should be recognised as an expense in the period in which it is incurred.

20. Subsequent expenditure on property plant and equipment is only recognised as an asset when the expenditure improves the condition of the asset beyond its originally assessed standard of performance. Examples of improvements which result in increased future economic benefits include:

(a) modification of an item of plant to extend its useful life, including an increase in its capacity;
(b) upgrading machine parts to achieve a substantial improvement in the quality of output; and
(c) adoption of new production processes enabling a substantial reduction in previously assessed operating costs.

21. Expenditure on repairs or maintenance of property, plant and equipment is made to restore or maintain the future economic benefits that an enterprise 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.

22. The appropriate accounting treatment for expenditure incurred subsequent to the acquisition of an item of property, plant and equipment depends on the circumstances which were taken into account on the initial measurement and recognition of the related item of property, plant and equipment and whether the subsequent expenditure is recoverable. For instance, when the carrying amount of the item of property, plant and equipment already takes into account a loss in economic benefits, the subsequent expenditure to restore the future economic benefits expected from the asset is capitalised provided that the carrying amount does not exceed the recoverable amount of the asset. This is also the case when the purchase price of an asset already reflects the enterprise’s obligation to incur expenditure in the future which is necessary to bring the asset to its working condition. An example of this might be the acquisition of a building requiring renovation. In such circumstances, the subsequent expenditure is added to the carrying amount of the asset to the extent that it can be recovered from future use of the asset.

23. 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 or aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe. 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 [5] 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

Benchmark Treatment

24. 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.

Allowed Alternative Treatment

25. Subsequent to initial recognition as an asset, an item of property, plant and equipment should be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations should be made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

Revaluations

26. The fair value of land and buildings is usually its market value. This value is determined by appraisal normally undertaken by professionally qualified valuers. [Is this possible - check with Managers in Cambodia].

27. The fair value of items of plant and equipment is usually their market value determined by appraisal. When there is no evidence of market value because of the specialised nature of the plant and equipment and because these items are rarely sold, except as part of a continuing business, they are valued at their depreciated replacement cost.

28. The frequency of revaluations depends upon the movements in the fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. Some items of property, plant and equipment may experience significant and volatile movements in fair value thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant movements in fair value. Instead, revaluation every three or five years may be sufficient.

29. When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. The amount of the adjustment arising on the elimination of accumulated depreciation forms part of the increase or decrease in carrying amount which is dealt with in accordance with paragraphs [33] and [34].

30. When an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs should be revalued.
31. A class of property, plant and equipment is a grouping of assets of a similar nature and use in an enterprise’s operations. The following are examples of separate classes:

(a) land;
(b) land and buildings;
(c) machinery;
(d) ships;
(e) aircraft;
(f) motor vehicles;
(g) furniture and fixtures; and
(h) office equipment.

32. The items within a class of property, plant and equipment are revalued simultaneously in order to avoid selective revaluation of assets and the reporting of amounts in the financial statements which are a mixture of costs and values as at different dates. However, a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period of time and provided the revaluations are kept up to date.

33. When an asset’s carrying amount is increased as a result of a revaluation, the increase should be credited directly to equity under the heading of revaluation surplus. However, a revaluation increase should be recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense.

34. When an asset’s carrying amount is decreased as a result of a revaluation, the decrease should be recognised as an expense. However, a revaluation decrease should be charged directly against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that same asset.

35. The revaluation surplus included in equity should be transferred directly to retained earnings when the surplus is realised. The whole surplus may be realised on the retirement or disposal of the asset. However, some of the surplus may be realised as the asset is used by the enterprise; in such a case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset’s original cost. The transfer from revaluation surplus to retained earnings is not made through the income statement.

36. The effects on taxes on income, if any, resulting from the revaluation of property, plant and equipment are dealt with in the Standard that considers Income Taxes.

Depreciation

37. 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 enterprise. The depreciation charge for each period should be recognised as an expense unless it is included in the carrying amount of another asset.
38. As the economic benefits embodied in an asset are consumed by the enterprise, the carrying amount of the asset is reduced to reflect this consumption, normally by charging an expense for depreciation. A depreciation charge is made even if the value of the asset exceeds its carrying amount.

39. The economic benefits embodied in an item of property, plant and equipment are consumed by the enterprise 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 enterprise. 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 and the repair and maintenance programme of the enterprise, 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 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.

40. The useful life of an asset is defined in terms of the asset’s expected utility to the enterprise. The asset management policy of an enterprise may involve the disposal of assets after a specified time or after consumption of a certain proportion of the economic benefits embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of an item of property, plant and equipment is a matter of judgement based on the experience of the enterprise with similar assets.

41. Land and buildings are separable assets and are dealt with separately for accounting purposes, even when they are acquired together. Land normally has an unlimited life and, therefore, is not depreciated. 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.

42. The depreciable amount of an asset is determined after deducting the residual value of the asset. In practice, the residual value of an asset is often insignificant and therefore is immaterial in the calculation of the depreciable amount. When the benchmark treatment is adopted and the residual value is likely to be significant, the residual value is estimated at the date of acquisition and is not subsequently increased for changes in prices. However, when the allowed alternative treatment is adopted, a new estimate is made at the date of any subsequent revaluation of the asset. The estimate is based on the residual value prevailing at the date of the estimate for similar assets which have reached the end of their useful lives and which have operated under conditions similar to those in which the asset will be used.
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 sum-of-the-units method. Straight-line depreciation results in a constant charge over the useful life of the asset. The diminishing balance method results in a decreasing charge over the useful life of the asset. The sum-of-the-units method results in a charge based on the expected use or output of the asset. The method used for an asset is selected based on the expected pattern of economic benefits and is consistently applied from period to period unless there is a change in the expected pattern of economic benefits from that asset.

The depreciation charge for a period is usually recognised as an expense. However, in some circumstances, the economic benefits embodied in an asset are absorbed by the enterprise in producing other assets rather than giving rise to an expense. In this case, the depreciation charge comprises part of the cost of the other asset and is included in its carrying amount. For example, the depreciation of manufacturing plant and equipment is included in the costs of conversion of inventories. Similarly, depreciation of property, plant and equipment used for development activities may be included in the cost of an intangible asset that is recognised under the Standard that considers Intangible Assets.

Review of Useful Life

The useful life of an item of property, plant and equipment should be reviewed periodically and, if expectations are significantly different from previous estimates, the depreciation charge for the current and future periods should be adjusted.

During the life of an asset it may become apparent that the estimate of the useful life is inappropriate. For example, the useful life may be extended by subsequent expenditure on the asset which improves the condition of the asset beyond its originally assessed standard of performance. Alternatively, technological changes or changes in the market for the products may reduce the useful life of the asset. In such cases, the useful life and, therefore, the depreciation rate is adjusted for the current and future periods.

The repair and maintenance policy of the enterprise may also affect the useful life of an asset. The policy may result in an extension of the useful life of the asset or an increase in its residual value. However, the adoption of such a policy does not negate the need to charge depreciation.

Review of Depreciation Method

The depreciation method applied to property, plant and equipment should be reviewed periodically 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.

Recoverability of the Carrying Amount - Impairment Losses
49. The carrying amount of an item or a group of identical items of property, plant and equipment should be reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount should be reduced to the recoverable amount. The amount of the reduction should be recognised as an expense immediately, unless it reverses a previous revaluation in which case it should be charged to equity in accordance with paragraph [34].

50. The cost or revalued amount of an item of property, plant and equipment is normally recovered on a systematic basis over the useful life of the asset. If the usefulness of an item or a group of identical items is impaired, for example by damage or technological obsolescence or other economic factors, the recoverable amount may be less than the carrying amount of the asset. In such circumstances, a write-down of the asset is necessary. A write-down may also be necessary when an item of property, plant and equipment remains idle for a considerable period either prior to it being put into use or during its useful life.

51. The recoverable amount of individual assets or a group of identical assets is determined separately and the carrying amount reduced to recoverable amount on an individual asset, or group of identical assets, basis. However, there may be circumstances when it may not be possible to assess the recoverable amount of an asset on this basis, for example when all the plant and equipment in a factory is used for the same purpose. In such circumstances, the carrying amount of each of the related assets is reduced in proportion to the overall decline in recoverable amount of the smallest grouping of assets for which it is possible to make an assessment of recoverable amount.

52. A subsequent increase in the recoverable amount of an asset, dealt with in accordance with the benchmark treatment described in paragraph [24] should be written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future. The amount written back should be reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred.

53. A subsequent increase in the recoverable amount of an asset, dealt with in accordance with the allowed alternative treatment described in paragraph [25], should be accounted for in accordance with paragraph [33].

Retirements and Disposals

54. 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.

55. 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.
56. When an item of property, plant and equipment is exchanged for a similar asset, under the circumstances described in paragraph [18], the cost of the acquired asset is equal to the carrying amount of the asset disposed of and no gain or loss results.

57. Property, plant and equipment that is retired from active use and held for disposal is carried at its carrying amount at the date when the asset is retired from active use. At least at each financial year end, an enterprise should test the asset for impairment and recognise any impairment loss accordingly.

Disclosure

58. The financial statements should disclose, for each class of property, plant and equipment:

(a) the measurement bases used for determining the gross carrying amount. When more than one basis has been used, the gross carrying amount for that basis in each category should be disclosed;

(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;

(e) a reconciliation of the carrying amount at the beginning and end of the period showing:

(i) additions;

(ii) disposals;

(iii) acquisitions through business combinations;

(iv) increases or decreases during the period resulting from revaluations under paragraphs [25], [32] and [34] and from impairment losses recognised or reversed directly in equity under paragraphs [49] and [53] (if any);

(v) impairment losses recognised in the income statement during the period under paragraph [49] (if any);

(vi) impairment losses reversed in the income statement during the period under paragraph [52] (if any);

(vii) depreciation;

(viii) the net exchange differences arising on the translation of the financial statements of a foreign entity; and

(ix) other movements.

Comparative information is not required for the reconciliation in (e) above.

59. The financial statements should also disclose:
(a) the existence and amounts of restrictions on title, and property, plant and equipment pledged as security for liabilities;
(b) the accounting policy for the estimated costs of restoring the site of items of property, plant or equipment;
(c) the amount of expenditures on account of property, plant and equipment in the course of construction; and
(d) the amount of commitments for the acquisition of property, plant and equipment.

60. The selection of the depreciation method and the estimation of the useful life of assets are matters of judgement. Therefore, disclosure of the methods adopted and the estimated useful lives or depreciation rates provides users of financial statements with information which allows them to review the policies selected by management and enables comparisons to be made with other enterprises. For similar reasons, it is necessary to disclose the depreciation allocated in a period and the accumulated depreciation at the end of that period.

61. An enterprise discloses the nature and effect of a change in an accounting estimate that has a material effect in the current period or which is expected to have a material effect in subsequent periods in accordance with the Standard that describes: Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policy. Such disclosure may arise from changes in estimate with respect to:
(a) residual values;
(b) the estimated costs of dismantling and removing items of property, plant or equipment and restoring the site;
(c) useful lives; and
(d) depreciation method.

62. When items of property, plant and equipment are stated at revalued amounts the following should be disclosed:
(a) the basis used to revalue the assets;
(b) the effective date of the revaluation;
(c) whether an independent valuer was involved;
(d) the nature of any indices used to determine replacement cost;
(e) the carrying amount of each class of property, plant and equipment that would have been included in the financial statements had the assets been carried under the benchmark treatment in paragraph [24]; and
(f) the revaluation surplus, indicating the movement for the period and any restrictions on the distribution of the balance to shareholders.

63. If an impairment loss for an individual asset is recognised or reversed during the period and is material to the financial statements of the reporting enterprise as a whole, an enterprise should disclose:
(a) (a) the events and circumstances that led to the recognition or reversal of the impairment loss;
(b) (b) the amount of the impairment loss recognised or reversed;
(c) (c) the nature of the asset;
whether the recoverable amount of the asset is its net selling price or its value in use;
(e) if recoverable amount is net selling price, the basis used to determine net selling price (such as whether selling price was determined by reference to an active market or in some other way); and
(f) if recoverable amount is value in use, the discount rate(s) used in the current estimate and previous estimate (if any) of value in use.

64 If impairment losses recognised (reserved) during the period are material in aggregate to the financial statements of the reporting enterprise as a whole, an enterprise should disclose a brief description of the following:

(a) the main classes of assets affected by impairment losses (reversals of impairment losses) for which no information is disclosed under paragraph [63]; and
(b) the main events and circumstances that led to the recognition (reversal) of these impairment losses for which no information is disclosed under paragraph [63].

65 Financial statement users also find the following information relevant to their needs:

(a) the carrying amount of temporarily idle property, plant and equipment;
(b) the gross carrying amount of any fully depreciated property, plant and equipment that is still in use;
(c) the carrying amount of property, plant and equipment retired from active use and held for disposal; and
(d) when the benchmark treatment is used, the fair value of property, plant and equipment when this is materially different from the carrying amount.

Therefore, enterprises are encouraged to disclose these amounts.

Effective Date

66 This Cambodian Accounting Standard becomes operative for annual financial statements covering periods beginning on or after [ ]. Earlier application is encouraged.

CAS 18

Introduction

This Cambodian Accounting Standard (“CAS 18”) sets out the required accounting treatment and disclosures for revenue. It is a requirement of Cambodian Law that financial statements for all Accounting Entities (as defined by the Law) are to be prepared in accordance with International Accounting Standards. Therefore, this CAS 18 includes all the relevant paragraphs from the equivalent International Accounting Standard (“IAS 18”). This Standard has been expanded to include background material and implementation guidance for Cambodia.
Income is defined in this Standard as the increase in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants. Income encompasses both revenue and gains.

Revenue is income that arises in the course of ordinary activities of an enterprise and is referred to by a variety of different names including sales, fees, interest, dividends and royalties.

The primary issue in accounting for revenue is determining when to recognise revenue. Revenue is recognised when it is probable that future economic benefits will flow to the enterprise and these benefits can be measured reliably. This Standard identifies the circumstances in which these criteria will be met and, therefore, revenue will be recognised. It also provides practical guidance on the application of these criteria.

Sales or service revenue should be recognised at the time of performance, provided that the amount can be measured reliably and collection is reasonably assured. For the sale of goods, performance is when:

- the significant risks and rewards of ownership are transferred to the buyer; and
- no significant uncertainty exists regarding the consideration from the sale, the associated costs, or the extent to which goods may be returned.

For service transactions, performance should be measured under the percentage-of-completion method.

Long-term contracts should be accounted for under the general principles described above.

Revenue should be measured at the fair value of the consideration received or receivable. When the consideration is receivable in instalments, the interest component of the sales price should be recognised as revenue proportionately to the unpaid balance due to the seller. If collection is not reasonably assured, revenue should be recognised at the time cash instalments are received.

When the customer has a right of return, revenue recognition depends on the substance of the agreement. For normal retail sales, it may be appropriate to recognise the sale, with a suitable provision for returns based on past experience. In other cases, the agreement may amount to a sale on consignment, in which case revenue should not be recognised until a sale has been made to a third party.

For a transaction that is in substance a financing arrangement, the resulting cash inflow is not revenue, and should not be recognised as such. These arrangements are normally accounted for as borrowings.

The required disclosures include the accounting policies followed for revenue recognition and the amount of sales or other operating revenue for each significant category of revenue.
The Standard uses the term “enterprise” to refer to all Accounting Entities that are required to prepare financial statements in accordance with Cambodian Accounting Standards.

This Standard is not intended to apply to immaterial items.

**Objective**

The objective of this Standard is to prescribe the accounting treatment of revenue arising from certain types of transactions and events.

**Scope**

.01 This Standard should be applied in accounting for revenue arising from the following transactions and events:

(a) the sale of goods;
(b) the rendering of services; and
(c) the use by others of enterprise assets yielding interest, royalties and dividends.

.02 Goods includes goods produced by the enterprise 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.

.03 The rendering of services typically involves the performance by the enterprise 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. Revenue arising from these contracts is not dealt with in this Standard but will be dealt with in accordance with the requirements for construction contracts to be specified in a future Standard on Construction Contracts.

.04 The use by others of enterprise assets gives rise to revenue in the form of:

(a) interest - charges for the use of cash or cash equivalents or amounts due to the enterprise;
(b) royalties - charges for the use of long-term assets of the enterprise, for example, patents, trademarks, copyrights and computer software; and
(c) dividends - distributions of profits to holders of equity investments in proportion to their holdings of a particular class of capital.

**Definitions**

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

*Income* is the increase in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases
in equity, other than those relating to contributions from equity participants. Income encompasses both revenue and gains.

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

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

Revenue includes only the gross inflows of economic benefits received and receivable by the enterprise on its own account. Amounts collected on behalf of third parties such as value added tax and turnover tax are not economic benefits which flow to the enterprise and 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 enterprise. The amounts collected on behalf of the principal are not revenue. Instead, revenue is the amount of commission.

Measurement of revenue

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

The amount of revenue arising on a transaction is usually determined by agreement between the enterprise and the buyer or user of the asset. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the enterprise.

In most cases, the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. However, when the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. For example, an enterprise may provide interest free credit to the buyer or accept a note receivable bearing a below-market interest rate from the buyer as consideration for the sale of goods. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either:

(a) the prevailing rate for a similar instrument of an issuer with a similar credit rating; or

(b) a rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue in accordance with paragraphs .26 and .27.
When goods or services are exchanged or swapped for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction which generates revenue. This may be the case with commodities like oil or milk where suppliers exchange or swap inventories in various locations to fulfill demand on a timely basis in a particular location. When goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction which generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

**Identification of the transaction**

The recognition criteria in this Standard are usually applied separately to each transaction. However, in certain circumstances, it is necessary to apply the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. For example, when the selling price of a product includes an identifiable amount for subsequent servicing, that amount is deferred and recognised as revenue over the period during which the service is performed. Conversely, the recognition criteria are applied to two or more transactions together when they are linked in such a way that the commercial effect cannot be understood without reference to the series of transactions as a whole. For example, an enterprise may sell goods and, at the same time, enter into a separate agreement to repurchase the goods at a later date, thus negating the substantive effect of the transaction; in such a case, the two transactions are dealt with together.

**Sale of goods**

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

(a) the enterprise has transferred to the buyer the significant risks and rewards of ownership of the goods;
(b) the enterprise 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 enterprise; and
(e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

The assessment of when an enterprise has transferred the significant risks and rewards of ownership to the buyer requires an examination of the circumstances of the transaction. In most cases, the transfer of the risks and rewards of ownership coincides with the transfer of the legal title or the passing of possession to the buyer. This is the case for most retail sales. In other cases, the transfer of risks and rewards of ownership occurs at a different time from the transfer of legal title or the passing of possession.
If the enterprise retains significant risks of ownership, the transaction is not a sale and revenue is not recognised. An enterprise may retain a significant risk of ownership in a number of ways. Examples of situations in which the enterprise may retain the significant risks and rewards of ownership are:

(a) when the enterprise retains an obligation for unsatisfactory performance not covered by normal warranty provisions;
(b) when the receipt of the revenue from a particular sale is contingent on the derivation of revenue by the buyer from its sale of the goods;
(c) when the goods are shipped subject to installation and the installation is a significant part of the contract which has not yet been completed by the enterprise; and
(d) when the buyer has the right to rescind the purchase for a reason specified in the sales contract and the enterprise is uncertain about the probability of return.

If an enterprise retains only an insignificant risk of ownership, the transaction is a sale and revenue is recognised. For example, a seller may retain the legal title to the goods solely to protect the collectability of the amount due. In such a case, if the enterprise has transferred the significant risks and rewards of ownership, the transaction is a sale and revenue is recognised. Another example of an enterprise retaining only an insignificant risk of ownership may be a retail sale when a refund is offered if the customer is not satisfied. Revenue in such cases is recognised at the time of sale provided the seller can reliably estimate future returns and recognises a liability for returns based on previous experience and other relevant factors.

Revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the enterprise. In some cases, this may not be probable until the consideration is received or until an uncertainty is removed. However, when an 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.

Revenue and expenses that relate to the same transaction or other event are recognised simultaneously; this process is commonly referred to as the matching of revenues and expenses. Expenses, including warranties and other costs to be incurred after the shipment of the goods can normally be measured reliably when the other conditions for the recognition of revenue have been satisfied. However, revenue cannot be recognised when the expenses cannot be measured reliably; in such circumstances, any consideration already received for the sale of the goods is recognised as a liability.

**Rendering of services**

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 enterprise;
(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.

.19 The recognition of revenue by reference to the stage of completion of a transaction is often referred to as the percentage of completion method. Under this method, revenue is recognised in the accounting periods in which the services are rendered. The recognition of revenue on this basis provides useful information on the extent of service activity and performance during a period.

.20 Revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the enterprise. However, when an 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.

.21 An enterprise is generally able to make reliable estimates after it has agreed to the following with the other parties to the transaction:

(a) each party's enforceable rights regarding the service to be provided and received by the parties;
(b) the consideration to be exchanged; and
(c) the manner and terms of settlement.

It is also usually necessary for the enterprise to have an effective internal financial budgeting and reporting system. The enterprise reviews and, when necessary, revises the estimates of revenue as the service is performed. The need for such revisions does not necessarily indicate that the outcome of the transaction cannot be estimated reliably.

.22 The stage of completion of a transaction may be determined by a variety of methods. An enterprise uses the method that measures reliably the services performed. Depending on the nature of the transaction, the methods may include:

(a) surveys of work performed;
(b) services performed to date as a percentage of total services to be performed; or
(c) the proportion that costs incurred to date bear to the estimated total costs of the transaction. Only costs that reflect services performed to date are included in costs incurred to date. Only costs that reflect services performed or to be performed are included in the estimated total costs of the transaction.

Progress payments and advances received from customers often do not reflect the services performed.
For practical purposes, when services are performed by an indeterminate number of acts over a specified period of time, revenue is recognised on a straight line basis over the specified period unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

During the early stages of a transaction, it is often the case that the outcome of the transaction cannot be estimated reliably. Nevertheless, it may be probable that the enterprise will recover the transaction costs incurred. Therefore, revenue is recognised only to the extent of costs incurred that are expected to be recoverable. As the outcome of the transaction cannot be estimated reliably, no profit is recognised.

When the outcome of a transaction cannot be estimated reliably and it is not probable that the costs incurred will be recovered, revenue is not recognised and the costs incurred are recognised as an expense. When the uncertainties that prevented the outcome of the contract being estimated reliably no longer exist, revenue is recognised in accordance with paragraph .18 rather than in accordance with paragraph .24.

**Interest, royalties and dividends**

Revenue arising from the use by others of enterprise assets yielding interest, royalties and dividends should be recognised on the bases set out in paragraph .27 when:

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

Revenue should be recognised on the following bases:

(a) interest should be recognised on a time proportion basis that takes into account the effective yield on the asset;
(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.

The effective yield on an asset is the rate of interest required to discount the stream of future cash receipts expected over the life of the asset to equate to the initial carrying amount of the asset. Interest revenue includes the amount of amortisation of any discount, premium or other difference between the initial carrying amount of a debt security and its amount at maturity.

When unpaid interest has accrued before the acquisition of an interest-bearing investment, the subsequent receipt of interest is allocated between pre-acquisition and post-acquisition periods; only the post-acquisition portion is recognised as revenue. When dividends on equity securities are declared from pre-acquisition net income, those dividends are deducted from the cost of the securities. If it is difficult to make such an allocation except on an arbitrary basis, dividends are recognised as revenue unless they clearly represent a recovery of part of the cost of the equity securities.
Royalties accrue in accordance with the terms of the relevant agreement and are usually recognised on that basis unless, having regard to the substance of the agreement, it is more appropriate to recognise revenue based on some other systematic and rational basis.

Revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the enterprise. However, when an 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**

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

An enterprise discloses any contingent gains and losses in accordance with the Standard that deals with Contingencies and Events Occurring After the Balance Sheet Date. Contingent gains and contingent losses may arise from items such as warranty costs, claims, penalties or possible losses.

**Effective date**

This Cambodian Accounting Standard becomes operative for annual financial statements covering periods beginning on or after [ ]. Earlier application is encouraged.

**Appendix**

The appendix is illustrative only and does not form part of the Standard. The purpose of the appendix is to illustrate the application of the Standard to assist in clarifying its meaning in a number of commercial situations. The examples focus on particular aspects of a transaction and are not a comprehensive discussion of
all the relevant factors which might influence the recognition of revenue. The examples generally assume that the amount of revenue can be measured reliably, it is probable that the economic benefits will flow to the enterprise and the costs incurred or to be incurred can be measured reliable. The examples do not modify or override the standards.

Sale of Goods

1. ‘Bill and hold’ sales, in which delivery is delayed at the buyer's request but the buyer takes title and accepts billing.

Revenue is recognised when the buyer takes title, provided:

(a) it is probable that delivery will be made;
(b) the item is on hand, identified and ready for delivery to the buyer at the time the sale is recognised;
(c) the buyer specifically acknowledges the deferred delivery instructions; and
(d) the usual payment terms apply.

Revenue is not recognised when there is simply an intention to acquire or manufacture the goods in time for delivery.

2. Goods shipped subject to conditions.

(a) installation and inspection.

Revenue is normally recognised when the buyer accepts delivery, and installation and inspection are complete. However, revenue is recognised immediately upon the buyer's acceptance of delivery when:

i) the installation process is simple in nature, for example the installation of a factory tested television receiver which only requires unpacking and connection of power and antennae; or

(ii) the inspection is performed only for purposes of final determination of contract prices, for example, shipments of iron ore, sugar or soya beans.

(b) on approval when the buyer has negotiated a limited right of return.

If there is uncertainty about the possibility of return, revenue is recognised when the shipment has been formally accepted by the buyer or the goods have been delivered and the time period for rejection has elapsed.

(c) consignment sales under which the recipient (buyer) undertakes to sell the goods on behalf of the shipper (seller).

Revenue is recognised by the shipper when the goods are sold by the recipient to a third party.

(d) cash on delivery sales.
Revenue is recognised when delivery is made and cash is received by the seller or its agent.

3. **Lay away sales under which the goods are delivered only when the buyer makes the final payment in a series of installments.**

Revenue from such sales is recognised when the goods are delivered. However, when experience indicates that most such sales are consummated, revenue may be recognised when a significant deposit is received provided the goods are on hand, identified and ready for delivery to the buyer.

4. **Orders when payment (or partial payment) is received in advance of delivery for goods not presently held in inventory, for example, the goods are still to be manufactured or will be delivered directly to the customer from a third party.**

Revenue is recognised when the goods are delivered to the buyer.

5. **Sale and repurchase agreements (other than swap transactions) under which the seller concurrently agrees to repurchase the same goods at a later date, or when the seller has a call option to repurchase, or the buyer has a put option to require the repurchase, by the seller, of the goods.**

The terms of the agreement need to be analysed to ascertain whether, in substance, the seller has transferred the risks and rewards of ownership to the buyer and hence revenue is recognised. When the seller has retained the risks and rewards of ownership, even though legal title has been transferred, the transaction is a financing arrangement and does not give rise to revenue.

6. **Sales to intermediate parties, such as distributors, dealers or others for resale.**

Revenue from such sales is generally recognised when the risks and rewards of ownership have passed. However, when the buyer is acting, in substance, as an agent, the sale is treated as a consignment sale.

7. **Subscriptions to publications and similar items.**

When the items involved are of similar value in each time period, revenue is recognised on a straight line basis over the period in which the items are dispatched. When the items vary in value from period to period, revenue is recognised on the basis of the sales value of the item dispatched in relation to the total estimated sales value of all items covered by the subscription.

8. **Installment sales, under which the consideration is receivable in installments.**

Revenue attributable to the sales price, exclusive of interest, is recognised at the date of sale. The sale price is the present value of the consideration, determined by discounting the instalments receivable at the imputed rate of interest. The interest element is recognised as revenue as it is earned, on a time proportion basis that takes into account the imputed rate of interest.

Revenue is normally recognised when legal title passes to the buyer. If the seller is obliged to perform any significant acts after the transfer of the legal title, revenue is recognised as the acts are performed. An example is a building or other facility on which construction has not been completed.

In some cases, real estate may be sold with a degree of continuing involvement by the seller such that the risks and rewards of ownership have not been transferred. Examples are sale and repurchase agreements which include put and call options, and agreements whereby the seller guarantees occupancy of the property for a specified period, or guarantees a return on the buyer's investment for a specified period. In such cases, the nature and extent of the seller's continuing involvement determines how the transaction is accounted for. It may be accounted for as a sale, or as a financing, leasing or some other profit sharing arrangement. If it is accounted for as a sale, the continuing involvement of the seller may delay the recognition of revenue.

A seller must also consider the means of payment and evidence of the buyer's commitment to complete payment. For example, when the aggregate of the payments received, including the buyer's initial down payment, or continuing payments by the buyer, provide insufficient evidence of the buyer's commitment to complete payment, revenue is recognised only to the extent cash is received.

**Rendering of Services**

10. *Installation fees.*

Installation fees are recognised as revenue by reference to the stage of completion of the installation, unless they are incidental to the sale of a product in which case they are recognised when the goods are sold.

11. *Servicing fees included in the price of the product.*

When the selling price of a product includes an identifiable amount for subsequent servicing (for example, after sales support and product enhancement on the sale of software), that amount is deferred and recognised as revenue over the period during which the service is performed. The amount deferred is that which will cover the expected costs of the services under the agreement, together with a reasonable profit on those services.

12. *Advertising commissions.*

Media commissions are recognised when the related advertisement or commercial appears before the public. Production commissions are recognised by reference to the stage of completion of the project.

13. *Insurance agency commissions.*

Insurance agency commissions received or receivable which do not require the agent to render further service are recognised as revenue by the agent on the effective commencement or renewal dates of the related policies. However, when it is probable that the agent will be required to render further services during the life of the policy, the
commission, or part thereof, is deferred and recognised as revenue over the period during which the policy is in force.


The recognition of revenue for financial service fees depends on the purposes for which the fees are assessed and the basis of accounting for any associated financial instrument. The description of fees for financial services may not be indicative of the nature and substance of the services provided. Therefore, it is necessary to distinguish between fees which are an integral part of the effective yield of a financial instrument, fees which are earned as services are provided, and fees which are earned on the execution of a significant act.

(a) Fees which are an integral part of the effective yield of a financial instrument.

Such fees are generally treated as an adjustment to the effective yield.

(i) Origination fees received by the enterprise relating to the creation or acquisition of a financial instrument which is held by the enterprise as an investment.

Such fees may include compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction. These fees are an integral part of generating an ongoing involvement with the resultant financial instrument and, together with the related direct costs, are deferred and recognised as an adjustment to the effective yield.

(ii) Commitment fees received by the enterprise to originate or purchase a loan.

If it is probable that the enterprise will enter into a specific lending arrangement, the commitment fee received is regarded as compensation for an ongoing involvement with the acquisition of a financial instrument and, together with the related direct costs, is deferred and recognised as an adjustment to the effective yield. If the commitment expires without the enterprise making the loan, the fee is recognised as revenue on expiry.

(b) Fees earned as services are provided.

(i) Fees charged for servicing a loan.

Fees charged by an enterprise for servicing a loan are recognised as revenue as the services are provided. If the enterprise sells a loan but retains the servicing of that loan at a fee which is lower than a normal fee for such services, part of the sales price of the loan is deferred and recognised as revenue as the servicing is provided.

(ii) Commitment fees to originate or purchase a loan.

If it is unlikely that a specific lending arrangement will be entered into, the commitment fee is recognised on a time proportion basis over the commitment period.
(c) Fees earned on the execution of a significant act, which is much more significant than any other act.

The fees are recognised as revenue when the significant act has been completed, as in the example below.

(i) Commission on the allotment of shares to a client.

The commission is recognised as revenue when the shares have been allotted.

(ii) Placement fees for arranging a loan between a borrower and an investor.

The fee is recognised as revenue when the loan has been arranged.

15. Admission fees.

Revenue from artistic performances, banquets and other special events is recognised when the event takes place. When a subscription to a number of events is sold, the fee is allocated to each event on a basis which reflects the extent to which services are performed at each event.

16. Tuition fees.

Revenue is recognised over the period of instruction.

17. Initiation, entrance and membership fees.

Revenue recognition depends on the nature of the services provided. If the fee permits only membership, and all other services or products are paid for separately, or if there is a separate annual subscription, the fee is recognised as revenue when no significant uncertainty as to its collectability exists. If the fee entitles the member to services or publications to be provided during the membership period, or to purchase goods or services at prices lower than those charged to non-members, it is recognised on a basis that reflects the timing, nature and value of the benefits provided.

18. Franchise fees.

Franchise fees may cover the supply of initial and subsequent services, equipment and other tangible assets, and know-how. Accordingly, franchise fees are recognised as revenue on a basis that reflects the purpose for which the fees were charged. The following methods of franchise fee recognition are appropriate:

(a) Supplies of equipment and other tangible assets.

The amount, based on the fair value of the assets sold, is recognised as revenue when the items are delivered or title passes.
(b) Supplies of initial and subsequent services.

Fees for the provision of continuing services, whether part of the initial fee or a separate fee are recognised as revenue as the services are rendered. When the separate fee does not cover the cost of continuing services together with a reasonable profit, part of the initial fee, sufficient to cover the costs of continuing services and to provide a reasonable profit on those services, is deferred and recognised as revenue as the services are rendered.

The franchise agreement may provide for the franchisor to supply equipment, inventories, or other tangible assets, at a price lower than that charged to others or a price that does not provide a reasonable profit on those sales. In these circumstances, part of the initial fee, sufficient to cover estimated costs in excess of that price and to provide a reasonable profit on those sales, is deferred and recognised over the period the goods are likely to be sold to the franchisee. The balance of an initial fee is recognised as revenue when performance of all the initial services and other obligations required of the franchisee (such as assistance with site selection, staff training, financing and advertising) has been substantially accomplished.

The initial services and other obligations under an area franchise agreement may depend on the number of individual outlets established in the area. In this case, the fees attributable to the initial services are recognised as revenue in proportion to the number of outlets for which the initial services have been substantially completed.

If the initial fee is collectable over an extended period and there is a significant uncertainty that it will be collected in full, the fee is recognised as cash installments are received.

(c) Continuing Franchise Fees.

Fees charged for the use of continuing rights granted by the agreement, or for other services provided during the period of the agreement, are recognised as revenue as the services are provided or the rights used.

(d) Agency Transactions.

Transactions may take place between the franchisor and the franchisee which, in substance, involve the franchisor acting as agent for the franchisee. For example, the franchisor may order supplies and arrange for their delivery to the franchisee at no profit. Such transactions do not give rise to revenue.

19. Fees from the development of customised software.

Fees from the development of customised software are recognised as revenue by reference to the stage of completion of the development, including completion of services provided for post delivery service support.
Interest, Royalties and Dividends

20. License fees and royalties.

Fees and royalties paid for the use of an enterprise's assets (such as trademarks, patents, software, music copyright, record masters and motion picture films) are normally recognised in accordance with the substance of the agreement. As a practical matter, this may be on a straight line basis over the life of the agreement, for example, when a licensee has the right to use certain technology for a specified period of time.

An assignment of rights for a fixed fee or non refundable guarantee under a non cancelable contract which permits the licensee to exploit those rights freely and the licensor has no remaining obligations to perform is, in substance, a sale. An example is a licensing agreement for the use of software when the licensor has no obligations subsequent to delivery. Another example is the granting of rights to exhibit a motion picture film in markets where the licensor has no control over the distributor and expects to receive no further revenues from the box office receipts. In such cases, revenue is recognised at the time of sale.

In some cases, whether or not a license fee or royalty will be received is contingent on the occurrence of a future event. In such cases, revenue is recognised only when it is probable that the fee or royalty will be received, which is normally when the event has occurred.

CAS 21

Introduction

This Cambodian Accounting Standard (“CAS 21”) sets out the required accounting treatment and disclosures for transactions in foreign currencies undertaken by an enterprise. It is a requirement of Cambodian Law that financial statements for all Accounting Entities (as defined by the Law) are to be prepared in accordance with International Accounting Standards. Therefore, this CAS 21 includes all the relevant paragraphs from the equivalent International Accounting Standard (“IAS 21”). This Standard has been expanded to include background material and implementation guidance for Cambodia.

An enterprise may carry on foreign activities in two ways. It may have transactions in foreign currencies or it may have foreign operations. In order to include foreign currency transactions and foreign operations in the financial statements of an enterprise, transactions must be expressed in the enterprise's reporting currency and the financial statements of foreign operations must be translated into the enterprise's reporting currency.

The principal issues in accounting for foreign currency transactions and foreign operations are to decide which exchange rate to use and how to recognise in the financial statements the financial effect of changes in exchange rates.

Foreign currency transactions should be accounted for by applying either the exchange rate in effect at the transaction date or a rate that approximates the actual rate. Examples of foreign currency transactions include purchases or sales
of goods for which payment is made in a foreign currency, or the borrowing of
loans in a foreign currency. Foreign currency monetary assets and liabilities
should be translated at the closing rate at the balance sheet date. Examples of
monetary items are cash, short or long-term accounts receivables, and short or
long-term accounts payable. Non-monetary items, such as fixed assets, continue
to be translated at the historical rate at acquisition.

Exchange differences on monetary items should be recognised in income when they arise.

Where exchange differences arise on an intercompany monetary item that is part of the net
investment in a foreign entity, these differences should also be included in shareholders’
equity.

This Standard makes a distinction between foreign entities that are self-sustaining and foreign
operations that are integral to the operations of the reporting enterprise.

For self-sustaining foreign entities, assets and liabilities are translated using the closing rates,
and income statements are translated at the actual translation rates; differences arising on
translation are taken directly to shareholders’ equity.

Where the foreign operations are integral to the operations of the reporting enterprise, the
transactions and balances of the foreign operations follow the same accounting rules as the
parent would apply in similar circumstances. Transactions are accounted for by applying the
exchange rate at the transaction date (or an approximation of this rate). Monetary assets and
liabilities are translated at the closing rate at the balance sheet date and non-monetary items
are translated at the historical rate.

The required disclosures include the net exchange differences included in net profit or loss
and shareholders equity (reconciling the opening and closing balances). When the reporting
currency is different from the Cambodian Riel, the reason should be disclosed.

The Standard uses the term “enterprise” to refer to all Accounting Entities that are required to
prepare financial statements in accordance with Cambodian Accounting Standards.

This Standard is not intended to apply to immaterial items.

Scope

.01 This Standard should be applied:
   (a) in accounting for transactions in foreign currencies; and
   (b) in translating the financial statements of foreign operations that are included in the
       financial statements of the enterprise by consolidation, proportionate consolidation
       or by the equity method.

.02 This Standard does not specify the currency in which an enterprise presents its
financial statements. However, an enterprise normally uses the Cambodian Riel. If it
uses a different currency, this Standard requires disclosure of the reason for using that
currency. This Standard also requires disclosure of the reason for any change in the
reporting currency.
This Standard does not deal with the restatement of an enterprise’s financial statements from its reporting currency into another currency for the convenience of users accustomed to that currency or for similar purposes.

This Standard does not deal with the presentation in a cash flow statement of cash flows arising from transactions in a foreign currency and the translation of cash flows of a foreign operation (see the Standard that deals with Cash Flow Statements).

Definitions

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

Foreign operation is a subsidiary, associate, joint venture or branch of the reporting enterprise, the activities of which are based or conducted in a country other than the country of the reporting enterprise.

Foreign entity is a foreign operation, the activities of which are not an integral part of those of the reporting enterprise.

Reporting currency is the currency used in presenting the financial statements.

Foreign currency is a currency other than the reporting currency of an enterprise.

Exchange rate is the ratio for exchange of two currencies.

Exchange difference is the difference resulting from reporting the same number of units of a foreign currency in the reporting currency at different exchange rates.

Closing rate is the spot exchange rate at the balance sheet date.

Net investment in a foreign entity is the reporting enterprise’s share in the net assets of that entity.

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

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

Foreign currency translations Initial recognition

A foreign currency transaction is a transaction which is denominated in or requires settlement in a foreign currency, including transactions arising when an enterprise either:

(a) buys or sells goods or services whose price is denominated in a foreign currency;
(b) borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency;
(c) becomes a party to an unperformed foreign exchange contract; or
(d) otherwise acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency.

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.

The exchange rate at the date of the transaction is often referred to as the spot rate. For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used, for example, an average rate for a week or a month might be
used for all transactions in each foreign currency occurring during that period. However, if exchange rates fluctuate significantly the use of the average rate for a period is unreliable.

**Foreign currency translations  Reporting at subsequent balance sheet dates**

.09 At each balance sheet date:

(a) foreign currency monetary items should be reported using the closing rate;
(b) non-monetary items which are carried in terms of historical cost denominated in a foreign currency should be reported using the exchange rate at the date of the transaction; and
(c) non-monetary items which are carried at fair value denominated in a foreign currency should be reported using the exchange rates that existed when the values were determined.

<table>
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<tr>
<th>Example for paragraph 09(c)</th>
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<tr>
<td>The cost of inventory acquired through a foreign currency transaction will be established in the reporting currency at the date of acquisition. If it is subsequently necessary to write down the inventory to reflect a diminution in net realisable value, the net realisable value may be established in a foreign currency if the market in which it is likely to be sold is abroad. That value would be translated into the reporting currency using the exchange rate prevailing at the valuation date. This is merely a matter of establishing the realisable value properly.</td>
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.10 The carrying amount of an item is determined in accordance with the relevant Standards. For example, certain financial instruments and property, plant and equipment may be measured at fair value or at historical cost. Whether the carrying amount is determined based on historical cost or fair value, the amounts so determined for foreign currency items are then reported in the reporting currency in accordance with this Standard.

**Foreign currency translations  Recognition of exchange differences**

.11 Paragraphs .12 to .17 set out the accounting treatment required by this Standard in respect of exchange differences on foreign currency transactions.

.12 This Standard does not deal with hedge accounting for foreign currency items other than the classification of exchange differences arising on a foreign currency liability accounted for as a hedge of a net investment in a foreign entity. Other aspects of hedge accounting, including the criteria for the use of hedge accounting and requirements for the recognition of exchange differences and the discontinuance of hedge accounting, will be dealt with in a Standard on Financial Instruments.

.13 Exchange differences arising on the settlement of monetary items or on reporting an enterprise'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 as expenses in the period in which they arise, with the exception of exchange differences dealt with in accordance with paragraphs .15 and .17.
An exchange difference results when there is a change in the exchange rate between the transaction date and the date of settlement of any monetary items arising from a foreign currency transaction. When the transaction is settled within the same accounting period as that in which it occurred, all the exchange difference is recognised in that period. However when the transaction is settled in a subsequent accounting period, the exchange difference recognised in each intervening period up to the period of settlement is determined by the change in exchange rates during that period.

Foreign currency translations

Recognition of exchange differences  *Net investment in a foreign entity*

.15 Exchange differences arising on a monetary item that, in substance, forms part of an enterprise's net investment in a foreign entity should be classified as equity in the enterprise's financial statements until the disposal of the net investment, at which time they should be recognised as income or as expenses in accordance with paragraph .34.

.16 An enterprise may have a monetary item that is receivable from, or payable to, a foreign entity. An item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension to, or deduction from, the enterprise's net investment in that foreign entity. Such monetary items may include long-term receivables or loans but do not include trade receivables or trade payables.

.17 Exchange differences arising on a foreign currency liability accounted for as a hedge of an enterprise's net investment in a foreign entity should be classified as equity in the enterprise's financial statements until the disposal of the net investment, at which time they should be recognised as income or as expenses in accordance with paragraph .34.

Financial Statements of foreign operations  *Classification of foreign operations*

.18 The method used to translate the financial statements of a foreign operation depends on the way in which it is financed and operates in relation to the reporting enterprise. For this purpose, foreign operations are classified as either "foreign operations that are integral to the operations of the reporting enterprise" or "foreign entities".

.19 A foreign operation that is integral to the operations of the reporting enterprise carries on its business as if it were an extension of the reporting enterprise's operations. For example, such a foreign operation might only sell goods imported from the reporting enterprise and remit the proceeds to the reporting enterprise. In such cases, a change in the exchange rate between the reporting currency and the currency in the country of foreign operation has an almost immediate effect on the reporting enterprise's cash flow from operations. Therefore, the change in the exchange rate affects the individual monetary items held by the foreign operation rather than the reporting enterprise's net investment in that operation.

.20 In contrast, a foreign entity accumulates cash and other monetary items, incurs expenses, generates income and perhaps arranges borrowings, all substantially in its local currency. It may also enter into transactions in foreign currencies, including transactions in the reporting currency. When there is a change in the exchange rate between the reporting currency and the local currency, there is little or no direct effect
on the present and future cash flows from operations of either the foreign entity or the reporting enterprise. The change in the exchange rate affects the reporting enterprise's net investment in the foreign entity rather than the individual monetary and non-monetary items held by the foreign entity.

.21 The following are indications that a foreign operation is a foreign entity rather than a foreign operation that is integral to the operations of the reporting enterprise:

(a) while the reporting enterprise may control the foreign operation, the activities of the foreign operation are carried out with a significant degree of autonomy from those of the reporting enterprise;
(b) transactions with the reporting enterprise are not a high proportion of the foreign operation's activities;
(c) the activities of the foreign operation are financed mainly from its own operations or local borrowings rather than from the reporting enterprise;
(d) costs of labour, material and other components of the foreign operation's products or services are primarily paid or settled in the local currency rather than in the reporting currency;
(e) the foreign operation's sales are mainly in currencies other than the reporting currency; and
(f) cash flows of the reporting enterprise are insulated from the day-to-day activities of the foreign operation rather than being directly affected by the activities of the foreign operation.

22 The appropriate classification for each operation can, in principle, be established from factual information related to the indicators listed above. In some cases, the classification of a foreign operation as either a foreign entity or an integral operation of the reporting enterprise may not be clear, and judgement is necessary to determine the appropriate classification.

.23 The ultimate decision as to classification should be based on the substance of the actual day to day interrelationships between the parent and the foreign enterprise, rather than on the formal legal relationship.

Financial Statements of foreign operations

Foreign operations that are integral to the operations of the reporting enterprise

.24 The financial statements of a foreign operation that is integral to the operations of the reporting enterprise should be translated using the standards and procedures in paragraphs .06 to .17 as if the transactions of the foreign operation had been those of the reporting enterprise itself.

.25 The individual items in the financial statements of the foreign operation are translated as if all its transactions had been entered into by the reporting enterprise itself. The cost and depreciation of property, plant and equipment is translated using the exchange rate at the date of purchase of the asset or, if the asset is carried at fair value, using the rate that existed on the date of the valuation. The cost of inventories is translated at the exchange rates that existed when those costs were incurred. The recoverable amount or realisable value of an asset is translated using the exchange rate that existed when the recoverable amount or net realisable value was determined. For example, when the net realisable value of an item of inventory is determined in a
foreign currency, that value is translated using the exchange rate at the date as at which the net realisable value is determined. The rate used is therefore usually the closing rate. An adjustment may be required to reduce the carrying amount of an asset in the financial statements of the reporting enterprise to its recoverable amount or net realisable value even when no such adjustment is necessary in the financial statements of the foreign operation. Alternatively, an adjustment in the financial statements of the foreign operation may need to be reversed in the financial statements of the reporting enterprise.

.26 For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used, for example, an average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period. However, if exchange rates fluctuate significantly, the use of the average rate for a period is unreliable.

Financial Statements of foreign operations

Foreign entities

.27 In translating the financial statements of a foreign entity for incorporation in its financial statements, the reporting enterprise should use the following procedures:

(a) the assets and liabilities, both monetary and non-monetary, of the foreign entity should be translated at the closing rate;
(b) income and expense items of the foreign entity should be translated at exchange rates at the dates of the transactions, except when the foreign entity reports in the currency of a hyperinflationary economy, in which case income and expense items should be translated at the closing rate; and
(c) all resulting exchange differences should be classified as equity until the disposal of the net investment.

.28 For practical reasons, a rate that approximates the actual exchange rates, for example an average rate for the period, is often used to translate income and expense items of a foreign operation.

.29 The translation of the financial statements of a foreign entity results in the recognition of exchange differences arising from:

(a) translating income and expense items at the exchange rates at the dates of transactions and assets and liabilities at the closing rate;
(b) translating the opening net investment in the foreign entity at an exchange rate different from that at which it was previously reported; and
(c) other changes to equity in the foreign entity.

These exchange differences are not recognised as income or expenses for the period because the changes in the exchange rates have little or no direct effect on the present and future cash flows from operations of either the foreign entity or the reporting enterprise. When a foreign entity is consolidated but is not wholly owned,
accumulated exchange differences arising from translation and attributable to minority interests are allocated to, and reported as part of, the minority interest in the consolidated balance sheet.

.30 Any goodwill arising on the acquisition of a foreign entity and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate in accordance with paragraph .27.

.31 The incorporation of the financial statements of a foreign entity in those of the reporting enterprise follows normal consolidation procedures, such as the elimination of intra-group balances and intra-group transactions of a subsidiary (see the Standard that deals with Consolidated Financial Statements and Accounting for Investments in Subsidiaries). However, an exchange difference arising on an intra-group monetary item, whether short-term or long-term, cannot be eliminated against a corresponding amount arising on other intra-group balances because the monetary item represents a commitment to convert one currency into another and exposes the reporting enterprise to a gain or loss through currency fluctuations. Accordingly, in the consolidated financial statements of the reporting enterprise, such an exchange difference continues to be recognised as income or an expense or, if it arises from the circumstances described in paragraph .15, it is classified as equity until the disposal of the net investment.

.32 When the financial statements of a foreign entity are drawn up to a different reporting date from that of the reporting enterprise, the foreign entity often prepares, for purposes of incorporation in the financial statements of the reporting enterprise, statements as at the same date as the reporting enterprise. When it is impracticable to do this, the Standard on Consolidated Financial Statements and Accounting for Investments in Subsidiaries, allows the use of financial statements drawn up to a different reporting date provided that the difference is no greater than three months. In such a case, the assets and liabilities of the foreign entity are translated at the exchange rate at the balance sheet date of the foreign entity. Adjustments are made when appropriate for significant movements in exchange rates up to the balance sheet date of the reporting enterprise in accordance with the Standard on Consolidated Financial Statements and Accounting for Investments in Subsidiaries.

.33 The financial statements of a foreign entity that reports in the currency of a hyperinflationary economy (3-year inflation rate of approximately 100 percent or more) should be restated for the effects of changing prices before they are translated into the reporting currency of the reporting enterprise.

Financial Statements of foreign operations  Disposal of a foreign entity

.34 On the disposal of a foreign entity, the cumulative amount of the exchange differences which have been deferred and which relate to that foreign entity should be recognised as income or as expenses in the same period in which the gain or loss on disposal is recognised.

.35 An enterprise may dispose of its interest in a foreign entity through sale, liquidation, repayment of share capital, or abandonment of all, or part of, that entity. The payment of a dividend forms part of a disposal only when it constitutes a return of the
investment. In the case of a partial disposal, only the proportionate share of the related accumulated exchange differences is included in the gain or loss. A write-down of the carrying amount of a foreign entity does not constitute a partial disposal. Accordingly, no part of the deferred foreign exchange gain or loss is recognized at the time of a write-down.

Financial Statements of foreign operations  

Change in the classification of a foreign operation

.36 When there is a change in the classification of a foreign operation, the translation procedures applicable to the revised classification should be applied from the date of the change in the classification.

.37 A change in the way in which a foreign operation is financed and operates in relation to the reporting enterprise may lead to a change in the classification of that foreign operation. When a foreign operation that is integral to the operations of the reporting enterprise is reclassified as a foreign entity, exchange differences arising on the translation of non-monetary assets at the date of the reclassification are classified as equity. When a foreign entity is reclassified as a foreign operation that is integral to the operation of the reporting enterprise, the translated amounts for non-monetary items at the date of the change are treated as the historical cost for those items in the period of change and subsequent periods. Exchange differences which have been deferred are not recognised as income or expenses until the disposal of the operation.

All changes in foreign exchange rates  

Tax effects of exchange differences

.38 Gains and losses on foreign currency transactions and exchange differences arising on the translation of the financial statements of foreign operations may have associated tax effects which are accounted for in accordance with the Standard that deals with Accounting for Taxes on Income.

All changes in foreign exchange rates  

Disclosure

.39 An enterprise should disclose:

(a) the amount of exchange differences included in the net profit or loss for the period; and
(b) net exchange differences classified as equity as a separate component of equity, and a reconciliation of the amount of such exchange differences at the beginning and end of the period.

.40 When the reporting currency is different from the Cambodian Riel, the reason for using a different currency should be disclosed. The reason for any change in the reporting currency should also be disclosed.

.41 When there is a change in the classification of a significant foreign operation, an enterprise should disclose:

(a) the nature of the change in classification;
(b) the reason for the change;
(c) the impact of the change in classification on shareholders’ equity; and
(d) the impact on net profit or loss for each prior period presented had the change in classification occurred at the beginning of the earliest period presented.

.42 An enterprise discloses the effect on foreign currency monetary items or on the financial statements of a foreign operation of a change in exchange rates occurring
after the balance sheet date if the change is of such importance that non-disclosure could affect the ability of users of the financial statements to make proper evaluations and decisions.

.43 Disclosure is also encouraged of an enterprise's foreign currency risk management policy.

All changes in foreign exchange rates  *Transitional provisions*

.44 On the first occasion that an enterprise applies this Standard, the enterprise should, except when the amount is not reasonably determinable, classify separately and disclose the cumulative balance, at the beginning of the period, of exchange differences deferred and classified as equity in previous periods.

All changes in foreign exchange rates  *Effective date*

.45 This Cambodian Accounting Standard becomes operative for financial statements covering periods beginning on or after [               ]. Earlier application is encouraged.

**CAS 24**

**Introduction**

This Cambodian Accounting Standard ("CAS 24") sets out the required disclosure of transactions and balances with related parties. It is a requirement of Cambodian Law that financial statements for all Accounting Entities (as defined by the Law) are to be prepared in accordance with International Accounting Standards. Therefore, this CAS 24 includes all the relevant paragraphs from the equivalent International Accounting Standard ("IAS 24"). This Standard has been expanded to include background material and implementation guidance for Cambodia.

Parties are considered to be related if one party has the ability to exercise control, joint control or significant influence over the other party, or is subject to the control, joint control or significant influence of the other party.

A related party transaction occurs when there is a transfer of resources or obligations between related parties, regardless of whether a price is charged. Transactions between related parties are normally accounted for on the basis of the price established by the parties. However, because the parties may have a degree of flexibility in setting prices, disclosure is required of transactions and balances with related parties.

Examples of related party transactions include transactions between (a) the holding company and its subsidiaries; (b) subsidiaries of a common holding company; (c) associates; and (d) an enterprise and its owners, management, or close members of their families.

The disclosures in the financial statements required by this Standard include details of the total amount of remuneration received by the directors of an enterprise and other costs of their employment. There should also be full disclosure of all transactions between individual directors and the enterprise, including borrowings.
Disclosures of all related party transactions should be sufficient to give an understanding of the volume of the transactions, amounts of outstanding items and pricing policies.

Related party relationships where control exists should be disclosed irrespective of whether there have been transactions between the related parties.

The Standard uses the term "enterprise" to refer to all Accounting Entities that are required to prepare financial statements in accordance with Cambodian Accounting Standards.

This Standard is not intended to apply to immaterial items.

**Scope**

.01 This Standard should be applied in dealing with related parties and transactions between a reporting enterprise and its related parties. The requirements of this Standard apply to the financial statements of each reporting enterprise.

.02 This Standard applies only to those related party relationships described in paragraph .03, as modified by paragraph .06.

.03 This Standard deals only with those related party relationships described in (a) to (e) below:

(a) enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise. (This includes holding companies, subsidiaries and fellow subsidiaries);
(b) associates;
(c) individuals owning, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them significant influence over the enterprise, and close members of the family of any such individual;
(d) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the reporting enterprise, including directors and officers of companies and close members of the families of such individuals; and
(e) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the reporting enterprise and enterprises that have a member of key management in common with the reporting enterprise.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

.04 No disclosure of transactions is required:

(a) in consolidated financial statements in respect of intra-group transactions;
(b) in parent financial statements when they are made available or published with the consolidated financial statements;
(c) in financial statements of a wholly-owned subsidiary if its parent is incorporated in
the same country and provides consolidated financial statements in that country;
and
(d) in financial statements of state-controlled enterprises of transactions with other
state-controlled enterprises.

Definitions

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

Related party - parties are considered to be related if one party has the ability to
control the other party or exercise significant influence over the other party in making
financial and operating decisions.
Related party transaction - a transfer of resources or obligations between related
parties, regardless of whether a price is charged.
Control - ownership, directly, or indirectly through subsidiaries, of more than one half
of the voting power of an enterprise, or a substantial interest in voting power and the
power to direct, by statute or agreement, the financial and operating policies of the
management of the enterprise.
Significant influence (for the purpose of this Standard)--participation in the financial
and operating policy decisions of an enterprise, but not control of those policies.
Significant influence may be exercised in several ways, usually by representation on
the board of directors but also by, for example, participation in the policy making
process, material inter company transactions, interchange of managerial personnel or
dependence on technical information. Significant influence may be gained by share
ownership, statute or agreement. With share ownership, significant influence is the
power to participate in the financial operating policy decisions of the investee but is
not control over those policies.
Management – Persons who are responsible for achieving the objectives of the
enterprise who have the authority to establish policies and make decisions by which
those objectives are pursued. Management normally includes members of the board of
directors, the general director, deputy general director, directors in charge of principal
business functions (such as sales, administration, or finance), and other persons who
perform similar policymaking functions.
Close members of the family – are fathers, mothers, children, brothers, sisters,
grandparents, grandchildren, nieces, nephews, aunts and uncles that may be expected
to influence, or be influenced by, that person in their dealings with the enterprise.

.06 In the context of this Standard, the following are deemed not to be related parties:

(a) two companies simply because they have a director in common, notwithstanding
paragraphs .03 (d) and (e) above, (but it is necessary to consider the possibility,
and to assess the likelihood, that the director would be able to affect the policies of
both companies in their mutual dealings);

(b) (i) providers of finance;
(ii) trade unions;
(iii) public utilities;
(iv) government departments and agencies,
in the course of their normal dealings with an enterprise by virtue only of those dealings (although they may circumscribe the freedom of action of an enterprise or participate in its decision-making process); and

(c) a single customer, supplier, franchiser, distributor, or general agent with whom an enterprise transacts a significant volume of business merely by virtue of the resulting economic dependence.

The related party issue

.07 Related party relationships are a normal feature of commerce and business. For example, enterprises frequently carry on separate parts of their activities through subsidiary or associated enterprises and acquire interests in other enterprises--for investment purposes or for trading reasons--that are of sufficient proportions that the investing company can control or exercise significant influence on the financial and operating decisions of its investee.

.08 A related party relationship could have an effect on the financial position and operating results of the reporting enterprise. Related parties may enter into transactions which unrelated parties would not enter into. Also, transactions between related parties may not be effected at the same amounts as between unrelated parties.

.09 The operating results and financial position of an enterprise may be affected by a related party relationship even if related party transactions do not occur. The mere existence of the relationship may be sufficient to affect the transactions of the reporting enterprise with other parties. For example, a subsidiary may terminate relations with a trading partner on acquisition by the parent of a fellow subsidiary engaged in the same trade as the former partner. Alternatively, one party may refrain from acting because of the significant influence of another--for example, a subsidiary may be instructed by its parent not to engage in research and development.

.10 Because there is an inherent difficulty for management to determine the effect of influences which do not lead to transactions, disclosure of such effects is not required by this Standard.

.11 Accounting recognition of a transfer of resources is normally based on the price agreed between the parties. Between unrelated parties the price is an arm's length price. Related parties may have a degree of flexibility in the price-setting process that is not present in transactions between unrelated parties.

.12 A variety of methods is used to price transactions between related parties.

.13 One way of determining a price for a transaction between related parties is by the comparable uncontrolled price method, which sets the price by reference to comparable goods sold in an economically comparable market to a buyer unrelated to the seller. Where the goods or services supplied in a related party transaction, and the conditions relating thereto, are similar to those in normal trading transactions, this method is often used. It is also often used for determining the cost of finance.

.14 Where goods are transferred between related parties before sale to an independent party, the resale price method is often used. This reduces the resale price
by a margin, representing an amount from which the re-seller would seek to cover his costs and make an appropriate profit, to arrive at a transfer price to the re-seller. There are problems of judgement in determining a compensation appropriate to the re-seller's contribution to the process. This method is also used for transfers of other resources, such as rights and services.

.15 Another approach is the cost-plus method, which seeks to add an appropriate mark-up to the supplier's cost. Difficulties may be experienced in determining both the elements of cost attributable and the mark-up. Among the yardsticks that may assist in determining transfer prices are comparable returns in similar industries on turnover or capital employed.

.16 Sometimes prices of related party transactions are not determined under one of the methods described in paragraphs .13 to .15 above. Sometimes, no price is charged--as in the examples of the free provision of management services and the extension of free credit on a debt.

.17 Sometimes, transactions would not have taken place if the relationship had not existed. For example, a company that sold a large proportion of its production to its parent company at cost might not have found an alternative customer if the parent company had not purchased the goods.

Disclosure

.18 There should be disclosure of transactions with the directors of an enterprise, especially their remuneration and borrowings, because of the fiduciary nature of their relationship with the enterprise. This disclosure should include for the directors in total:

- gross salaries;
- fees; and
- other costs, such as housing allowances and benefits in kind.

For individual directors, there should be disclosure of all transactions with the enterprise, including borrowings. The disclosure should include transactions during the period and details of balances outstanding at the beginning and end of each period, and should include the names of the individual directors concerned.

.19 In addition, the Standard which deals with Presentation of Financial Statements requires disclosure of the nature and amounts payable to and receivable from related companies, associates and other related parties. The Standard which deals with Consolidated Financial Statements and Accounting for Investments in Subsidiaries requires disclosure of a list of significant subsidiaries. The Standard which deals with Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies requires disclosure of extraordinary items and items of income and expense within profit or loss from ordinary activities that are of such size, nature or incidence
that their disclosure is relevant to explain the performance of the enterprise for the period.

.20 The following are examples of situations where related party transactions may lead to disclosures by a reporting enterprise in the period which they affect:

- purchases or sales of goods (finished or unfinished);
- purchases or sales of property and other assets;
- rendering or receiving of services;
- agency arrangements;
- leasing arrangements;
- transfer of research and development;
- license agreements;
- finance (including loans and equity contributions in cash or in kind);
- guarantees and collaterals; and
- management contracts.

.21 Related party relationships where control exists should be disclosed irrespective of whether there have been transactions between the related parties.

.22 In order for a reader of financial statements to form a view about the effects of related party relationships on a reporting enterprise, it is appropriate to disclose the related party relationship where control exists, irrespective of whether there have been transactions between the related parties.

.23 If there have been transactions between related parties, the reporting enterprise should disclose the nature of the related party relationships as well as the types of transactions and the elements of the transactions necessary for an understanding of the financial statements.

.24 The elements of transactions necessary for an understanding of the financial statements would normally include:

(a) an indication of the volume of the transactions, either as an amount or as an appropriate proportion;
(b) amounts or appropriate proportions of outstanding items; and
(c) pricing policies.

.25 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 reporting enterprise.

.26 Disclosure of transactions between members of a group is unnecessary in consolidated financial statements because consolidated financial statements present information about the parent and subsidiaries as a single reporting enterprise. Transactions with associated enterprises accounted for under the equity method are not eliminated and therefore require separate disclosure as related party transactions.

Effective date
This Cambodia Accounting Standard becomes operative for financial statements covering the periods beginning on or after[ ]. Earlier application is encouraged.

CAS 25

Introduction

This Cambodian Accounting Standard ("CAS 25") sets out the required accounting treatment and disclosures for investments. It is a requirement of Cambodian Law that financial statements for all Accounting Entities (as defined by the Law) are to be prepared in accordance with International Accounting Standards. Therefore, this CAS 25 includes all the relevant paragraphs from the equivalent International Accounting Standard ("IAS 25"). This Standard has been expanded to include background material and implementation guidance for Cambodia.

The basis of accounting for investments depends on whether investments are current or long-term in nature, and are treated either as property, plant and equipment, or as long-term investments. Special rules apply to the valuation of investments transferred from current to long-term or vice versa.

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

Long-term investments should be carried at cost, revalued amounts or, for marketable equity securities, the lower of cost and market value (determined on a portfolio basis). Entire categories of investments should be revalued at the same time. The carrying amount of individual investments should be reduced to recognise declines in value that are other than temporary.

Increases resulting from revaluations of long-term investments should be credited to shareholders’ equity. For current investments, revaluations may be recorded either directly in income or in shareholders’ equity; the policy adopted should be followed consistently.

Decreases should be offset against previous increases in the revaluation surplus for the same investment. Other decreases should be charged to the income statement. To the extent that an increase corresponds to previous decreases that were charged to the income statement, the increase should be credited to income.

Gains or losses on sale of investments should be recognised in income. If a realised gain relates to an amount previously recognised in the revaluation surplus, that amount may be transferred to retained earnings or recognised in income in the current period. Where gains or losses relate to current investments previously carried on a portfolio basis valued at the lower of cost and market value, the gain or loss on sale should be based on cost.
Disclosure is required of the accounting policies adopted for valuation, revaluation and treatment of gains and losses; the market values of marketable investments, the restrictions on realisability of investments or their income and changes in the revaluation reserve.

The Standard uses the term "enterprise" to refer to all Accounting Entities that are required to prepare financial statements in accordance with Cambodian Accounting Standards.

This Standard is not intended to apply to immaterial items.

**Scope**

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

.02 This Standard does not deal with:

(a) the bases for recognition of interest, royalties, dividends and rentals earned on investments (see the Standard that deals with Income);
(b) investments in subsidiaries (see the Standard that deals with Consolidated Financial Statements and Accounting for Investments in Subsidiaries);
(c) investments in associates;
(d) investments in joint ventures;
(e) goodwill, patents, trademarks and similar assets (see the Standard that deals with Intangible Assets);
(f) finance leases; and  
(g) investments of retirement benefit plans and life insurance enterprises.

**Definitions**

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

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

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

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

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

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

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

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

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

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

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

Classification of investments

.07 An enterprise should present current investments as current assets and long-term investments as long-term assets.

.08 Most enterprises present balance sheets that distinguish current assets from long-term assets where current investments are included in current assets. The fact that a marketable investment has been retained for a considerable period does not necessarily preclude its classification as current.

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

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

.11 However, such enterprises may have investments properly regarded as long-term assets, for example a bank may hold shares in a leasing company.
Many such enterprises therefore analyse their investments and attribute carrying amounts to them according to whether their characteristics are those of current investments or long-term investments.

**Cost of investments**

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

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

Interest, royalties, dividends and rentals receivable in connection with an investment are generally regarded as income, being the return on the investment. However, in some circumstances, such inflows represent a recovery of cost and do not form part of income. For example, when unpaid interest has accrued before the acquisition of an interest-bearing investment and is therefore included in the price paid for the investment, the subsequent receipt of interest is allocated between pre-acquisition and post-acquisition periods; the pre-acquisition portion is deducted from cost. When dividends on equity securities are declared from pre-acquisition profits a similar treatment applies. If it is difficult to make such an allocation except on an arbitrary basis, the cost of an investment is normally reduced by dividends receivable only if they clearly represent a recovery of part of cost.

The difference between the acquisition cost and redemption value of an investment in debt securities (the discount or premium on acquisition) should be amortised by the investor over the period from acquisition to its maturity so that a constant yield is earned on the investment. The amortised discount or premium is credited or 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.

**Carrying amount of investments Current Investments**

Investments classified as current assets should be carried in the balance sheet at either:

(a) market value; or

(b) the lower of cost and market value.

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

The general rule of lower of cost and net realisable value is applicable to investments; and where current investments are marketable, the carrying amount is the lower of cost and market value. This method of determining carrying amount provides a prudent balance sheet amount and does not result in recognising unrealised gains in
income. Additionally, any fortuitous swings in stock market prices, which may reverse, are not brought to account merely as the result of the choice of a particular balance sheet date.

.19 However, since current investments are a readily realisable store of wealth, or a cash substitute, current investments may also be valued at fair value, usually market value. The enterprise is not concerned with the cost of such items but with the cash it could raise by disposing of them. Investments are distinguished from inventories because they can generally be sold without effort, whereas it would normally be inappropriate to recognise profit on sale of inventories before the sale was assured. Each investment is dispensable by the business—for example an equity investment could be sold and the proceeds re-invested in a bank deposit account without detriment to the business—and therefore it is appropriate to report it at market value. Additionally, reporting investments at historical cost allows management to recognise income at its discretion, since selected investments can be sold and immediately repurchased and the resulting profit reported in income, although such transactions have not changed the enterprise’s economic position.

.20 In general, the concern of an enterprise is with the overall value of its current investment portfolios, and not with each individual investment, since the investments are held collectively as a store of wealth. Consistent with this view, investments carried at the lower of cost and market value are valued on an aggregate portfolio basis, in total or by category of investment, and not on an individual investment basis.

Carrying amount of investments

Long-term investments

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

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

If revalued amounts are used, a policy for the frequency of revaluations should be adopted and an entire category of long-term investments should be revalued at the same time. The carrying amount of all long-term investments should be reduced to recognise a decline other than temporary in the value of the investments, such reduction being determined and made for each investment individually.

.22 Long-term investments are usually carried at cost. However, when there is a decline, other than temporary, in the value of a long-term investment, the carrying amount is reduced to recognise the decline. Indicators of the value of an investment may be obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment. Risk and the type and extent of the investor's stake in the investee are also taken into account. Restrictions on distributions by the investee or on disposal by the investor may affect the value attributed to the investment.
Many long-term investments are of individual importance to the investing enterprise. The carrying amount of long-term investments is therefore normally determined on an item-by-item basis. However, marketable equity securities classified as long-term investments may be carried at the lower of cost and market value determined on a portfolio basis. In these cases, temporary reductions and reversals of such reductions are included in equity.

Reductions for other than a temporary decline in the carrying amounts of long-term investments are charged in the income statement unless they offset a previous revaluation (see paragraph [.29]). Reductions in carrying amount may be reversed when there is a rise in the value of the investment, or if the reasons for the reduction no longer exist.

**Carrying amount of investments**  
**Revaluations**

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

**Carrying amount of investments**  
**Investment properties**

Investment properties should be accounted for in accordance with the Standard to be issued that will deal with investment properties.

Enterprises that account for investment properties as long-term investments consider that changes in their fair value, usually market value, are more significant than their depreciation. The properties are therefore revalued periodically on a systematic basis. Any changes in carrying amount are accounted for in accordance with paragraph .[29].

**Changes in carrying amount of investments**

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

(a) be recognised as income or expense; or  
(b) be accounted for in accordance with paragraph .[29].

An increase in carrying amount arising from the revaluation of long-term investments should be credited to owners’ equity as a revaluation surplus. To the extent that a decrease in carrying amount offsets a previous increase, for the same investment, that has been credited to revaluation surplus and not subsequently reversed or utilised, it should be charged against that revaluation surplus. In all other cases, a decrease in carrying amount should be recognised as an expense. An increase on revaluation directly related to a previous decrease in carrying amount for the same investment that was recognised as an expense, should be credited to income to the extent that it offsets the previously recorded decrease.
Disposals of investments

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

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

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

Transfers of investments

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

(a) the lower of cost and carrying amount, if current investments are carried at the lower of cost and market value. If the investment was previously revalued, any remaining related revaluation surplus should be reversed on the transfer; and
(b) carrying amount if current investments are carried at market value. If changes in market value of current investments are included in income any remaining related revaluation surplus should be transferred to income.

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

Switches of investments in a portfolio

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

.36 On disposal of a particular investment, the excess or deficiency of net sale proceeds over carrying amount represents a realised profit or loss, which should be recognised in income immediately.
**Income statement**

.37 The following should be included in income:

(a) investment income arising from:

(i) interest, royalties, dividends and rentals on long-term and current investments;
(ii) profits and losses on disposal of current investments;
(iii) unrealised gains and losses on current investments carried at market value, where that policy is adopted under paragraph .[28]; and
(iv) reductions to market value and reversals of such reductions required to state current investments at the lower of cost and market value;

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

(c) profits and losses on disposal of long-term investments, calculated in accordance with paragraph .30.

.38 Some enterprises that carry current investments at market value on the grounds that they are a store of freely disposable wealth recognise any gains or losses in market value as an element of income to be accounted for in the income statement along with profits and losses on disposals.

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

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

**Taxes**

.41 Accounting for tax consequences resulting from the application of this Standard is dealt with in accordance with the Standard that deals with Accounting for Taxes on Income.

**Disclosures**

.42 The following should be disclosed:

(a) the accounting policies for:

(i) the determination of carrying amount of investments;
(ii) the treatment of changes in market value of current investments carried at 
market value; and
(iii) the treatment of a revaluation surplus on the sale of a revalued investment;

(b) the significant amounts included in income for:

(i) interest, royalties, dividends and rentals on long-term and current investments;
(ii) profits and losses on disposal of current investments; and
(iii) changes in value of such investments;

(c) the market value of marketable investments if they are not carried at market value;
(d) the fair value of investment properties if they are accounted for as long-term 
investments and not carried at fair value;
(e) significant restrictions on the realisability of investments or the remittance of 
income and proceeds of disposal;
(f) for long-term investments stated at revalued amounts:
   (i) the policy for the frequency of revaluations;
   (ii) the date of the latest revaluation; and
   (iii) the basis of revaluation and whether an external valuer was involved; and

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

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

(a) an analysis of long-term investments by category;
(b) the directors' assessment of the fair value of investments that are not marketable;
(c) where investments are not marketable, the method of assessing value used for 
comparison with cost, where applicable;
(d) the amount of any previous revaluation surplus which related to the investments 
disposed of during the year and which has been previously distributed or converted 
into share capital; and
(e) details of any single investment which represents a significant proportion of the 
reporting enterprise's assets.

Effective date

.44 This Cambodian Accounting Standard becomes operative for financial statements 
covering periods beginning on or after [          ]. Earlier application is encouraged.

CAS 27

Introduction

This Cambodian Accounting Standard (“CAS 27”) sets out the requirements in 
relation to the preparation of consolidated financial statements and accounting for 
investments in subsidiaries. It is a requirement of Cambodian Law that financial 
statements for all Accounting Entities (as defined by the Law) are to be prepared 
in accordance with International Accounting Standards. Therefore, this CAS 27
includes all the relevant paragraphs from the equivalent International Accounting Standard (“IAS 27”). This Standard has been expanded to include background material and implementation guidance for Cambodia.

A parent/subsidiary relationship arises when one enterprise is able to control another enterprise (the ‘subsidiary’). Control is defined for the purposes of this Standard as the power to govern the financial and operating policies so as to obtain benefits from the subsidiary’s activities.

A parent company should produce consolidated financial statements, unless it is itself a wholly-owned subsidiary (or virtually wholly-owned subsidiary). The consolidated financial statements should include all subsidiaries, except those acquired and held exclusively for disposal in the near future or those where severe long-term restrictions on the transfer of funds has impaired control over assets and operations.

Consolidated financial statements should be prepared, where practicable, using uniform accounting policies. The difference between reporting dates of the parent and its consolidated subsidiaries should not exceed three months. Intragroup balances, transactions and unrealised gains/losses thereon should be eliminated in full.

Required disclosures include the composition of the group (name, country of incorporation or residence, proportion of ownership and, if different, proportion of voting power held) and the reason for consolidating a company in which less than half the voting power is owned. The effect of the acquisition and disposal of subsidiaries should also be disclosed.

The Standard uses the term “enterprise” to refer to all Accounting Entities that are required to prepare financial statements in accordance with Cambodian Accounting Standards.

This Standard is not intended to apply to immaterial items.

Scope

.01 This Standard should be applied in the preparation and presentation of consolidated financial statements for a group of enterprises under the control of a parent.

.02 This Standard should also be applied in accounting for investments in subsidiaries in a parent’s separate financial statements.

.03 This Standard does not deal with:

(a) methods of accounting for business combinations and their effects on consolidation, including goodwill arising on a business combination;
(b) accounting for investments in associates; and
(c) accounting for investments in joint ventures.

These will be the subjects of future Cambodian Accounting Standards.

Definitions

.04 The following terms are used in this Standard with the meanings specified:
Control (for the purpose of this Standard) is the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

A subsidiary is an enterprise that is controlled by another enterprise (known as the parent).

A parent is an enterprise that has one or more subsidiaries.

A group is a parent and all its subsidiaries.

Consolidated financial statements are the financial statements of a group presented as those of a single enterprise.

Minority interest is that part of the net results of operations and of net assets of a subsidiary attributable to interests which are not owned, directly or indirectly through subsidiaries, by the parent.

Presentation of consolidated financial statements

.05 A parent, other than a parent mentioned in paragraph .06, should present consolidated financial statements.

.06 A parent that is a wholly owned subsidiary, or is virtually wholly owned, need not present consolidated financial statements provided, in the case of one that is virtually wholly owned, the parent obtains the approval of the owners of the minority interest. Such a parent should disclose the reasons why consolidated financial statements have not been presented together with the bases on which subsidiaries are accounted for in its separate financial statements. The name and registered office of its parent that publishes consolidated financial statements should also be disclosed.

.07 Users of the financial statements of a parent are usually concerned with, and need to be informed about, the financial position, results of operations and changes in financial position of the group as a whole. This need is served by consolidated financial statements, which present financial information about the group as that of a single enterprise without regard for the legal boundaries of the separate legal entities.

.08 A parent that is itself wholly owned by another enterprise may not always present consolidated financial statements since such statements may not be required by its parent and the needs of other users may be best served by the consolidated financial statements of its parent. A parent is also exempted from presenting consolidated financial statements if it is virtually wholly owned by another enterprise and the parent obtains the approval of the owners of the minority interest. For this purpose, virtually wholly owned is taken to mean that the parent owns 90% or more of the voting power.

Scope of consolidated financial statements

.09 A parent which issues consolidated financial statements should consolidate all subsidiaries, foreign and domestic, other than those referred to in paragraph .11.
The consolidated financial statements include all enterprises that are controlled by the parent, other than those subsidiaries excluded for the reasons set out in paragraph .11. Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than one half of the voting power of an enterprise unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. Control also exists even when the parent owns one half or less of the voting power of an enterprise when there is:

(a) power over more than one half of the voting rights by virtue of an agreement with other investors;
(b) power to govern the financial and operating policies of the enterprise under a statute or an agreement;
(c) power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or
(d) power to cast the majority of votes at meetings of the board of directors or equivalent governing body.

A subsidiary should be excluded from consolidation when:

(a) control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future; or
(b) it operates under severe long-term restrictions which significantly impair its ability to transfer funds to the parent.

Such subsidiaries should be accounted for in accordance with the Standard that deals with Accounting for Investments.

For the purposes of paragraph 11 (a) above, “the near future” means that a purchaser has been identified or is being sought, and the subsidiary is reasonably expected to be disposed of within one year of its date of acquisition; or beyond that if, at the date that the accounts are signed, the terms of the sale have been agreed and the process of disposing of the subsidiary is substantially complete.

Consolidation procedures

In preparing consolidated financial statements, the financial statements of the parent and its subsidiaries are combined on a line-by-line basis by adding together like items of assets, liabilities, equity, income and expenses. In order that the consolidated financial statements present financial information about the group as that of a single enterprise, the following steps are then taken:

(a) the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary are eliminated;
(b) minority interests in the net income of consolidated subsidiaries for the reporting period are identified and adjusted against the income of the group in order to arrive at the net income attributable to the owners of the parent; and
(c) minority interests in the net assets of consolidated subsidiaries are identified and presented in the consolidated balance sheet separately from liabilities and the parent shareholders’ equity. Minority interests in the net assets consist of:

(i) the amount at the date of the original combination; and
(ii) the minority's share of movements in equity since the date of the combination.

.14 Any excess of the cost of acquisition of the subsidiary over the acquirer’s interest in the fair value of the identifiable assets and liabilities acquired as at the date of the acquisition is described as goodwill and is recognised as an asset by the parent company.

.15 Goodwill should be carried at cost less any accumulated amortisation and any accumulated impairment losses. Goodwill should be amortised on a systematic basis over its useful life. The amortisation period should reflect the best estimate of the period during which future economic benefits are expected to flow to the parent company as a result of the acquisition. The useful life of goodwill will rarely exceed twenty years.

.16 Any excess, as at the date of the acquisition, of the fair value of the identifiable assets and liabilities acquired over the cost of acquisition should be recognised as negative goodwill. Negative goodwill should be presented as a deduction from the assets of the parent company, in the same balance sheet classification as goodwill.

.17 Negative goodwill should be recognised as income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable assets.

.18 Taxes payable by either the parent or its subsidiaries on distribution to the parent of the profits retained in subsidiaries are accounted for in accordance with the Standard that deals with Accounting for Taxes on Income.

.19 Intragroup balances and intragroup transactions, including sales, expenses and dividends, are eliminated in full. Unrealised profits resulting from intragroup transactions that are included in the carrying amount of assets, such as inventory and fixed assets, are eliminated in full. Unrealised losses resulting from intragroup transactions that are deducted in arriving at the carrying amount of assets are also eliminated unless cost cannot be recovered. Timing differences that arise from the elimination of unrealised profits and losses resulting from intragroup transactions are dealt with in accordance with the Standard that deals with Accounting for Taxes on Income.

.20 The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements are usually drawn up to the same date. When the reporting dates are different, the subsidiary often prepares, for consolidation purposes, statements as at the same date as the group. When it is impracticable to do this, financial statements drawn up to different reporting dates may be used provided the difference is no greater than three months. The consistency principle dictates that the length of the reporting periods and any difference in the reporting dates should be the same from period to period.
.21 Consolidated financial statements should be prepared using uniform accounting policies for like transactions and other events in similar circumstances. If it is not practicable to use uniform accounting policies in preparing the consolidated financial statements, that fact should be disclosed together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied.

.22 If a member of the group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements when they are used in preparing the consolidated financial statements.

.23 The results of operations of a subsidiary are included in the consolidated financial statements as from the date of acquisition, which is the date on which control of the acquired subsidiary is effectively transferred to the buyer. The results of operations of a subsidiary disposed of are included in the consolidated income statement until the date of disposal which is the date on which the parent ceases to have control of the subsidiary. The difference between the proceeds from the disposal of the subsidiary and the carrying amount of its assets less liabilities as of the date of disposal is recognised in the consolidated income statement as the profit or loss on the disposal of the subsidiary. In order to ensure the comparability of the financial statements from one accounting period to the next, supplementary information should be provided about the effect of the acquisition and disposal of subsidiaries on the financial position at the reporting date and the results for the reporting period and on the corresponding amounts for the preceding period.

.24 An investment in an enterprise should be accounted for in accordance with the Standard that deals with Accounting for Investments, from the date that it ceases to fall within the definition of a subsidiary.

.25 The carrying amount of the investment at the date that it ceases to be a subsidiary is regarded as cost thereafter.

.26 Minority interests should be presented in the consolidated balance sheet separately from liabilities and the parent shareholders' equity. Minority interests in the income of the group should also be separately presented.

.27 The losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the equity of the subsidiary. The excess, and any further losses applicable to the minority, are charged against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, the majority interest is allocated all such profits until the minority's share of losses previously absorbed by the majority has been recovered.

.28 If a subsidiary has outstanding cumulative preferred shares which are held outside the group, the parent computes its share of profits or losses after adjusting for the subsidiary's preferred dividends, whether or not dividends have been declared.

**Accounting for investments in subsidiaries in a parent's separate financial statements**
The parent company should also produce separate (non-consolidated) financial statements.

In a parent's separate financial statements, investments in subsidiaries that are included in the consolidated financial statements should be either:

(a) accounted for using the equity method, under which the investment is initially recorded at cost, and the carrying amount is increased or decreased to recognise the parent company’s share of the profits or losses of the subsidiary since acquisition; or

(b) carried at cost or revalued amounts under the parent’s accounting policy for long-term investments (see the Standard that deals with Accounting for Investments).

Investments in subsidiaries that are excluded from consolidation should be accounted for in the parent’s separate financial statements as if they are investments in accordance with the Standard that deals with Accounting for Investments.

Disclosure

In addition to those disclosures required by paragraphs .06 and .23, the following disclosures should be made:

(a) in consolidated financial statements a listing of significant subsidiaries including the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held;

(b) in consolidated financial statements, where applicable:

(i) the reasons for not consolidating a subsidiary;
(ii) the nature of the relationship between the parent and a subsidiary of which the parent does not own, directly or indirectly through subsidiaries, more than one half of the voting power;
(iii) the name of an enterprise in which more than one half of the voting power is owned, directly or indirectly through subsidiaries, but which, because of the absence of control, is not a subsidiary; and
(iv) the effect of the acquisition and disposal of subsidiaries on the financial position at the reporting date, the results for the reporting period and on the corresponding amounts for the preceding period; and

(c) in the parent's separate financial statements, a description of the method used to account for subsidiaries.

Effective date

This Cambodian Accounting Standard becomes operative for financial statements covering periods beginning on or after [            ]. Earlier application is encouraged.
CAS 30

Introduction

This Cambodian Accounting Standard ("CAS 30") sets out the requirements for recognition, measurement, presentation and disclosure in the financial statements of a bank or other financial institution. It is a requirement of Cambodian Law that financial statements for all Accounting Entities (as defined by the Law), including banks and other financial institutions, are to be prepared in accordance with International Accounting Standards. Therefore, this CAS 30 includes all the relevant paragraphs from the equivalent International Accounting Standard ("IAS 30"). This Standard has been expanded to include background material and implementation guidance for Cambodia.

CAS 30 is the only industry-specify Cambodian Accounting Standard produced to date. The business characteristics of banks are sufficiently different from other enterprises to warrant a separate Standard tailored to their needs. The Standard is aimed at disclosure of consistent and reliable information about the general financial health of banks, in particular their solvency and liquidity and the relative degree of risk that attaches to their different lines of business. It also deals with recognition, measurement and presentation issues.

The users of the financial statements of a bank need relevant, reliable and comparable information which assists them in evaluating the financial position and performance of the bank and which is useful to them in making economic decisions. They also need information which gives them a better understanding of the special characteristics of the operations of a bank. Users need such information even though a bank is subject to supervision and provides the regulatory authorities with information that is not always available to the public. Therefore disclosures in the financial statements of a bank need to be sufficiently comprehensive to meet the needs of users, within the constraint of what it is reasonable to require of management.

The users of the financial statements of a bank are interested in its liquidity and solvency and the risks related to the assets and liabilities recognised on its balance sheet and to its off balance sheet items. Liquidity refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments as they fall due. Solvency refers to the excess of assets over liabilities and, hence, to the adequacy of the bank's capital. A bank is exposed to liquidity risk and to risks arising from currency fluctuations, interest rate movements, changes in market prices and from counterparty failure. These risks may be reflected in the financial statements, but users obtain a better understanding if management provides a disclosure on the financial statements which describes the way it manages and controls the risks associated with the operations of the bank.

This Standard is not intended to apply to immaterial items.

Scope

.01 This Standard should be applied to banks that operate in Cambodia. Rural credit specialised banks, micro-finance and similar financial institutions that operate one or more banking activities should also apply the relevant sections of this Standard. Where these institutions are in the process of being licensed, they should apply this
Standard to the extent that is practical, given the stage of development of each institution.

.02 For the purposes of this Standard, the term "bank" includes all financial institutions, one of whose principal activities is to take deposits and borrow with the objective of lending and investing and which are within the scope of banking or similar legislation. The Standard is relevant to such enterprises whether or not they have the word "bank" in their name.

.03 Banks represent a significant and influential sector in the business community. Most individuals and organisations make use of banks, either as depositors or borrowers. Thus, banks play a major role in maintaining confidence in the monetary system through their close relationship with regulatory authorities and government institutions. With a commitment to strengthen the country’s banking sector and to ensure that banks can secure public trust, the government has issued various regulations for the banking industry. Understandably, there is considerable and widespread interest in the well-being of banks, and in particular their solvency and liquidity and the relative degree of risk that attaches to their different types of business. Therefore, the accounting and reporting requirements for banks are different from those of other commercial enterprises. This Standard recognises their special needs. It also encourages the presentation of disclosures on the financial statements which deal with such matters as the management and control of liquidity and risk.

.04 This Standard supplements other Cambodian Accounting Standards, which also apply to banks unless banks are specifically exempted in a Standard.

.05 This Standard applies to the separate financial statements and the consolidated financial statements of a bank. Where a group undertakes banking operations, this Standard is applicable in respect of those operations on a consolidated basis.

.06 Banks are also subject to requirements set by the Royal Government of Cambodia, and the National Bank of Cambodia (“NBC” or the “Central Bank”) being the supervising authority for banks, to report financial and other operational data. The financial statements prepared under this Standard are not intended to fulfill those additional rules and regulations.

Definitions

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

A bank is a business entity that accumulates funds from the public in the form of savings and distributes them to the public in the form of loans or advances in order to enhance the welfare of the general public.

Cash is bills and coins, in Khmer Riel and foreign currencies.
The definition of cash also covers Khmer Riel currency withdrawn from circulation and is still within the transitional period to be exchanged to National Bank of Cambodia. Excluded from this definition are gold bullion and commemorative coins.

**Short-term obligation** is the bank’s obligation to outside parties that, based on a contract or on an order by those having authority, has to be settled immediately.

Examples of immediate obligation include money in transit, withholding tax, overdue deposit and interest.

**Commitment** is a pledge or contract, irrevocable by any one party, that has to be fulfilled provided the requirements agreed upon are met.

**Contingency** is a condition or situation, the ultimate outcome of which is either gain or loss, which will be confirmed only upon the occurrence, or non-occurrence, of one or more events.

**Estimated loss on commitments and contingencies** is an estimation of loss that results from the customers not fulfilling their commitments and contingencies.

**Credit** is the granting of funds or equivalent receivable, based on an agreement between the bank and other party (parties) that requires the borrower to repay his or her debt after a certain period of time at a certain interest rate, certain return or sharing of return. Included in this definition of credit granted is restructured credit.

**Placement in other banks** is the investment of the bank’s funds in other banks, within or outside of the country, in the form of interbank call money, savings account, time deposit and other similar vehicles that aim to generate revenues.

**Loan received** is a loan, whether in Khmer Riel or in foreign currencies, received from another bank or another party, including the Central Bank, that has to be paid at its maturity date. This type of loan does not include subordinated loans and deposits by the public.

**Subordinated loans** are those loans that, based on an agreement between the bank and another party, can only be settled after the bank has fulfilled certain obligations and in the case of liquidation, the claims of those subordinated loans come after the claims of all the other loans.

**Net foreign exchange position** is:

(i) the net difference between monetary assets and monetary liabilities in foreign currency; and

(ii) the net difference between receivables and payables in foreign currency.

**Deposit** is a fund entrusted by the public to the bank under a contract.

**Deposit liabilities** generally consist of:

(i) **Current accounts**, which are non-interest-bearing and payable on demand, the withdrawal of which can be done at any time by use of a cheque, a bank draft, or other forms of payment order, or transfer order.

(ii) **Savings deposits**, which are interest-bearing and can be withdrawn on demand upon presentation of a properly completed withdrawal slip, which is usually accompanied by a passbook (a record of deposits, withdrawals, interest and account balance).
(iii) (iii) **Time deposits**, which are interest bearing, have specific maturity dates, and are evidenced by certificates issued by the bank.

(iv) (iv) **Certificates of deposit**, that is time deposits supported by a transferable document, and

(v) (v) **Other forms**, equivalent to items (i) to (iv) above.

**Deposit from other banks** is a bank’s obligation to other banks, whether local or overseas which can take the form of current account, savings, interbank call money, time deposit and other equivalent types.

**Accounting policies**

.08 In order to enable users to understand the basis on which the financial statements of a bank are prepared, accounting policies dealing with the following items need to be disclosed:

(a) the recognition of the principal types of income (see paragraphs .45 and .46);

(b) the valuation of investment and dealing securities (see paragraphs 59 and 60);

(c) the distinction between those transactions and other events that result in the recognition of assets and liabilities on the balance sheet and those transactions and other events that only give rise to contingencies and commitments (see paragraphs .67 to .70);

(d) the basis for the determination of losses on loans and advances and for writing off uncollectable loans and advances (see paragraphs 84 to 89); and

(e) the basis for the determination of charges for general banking risks and the accounting treatment of such charges (see paragraphs 90 to 92).

**Recognition and measurement**

**Credit transaction**

.09 Loans are recognised when they are paid out and are measured at their principal amount. The principal amount of a loan does not include interest and other prepaid expenses.

.10 Loans are valued at the outstanding balance at which they are to be collected. This amount is reduced by an estimated provision for loan losses, to state the carrying amount of loans at net realisable value. Unearned discount and other unamortised loan fees are also presented as a reduction to loans. Related accrued interest is generally included in other assets or shown separately, if material.

.11 The provision for loan losses is the estimated amount of losses in a bank’s loan portfolio.
In general, there are two types of provisions, general provision and specific provision. General provision for the credit portfolio is determined based on the bank’s experience and industry prospects. Specific provision is determined based on various factors affecting credit quality, such as: the prospect of the debtor’s business, financial condition with emphasis on cash flows, the debtor’s ability to meet its obligation and the collateral. Allowance for possible losses is set up in the related currencies of credit granted. If the credit granted is in Khmer Riel, the allowance for possible losses should be in Khmer Riel. If the credit granted is in foreign currencies, the allowance for possible losses should be in the corresponding foreign currencies.

The amount of loan that can be written off corresponds to the portion of the loan that cannot be collected. A collateral taken over in settlement of the loan is recognised at its realisable value.

**Recognition of interest revenue and expense**

Recognition of interest revenue and expense is essential in determining the profitability of a bank. A bank’s main activity is accumulating interest-bearing funds and investing them in productive assets. As in any other industry, in the banking industry there is a possibility that the timing of revenue recognition differs from that of expense recognition. This makes the matching of cost against revenue in banking not easy to achieve, and therefore, the characteristics of the bank’s business activities should be taken into consideration.

Interest revenue is recognised on an accrual basis, except in the case of non-performing loans and restructured loans (see paragraph .25). Interest revenue on non-performing loans is recognised when the revenue is received.

Revenue earned from credit activities, among others, consists of interest revenue and other revenues such as commissions and provisions. Revenue on non-performing loans is not recognised as revenue in the reporting period.

When the loan is classified as non-performing, the interest already recognised as revenue but which has not been collected should be cancelled/reversed.

When previously recognised interest is cancelled/reversed, the amount cancelled/reversed will reduce interest income.

Non-performing loans are those in which the principal and/or interest is 90 days or more overdue after their maturity date or those where indications exist that the collectibility has become doubtful. These indications include the failure to pay amounts due on maturity dates, declaration of bankruptcy, insolvency, cessation of operations, or such other conditions of financial difficulties or inability to meet financial obligations as they mature. Non-performing loans consist of those classified as “substandard”, “doubtful” and “loss” following the NBC’s mandatory credit classification.

Interest expense is recognised on an accrual basis.
Recognition of non-interest revenues and expenses

.21 Non-interest revenues and expenses attributed to a period of time are recognised over such period.

.22 Such non-interest revenues and expenses include services fees and charges related to credit transactions.

.23 If a credit or a commitment is settled before maturity, the remaining related revenue or expense is recognised at the time the credit or the commitment is settled.

Loan restructuring

.24 A restructured loan may include interest and other expenses converted into principal.

.25 Restructured loans are loans that were overdue and whose terms have been modified in accordance with a restructuring agreement to bring the account into current accrual status. The modification of terms may include (but is not limited to) a change in interest rate, an extension of maturity, a change in the face amount of the debt, or change in collaterals.

.26 Uncollected overdue interest may be incorporated into the face amount of the debt provided that the unaccrued interest is recorded as unearned income and recognised as income only upon collection.

.27 After restructuring, a loan shall begin to be on a regular accrual basis unless conditions indicate that a suspension of accrual is appropriate and as long as payments of such interest accruals are not subject to any grace period. Restructured loans subject to a grace period shall not accrue interest until interest is collected. Where accrual is appropriate, the new interest rate agreed upon shall be the basis of current accruals.

.28 Investment resulting from the restructuring of a loan is treated as a temporary investment. Thus, the cost method of accounting for investments is applied regardless of the percentage of ownership in the enterprise. The carrying value of the investment should be adjusted for any permanent decline in value of the investment equivalent to such permanent decline. This investment/placement should be presented separately from other investments and need not be consolidated in the financial statements, because it is only a temporary investment.

.29 Collateral taken over is recognized at its net realisable value.

.30 Net realisable value is the fair value of the collateral after deducting the estimated costs of disposal.

.31 The difference between the value of the collateral and the proceeds from sale thereof is recognised as a gain or loss at the time of the sale.

.32 The recovery of a loan that has been written off is recognised as an adjustment to the provision for loan losses to the extent of the principal. If the recovery is more than the principal, the excess is recognised as interest income.
The collection from credit written off could consist of principal and interest repayment. Collection on loans written off which were classified as “doubtful” or “loss” shall be recognised as an adjustment to the provision for loan losses to the extent of the principal amount. The excess of the collection over the principal will be recognised as interest income.

Export and import transactions

A bank’s activities in export and import transactions relate primarily to opening, receiving and processing Letters of Credit (L/C). An L/C instrument is issued by the bank at the request of its customer, and it gives the right to a beneficiary person or entity receiving the L/C to withdraw funds from the opening bank through one of its correspondent banks.

Fee-based activities

Revenues and expenses attributable to a certain period of time are recognised over such period. Revenues and expenses not attributable to a certain period of time are recognised in the period when the transaction occurred.

Bank activities not related to credit transactions consist of activities attributable to a certain period of time and those not attributable to a certain period of time. Revenues and expenses attributable to a certain period of time include commissions and fees from activities not related to credit transactions. Revenues and expenses not attributable to a certain period of time include those arising from money dispatch transactions, opening of an L/C, sales of travellers’ cheques, automated teller machines, and issuance of bank drafts.

Accumulation of funds from customers

To accumulate funds from customers, the bank sells its products in the form of, among others, current accounts, savings accounts, deposits, and certificates of deposit with different maturity periods.

Deposit products are valued as follows:

(a) Current account is stated at the amount of the bank’s liability to the account holder.
(b) Saving is stated at the amount of the bank’s liability to the account holder.
(c) Time deposit is stated at the amount of principal deposit amount stated in the agreement between the bank and depositor.
(d) Certificate of deposit is stated at the nominal amount less the unearned interest. The difference between cash receipt and nominal amount (discount) is recognised as unearned interest and should be amortised over the period of the deposit.
Commitments and contingencies

.39 Provision for losses on commitments and contingencies should be determined in the same amount of the estimated loss and recognised as expense and liability separately.

.40 The bank provides for estimated loss based on the quality of such commitments and contingencies less the estimated value of the collateral. The quality is determined taking into account the business prospect, financial condition and the repayment capability of the customer.

.41 The commitment and contingency activities of the bank include, among others, the issuance of bank guarantee, credit facility, irrevocable L/C, promissory notes, standby L/C and interest income on non-performing assets which could not be recognised as income during the current period.

Presentation and Disclosure

Financial Statements

.42 The bank’s financial statements consist of:

- (a) Statement of income
- (b) Balance sheet
- (c) Statement of cash flow
- (d) Statement of changes in stockholders’ equity
- (e) Notes to financial statements.

Statement of Income

.43 A bank should present a statement of income which groups income and expenses by nature and discloses the amounts of the principal types of income and expenses. This is presented in a multi-step form that describes revenues and expenses resulting from the bank’s main activities and those from other activities.

.44 A bank’s statement of income presents revenue and expenses in detail, and distinguishes revenue and expense items resulting from operations and those not related to operations.

.45 In addition to the requirements of other Standards, the disclosures in the statement of income or the notes to the financial statements should include, but are not limited to, the following items of income and expenses:

- Interest and similar income;
- Interest expense and similar charges;
- Dividend income;
- Fee and commission income;
- Fee and commission expense;
• Gains less losses arising from dealing securities;
• Gains less losses arising from investment securities;
• Gains less losses arising from dealing in foreign currencies;
• Other operating income;
• Losses on loans and advances;
• General administrative expenses; and
• Other operating expenses.

The principal types of income arising from the operations of a bank include interest, commission and fee income and other service income. Each type of income is separately disclosed in order that users can assess the performance of a bank.

The principal types of expenses arising from the operations of a bank include interest, commissions, losses on loans and advances, charges relating to the reduction in the carrying amount of investments and general administrative expenses. Each type of expense is separately disclosed in order that users can assess the performance of a bank.

Income and expense items should not be offset except where they relate to assets and liabilities which have been offset in accordance with paragraph .58.

Improper offsetting prevents users of the financial statements from assessing the performance of the separate activities of a bank and the return that it obtains on particular classes of assets.

Gains and losses arising from each of the following may be reported on a net basis:

(a) disposals and changes in the carrying amount of dealing securities;
(b) disposals of investment securities; and
(c) dealings in foreign currencies.

Interest income and interest expense are disclosed separately in order to give a better understanding of the composition of, and reasons for changes in, net interest.

Net interest is the difference between interest income and interest expense. Management is encouraged to disclose average interest rates, average value of interest earning assets and average value of interest-bearing liabilities for the period. When the government provides assistance to banks by making deposits and other credit facilities available at interest rates which are substantially below market rates, the management is encouraged to disclose the extent of these deposits and facilities and their effect on net income.

Balance sheet

A bank should present a balance sheet that groups assets and liabilities by nature and lists them in the order of their relative liquidity.
In addition to the requirements of other Standards, the disclosures in the balance sheet or the notes to the financial statements should include, but are not limited to, the following assets and liabilities:

**Assets**
- Cash;
- Current account with the Central Bank;
- Current account with other banks;
- Placements in other banks;
- Securities;
- Government and other securities held for dealing purposes
- Loans and advances to other banks;
- Other money market placements;
- Loans and advances to customers;
- Investment in stocks;
- Fixed assets; and
- Other assets.

**Liabilities**
- Deposits from customers;
- Deposits from other banks;
- Certificates of deposits;
- Promissory notes and other liabilities evidenced by paper;
- Provisions for estimated loss on commitments and contingencies;
- Other liabilities; and
- Subordinated borrowings.

**Equity**
- Capital stock;
- Additional paid-in capital;
- Retained earnings; and
- Reserves and appropriations.

When material amounts cannot be classified into any of the asset and liability accounts under paragraph .54, those amounts shall be presented separately.

The most useful approach to the classification of the assets and liabilities of a bank is to group them by their nature and list them in the approximate order of their liquidity; this may equate broadly to their maturities. Current and non-current items are not presented separately because most assets and liabilities of a bank can be realised or settled in the near future.

Users of the financial statements need relevant information that will show the relationship and dependency of the bank with certain parties, such as other banks, other money market players, and depositors because it gives an understanding of a
bank's relations with, and dependence on, other banks and the money market. Hence, a bank discloses separately:

(a) balances with the Central Bank;
(b) placements with other banks;
(c) other money market placements;
(d) deposits from other banks;
(e) other money market deposits; and
(f) other deposits.

.58 The amount at which any asset or liability is stated in the balance sheet should not be offset by another liability or asset unless a legal right of set-off exists and the offsetting represents the expectation as to the realisation or settlement of the asset or liability.

.59 A bank should disclose the market value of dealing securities and marketable investment securities if these values are different from the carrying amounts in the financial statements.

.60 It is important to distinguish dealing securities from investment securities and from other investments. Dealing securities are marketable securities that are acquired and held with the intention of reselling them in the short term. Investment securities are acquired and held for yield or capital growth purposes and are usually held to maturity. The market values of dealing securities and marketable investment securities should be disclosed, if these values are different from the carrying amounts in the financial statements. It is not appropriate in the financial statements of a bank to account for loans, advances and similar transactions as investments.

.61 In a loan restructuring, the gross amount of the loan includes interest and other expenses converted into principal.

**Statement of changes in equity**

.62 Statement of changes in equity is presented in accordance with the Standard that deals with Presentation of Financial Statements.

.63 Statement of changes in equity presents increases and decreases in net assets or net worth of the bank for the period in accordance with certain measurement principles which should be disclosed in the financial statements.

**Statement of cash flows**

.64 The statement of cash flows should be presented based on the movement in cash reported in the financial statements in the reporting period.

.65 Cash and cash equivalents consist of:
Notes to the financial statements

.66 Notes to the financial statements are presented in a systematic manner. Each account in the statement of income, balance sheet, and statement of cash flow that justifies further explanation is supported by disclosures in the notes to the financial statements. In addition to considering the requirements of other Standards, the notes to the financial statements should also disclose, but are not limited to, the matters discussed in paragraphs 68 to 105.

Contingencies and commitments

.67 A bank should disclose the following contingencies and commitments:

(a) The nature and amount of commitments to extend credit that are irrevocable because they cannot be withdrawn at the discretion of the bank without the risk of incurring significant penalty or expense. The amount of commitments of credit facility received is disclosed at remaining balance of unused credit facility. The amount of commitments of credit facility given is disclosed at remaining balance of credit facility unused by customers.

(b) The nature and amount of commitments relating to:

   (i) issuance of outstanding irrevocable letters of credit (L/C) for import at unrealised L/C amount;
   (ii) securities issuance facilities or other commitments of the same types.

(c) Other contingencies and commitments including those relating to:

   (i) direct credit substitutes including bank guarantees, and standby letters of credit serving as financial guarantees for loans and securities;
   (ii) certain transaction-related contingencies (construction and trading, in particular) including performance bonds, bid bonds, advance payment bonds, shipping guarantees, warranties and standby letters of credit related to particular transactions;
   (iii) short-term self-liquidating trade-related contingencies arising from the movement of goods, such as documentary credits where the underlying shipment is used as security;
   (iv) those sale and repurchase agreements not recognised in the balance sheet;
   (v) interest and foreign exchange rate related items; and
   (vi) other commitments, note issuance facilities and revolving underwriting facilities.
The Standard on the subject of Contingencies and Events Occurring After the Balance Sheet Date, deals generally with accounting for, and disclosure of, contingencies. The Standard is of particular relevance to banks because banks often become engaged in many types of contingencies and commitments, some revocable and others irrevocable, which are frequently significant in amount and substantially larger than those of other commercial enterprises.

A bank can also enter into transactions that are presently not recognised as assets or liabilities in the balance sheet but which give rise to contingencies and commitments. Such off balance sheet items often represent an important part of the business of a bank and may have a significant bearing on the level of risk to which the bank is exposed. These items may add to, or reduce, other risks, for example by hedging assets or liabilities on the balance sheet. Off balance sheet items may arise from transactions carried out on behalf of customers or from the bank's own trading position.

The users of the financial statements need to know about the contingencies and irrevocable commitments of a bank because of the demands they may put on its liquidity and solvency and the inherent possibility of potential losses. Users also require adequate information about the nature and amount of off balance sheet transactions undertaken by a bank.

Maturity of assets and liabilities

A bank should disclose an analysis of assets and liabilities by maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

One of the fundamental aspects in the management of the risks of a bank is the management of assets and liabilities, including that concerning the maturity gap and interest risk spread. It is unusual for a bank to achieve perfect matching in managing its assets and liabilities since business transactions are often of uncertain term and of different types. An unmatched position potentially enhances profitability but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of a bank and its exposure to changes in interest rates and exchange rates. In order to provide information that is relevant for the assessment of its liquidity, a bank discloses, as a minimum, an analysis of assets and liabilities into relevant maturity groupings.

The maturity groupings applied to individual assets and liabilities, as well as grouping for the types of assets and liabilities, will differ among banks. Examples of periods used are as follows:

(a) up to 1 month;
(b) from 1 month to 3 months;
(c) from 3 months to 1 year;
(d) from 1 year to 5 years; and
(e) from 5 years and over.

Frequently the periods are combined. For example, in the case of loans and advances, by grouping those under one year and those over one year. When repayment is spread over a period of time, each instalment is allocated to the period in which it is contractually agreed or expected to be paid or received.

.75 It is essential that the maturity periods adopted by a bank are the same for assets and liabilities. This makes clear the extent to which the maturities are matched and the consequent dependence of the bank on other sources of liquidity.

.76 Maturities could be expressed in terms of:

(a) the remaining period to the repayment date;
(b) the original period to the repayment date; or
(c) the remaining period to the next date at which interest rates may be changed.

The analysis of maturity of assets and liabilities by their remaining periods to the repayment dates provides the best basis to evaluate the liquidity of a bank. A bank may also disclose an analysis of repayment maturities based on the original period to the repayment date in order to provide information about its funding and business strategy. In addition, a bank may disclose maturity groupings based on the remaining period to the next date at which interest rates may be changed in order to demonstrate its exposure to interest rate risks. Management may also provide, in the notes to financial statements, information about interest rate exposure and about the measures identified to manage and control such risks.

.77 Deposits made with a bank may be withdrawn on demand and advances given by a bank may be repayable on demand. However, in practice, these deposits and advances are often maintained for long periods without withdrawal or repayment; hence, the effective date of repayment is later than the contractual date. Nevertheless, a bank discloses an analysis expressed in terms of contractual maturities even though the contractual repayment period is often not the effective period because contractual dates reflect the liquidity risks attaching to the bank's assets and liabilities.

.78 Some assets of a bank do not have a contractual maturity date. The period in which these assets are assumed to mature is usually taken as the expected date on which the assets will be realised.

.79 In evaluating the liquidity of a bank, the users of financial statements also consider, in addition to maturity analysis, other factors such as local banking practices, including the availability of funds to banks.

.80 In order to provide users with a full understanding of the maturity groupings of assets and liabilities, the disclosures in the financial statements may need to be supplemented by information as to the likelihood of repayment within the remaining period. Hence, management may provide, in the notes to financial statements, information about the effective periods and about the way it manages and controls the risks and exposures associated with different maturity and interest rate profiles.
Concentrations of assets, liabilities and off balance sheet items

.81 A bank should disclose any significant concentrations of its assets, liabilities and off balance sheet items. Such disclosures should be made in terms of geographical areas, customer or industry groups or other concentrations of risk. A bank should also disclose the amount of significant net foreign currency exposures.

.82 A bank discloses significant concentrations in the distribution of its assets and in the source of its liabilities because it is a useful indication of the potential risks inherent in the realisation of the assets and the funds available to the bank. Such disclosures are made in terms of geographical areas, customer or industry groups or other concentrations of risk which are appropriate in the circumstances of the bank. A similar analysis and explanation of off balance sheet items is also important. Geographical areas may comprise individual countries, groups of countries or regions within a country; customer disclosures may deal with sectors such as governments, public authorities, and commercial and business enterprises.

.83 The disclosure of significant net foreign currency exposures is also a useful indication of the risk of losses arising from changes in exchange rates.

Loans and advances

.84 A bank should disclose the following:

(a) types of loans, economic sector a loan is classified in, and the amount of the loan;
(b) the amount of loans granted to related parties;
(c) the amount of restructured loans and other information relating to loans restructured during the period;
(d) classification of loans based on maturity period, collectibility, currency and average interest rates;
(e) the accounting policy which describes the basis on which uncollectable loans and advances are recognised as an expense and written off;
(f) details of the movements in the provision for losses on loans and advances during the period. It should disclose separately for the period, the amount recognised as an expense for losses on uncollectable loans and advances, the amount charged for loans and advances written off and the amount credited for loans and advances previously written off that have been recovered;
(g) the method used to determine the amount of general and specific provisions;
(h) the aggregate amount of the provision for losses on loans and advances at the balance sheet date; and
(i) the aggregate amount included in the balance sheet for loans and advances on which interest is not being accrued and the basis used to determine the carrying amount of such loans and advances.
Any amounts set aside in respect of losses on loans and advances in addition to those losses that have been specifically identified or potential losses which experience indicates are present in the portfolio of loans and advances should be accounted for as appropriations of retained earnings. Any credits resulting from the reduction of such amounts result in an increase in retained earnings and are not included in the determination of net profit or loss for the period.

A bank may set aside amounts for losses on loans and advances in addition to those losses which have been specifically identified and those potential losses which experience indicates are present in the portfolio of loans and advances. Any such amounts set aside represent appropriations of retained earnings and not expenses in determining net profit or loss for the period. Similarly, any credits resulting from the reduction of such amounts result in an increase in retained earnings and are not included in the determination of net profit or loss for the period.

Users of the financial statements of a bank need to know the impact that losses on loans and advances have had on the financial position and performance of the bank; this helps them judge the effectiveness with which the bank has employed its resources. Therefore a bank discloses the aggregate amount of the provision for losses on loans and advances at the balance sheet date and the movements in the provision during the period. The movements in the provision, including the amounts previously written off that have been recovered during the period, are shown separately.

A bank may decide not to accrue interest on a loan or advance, for example when the borrower is more than a particular period in arrears with respect to the payment of interest or principal. A bank discloses the aggregate amount of loans and advances at the balance sheet date on which interest is not being accrued and the basis used to determine the carrying amount of such loans and advances. It is also desirable that a bank discloses whether it recognises interest income on such loans and advances and the impact which the non-accrual of interest has on its income statement.

When loans and advances cannot be recovered, they are written off and charged against the provision for losses. In some cases, they are not written off until all the necessary legal procedures have been completed and the amount of the loss is finally determined. In other cases, they are written off earlier, for example when the borrower has not paid any interest or repaid any principal that was due in a specified period. As the time at which uncollectable loans and advances are written off differs, the gross amount of loans and advances and of the provisions for losses may vary considerably in similar circumstances. As a result, a bank discloses its policy for writing off uncollectable loans and advances.

**General banking risks**

Any amounts set aside in respect of general banking risks, including future losses and other unforeseeable risks or contingencies in addition to those for which accrual must be made, should be separately disclosed as appropriations of retained earnings. Any
credits resulting from the reduction of such amounts result in an increase in retained earnings and are not included in the determination of net profit or loss for the period.

.91 A bank may set aside amounts for general banking risks, including future losses or other unforeseeable risks, in addition to the charges for losses on loans and advances. A bank may also be required or allowed to set aside amounts for contingencies in addition to those for which accrual is required by another Standard. These charges may result in the overstatement of liabilities, understatement of assets or undisclosed accruals and provisions. They present the opportunity to distort net income and equity.

.92 The income statement cannot present relevant and reliable information about the performance of a bank if net profit or loss for the period includes the effects of undisclosed amounts set aside for general banking risks or additional contingencies, or undisclosed credits resulting from the reversal of such amounts. Similarly, the balance sheet cannot provide relevant and reliable information about the financial position of a bank if the balance sheet includes overstated liabilities, understated assets or undisclosed accruals and provisions.

Assets pledged as security

.93 A bank should disclose the aggregate amount of secured liabilities and the nature and carrying amount of the assets pledged as security.

Trust activities

.94 Banks may act as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, and other institutions. Assets held under trust are not assets of the bank and, therefore, are not included in its balance sheet.

.95 When the bank is acting as a trustee, it should provide a description of its trust activities, and an indication of the extent of those activities in the notes to the financial statements because of the potential liability if it fails in its fiduciary duties. For this purpose, trust activities do not encompass safe custody functions.

Related party transactions

.96 Disclosure requirements on related party transactions of banks are similar to that of other business enterprises and are discussed in the Standard that deals with Related Party Disclosures. This Standard is highly relevant in the presentation of the financial statements of a bank in Cambodia where related party transactions are permitted, and where such transactions are subject to regulations issued by the NBC.

.97 Certain transactions between related parties may be effected on different terms from those with unrelated parties. For example, a bank may advance a larger sum or charge lower interest rates to a related party than it would in otherwise identical circumstances to an unrelated party; advances or deposits may be moved between related parties more quickly and with less formality than is possible when unrelated parties are involved. Even when related party transactions arise in the ordinary course
of a bank’s business, information about such transactions is relevant to the needs of users and its disclosure is required by Cambodian Accounting Standards.

.98 When a bank has entered into transactions with related parties, it is appropriate to disclose the nature of the related party relationship, the types of transactions, and the elements of transactions necessary for an understanding of the financial statements of the bank. The elements that would normally be disclosed to conform with the Standard on Related Party Disclosures, include a bank’s lending policy to related parties and, in respect of related party transactions, the amount included in or the proportion of:

(a) each of loans and advances, deposits and acceptances and promissory notes;
(b) each of the principal types of income, interest expense and commissions paid;
(c) the amount of the expense recognised in the period for losses on loans and advances and the amount of the provision at the balance sheet date; and
(d) irrevocable commitments and contingencies and commitments arising from off balance sheet items.

**Additional Disclosures for Certain Accounts**

.99 Banks should disclose the types of inter-bank placements, the amounts placed and by currency.

.100 Banks should provide details about deposits, in particular:

(a) the amount of current accounts and time deposits blocked and pledged as credit collateral and other banking transactions/facilities;
(b) the granting of special privileges to current account holders;
(c) the main composition of the deposits and certificates of deposits classified into Khmer Riel and foreign currency.

.101 The Bank should disclose details of credits received, in particular:

(a) the types of credits received;
(b) the types of currencies (Khmer Riel and foreign currencies);
(c) any commitments related to credit received;
(d) the value of the bank’s assets pledged.

.102 Banks should also disclose the types of currency of the subordinated loans received (Khmer Riel or foreign currencies) and any related documents.

**Disclosures of Other Important Matters**

.103 The bank should disclose its net open position by type of currency.

.104 In addition to the disclosures required in this Standard and in other Standards, the bank should also disclose in a separate note, other activities and information, including:

(a) trust activities;
(b) custodianship;
distribution of managed credit; and

general risks faced.

Effective date

.105 This Cambodian Accounting Standard becomes operative for the financial statements of banks covering periods beginning on or after[                  ]. Earlier application is encouraged.

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Objective and scope

The objective of this Standard is to ensure that appropriate recognition criteria and measurement bases are applied to provisions, contingent liabilities and contingent assets and that sufficient information is disclosed in the notes to the financial statements to enable users to understand their nature, timing and amount.

Scope

1. This Standard should be applied by all enterprises in accounting for provisions, contingent liabilities and contingent assets, except:
   (a) those resulting from financial instruments that are carried at fair value;
   (b) those resulting from executory contracts, except where the contract is onerous;
   (c) those arising in insurance enterprises from contracts with policyholders; and
   (d) those covered by another International Accounting Standard.

2. This Standard applies to financial instruments (including guarantees) that are not carried at fair value.

3. Executory contracts are contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent. This Standard does not apply to executory contracts unless they are onerous.

4. This Standard applies to provisions, contingent liabilities and contingent assets of insurance enterprises other than those arising from contracts with policyholders.

5. Where another International Accounting Standard deals with a specific type of provision, contingent liability or contingent asset, an enterprise applies that Standard instead of this Standard. For example, certain types of provisions are also addressed in Standards on:
   (a) construction contracts (see IAS 11, Construction Contracts);
   (b) income taxes (see IAS 12, Income Taxes);
   (c) leases (see IAS 17, Leases). However, as IAS 17 contains no specific requirements to deal with operating leases that have become onerous, this Standard applies to such cases; and
6. Some amounts treated as provisions may relate to the recognition of revenue, for example where an enterprise gives guarantees in exchange for a fee. This Standard does not address the recognition of revenue. IAS 18, Revenue, identifies the circumstances in which revenue is recognised and provides practical guidance on the application of the recognition criteria. This Standard does not change the requirements of IAS 18.

7. This Standard defines provisions as liabilities of uncertain timing or amount. In some countries the term ‘provision’ is also used in the context of items such as depreciation, impairment of assets and doubtful debts: these are adjustments to the carrying amounts of assets and are not addressed in this Standard.

8. Other International Accounting Standards specify whether expenditures are treated as assets or as expenses. These issues are not addressed in this Standard. Accordingly, this Standard neither prohibits nor requires capitalisation of the costs recognised when a provision is made.

9. This Standard applies to provisions for restructuring (including discontinuing operations). Where a restructuring meets the definition of a discontinuing operation, additional disclosures may be required by IAS 35, Discontinuing Operations.

**Definitions**

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

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

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

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

    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 **constructive obligation** is an obligation that derives from an enterprise’s actions where:
(a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the enterprise has indicated to other parties that it will accept certain responsibilities; and
(b) as a result, the enterprise has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

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 enterprise; 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.

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 enterprise.

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.

A restructuring is a programme that is planned and controlled by management, and materially changes either:

(a) the scope of a business undertaken by an enterprise; or
(b) the manner in which that business is conducted.

Definitions Provisions and Other Liabilities

11. Provisions can be distinguished from other liabilities such as trade payables and accruals because there is uncertainty about the timing or amount of the future expenditure required in settlement. By contrast:

(a) trade payables are liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier; and
(b) accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier, including amounts due to employees (for example, amounts relating to accrued vacation pay). Although it is sometimes necessary to estimate the amount or timing of accruals, the uncertainty is generally much less than for provisions.

Accruals are often reported as part of trade and other payables, whereas provisions are reported separately.
Definitions  **Relationship between Provisions and Contingent Liabilities**

12. In a general sense, all provisions are contingent because they are uncertain in timing or amount. However, within this Standard the term ‘contingent’ is used for liabilities and assets that are not recognised because their 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 enterprise. In addition, the term ‘contingent liability’ is used for liabilities that do not meet the recognition criteria.

13. This Standard distinguishes between:

(a) provisions - which are recognised as liabilities (assuming that a reliable estimate can be made) because they are present obligations and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations; and
(b) contingent liabilities - which are not recognised as liabilities because they are either:

(i) possible obligations, as it has yet to be confirmed whether the enterprise has a present obligation that could lead to an outflow of resources embodying economic benefits; or
(ii) present obligations that do not meet the recognition criteria in this Standard (because either it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or a sufficiently reliable estimate of the amount of the obligation cannot be made).

**Recognition  Provisions**

14. A provision should be recognised when:

(a) an enterprise has a present obligation (legal or constructive) as a result of a past event;
(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.

**Recognition  Provisions Present Obligation**

15. In rare cases it is not clear whether there is a present obligation. In these cases, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the balance sheet date.

16. In almost all cases it will be clear whether a past event has given rise to a present obligation. In rare cases, for example in a law suit, it may be disputed whether certain events have occurred or whether those events result in a present obligation. In such a case, an enterprise determines whether a present obligation exists at the balance
sheet date by taking account of all available evidence, including, for example, the opinion of experts. The evidence considered includes any additional evidence provided by events after the balance sheet date. On the basis of such evidence:

(a) where it is more likely than not that a present obligation exists at the balance sheet date, the enterprise recognises a provision (if the recognition criteria are met); and
(b) where it is more likely that no present obligation exists at the balance sheet date, the enterprise discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote (see paragraph 86).

Recognition Provisions Past Event

17. A past event that leads to a present obligation is called an obligating event. For an event to be an obligating event, it is necessary that the enterprise has no realistic alternative to settling the obligation created by the event. This is the case only:

(a) where the settlement of the obligation can be enforced by law; or
(b) in the case of a constructive obligation, where the event (which may be an action of the enterprise) creates valid expectations in other parties that the enterprise will discharge the obligation.

18. Financial statements deal with the financial position of an enterprise at the end of its reporting period and not its possible position in the future. Therefore, no provision is recognised for costs that need to be incurred to operate in the future. The only liabilities recognised in an enterprise’s balance sheet are those that exist at the balance sheet date.

19. It is only those obligations arising from past events existing independently of an enterprise’s future actions (i.e. the future conduct of its business) that are recognised as provisions. Examples of such obligations are penalties or clean-up costs for unlawful environmental damage, both of which would lead to an outflow of resources embodying economic benefits in settlement regardless of the future actions of the enterprise. Similarly, an enterprise recognises a provision for the decommissioning costs of an oil installation or a nuclear power station to the extent that the enterprise is obliged to rectify damage already caused. In contrast, because of commercial pressures or legal requirements, an enterprise may intend or need to carry out expenditure to operate in a particular way in the future (for example, by fitting smoke filters in a certain type of factory). Because the enterprise can avoid the future expenditure by its future actions, for example by changing its method of operation, it has no present obligation for that future expenditure and no provision is recognised.

20. An obligation always involves another party to whom the obligation is owed. It is not necessary, however, to know the identity of the party to whom the obligation is owed - indeed the obligation may be to the public at large. Because an obligation always involves a commitment to another party, it follows that a management or board decision does not give rise to a constructive obligation at the balance sheet date unless the decision has been communicated before the balance sheet date to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the enterprise will discharge its responsibilities.
21. An event that does not give rise to an obligation immediately may do so at a later date, because of changes in the law or because an act (for example, a sufficiently specific public statement) by the enterprise gives rise to a constructive obligation. For example, when environmental damage is caused there may be no obligation to remedy the consequences. However, the causing of the damage will become an obligating event when a new law requires the existing damage to be rectified or when the enterprise publicly accepts responsibility for rectification in a way that creates a constructive obligation.

22. Where details of a proposed new law have yet to be finalised, an obligation arises only when the legislation is virtually certain to be enacted as drafted. For the purpose of this Standard, such an obligation is treated as a legal obligation. Differences in circumstances surrounding enactment make it impossible to specify a single event that would make the enactment of a law virtually certain. In many cases it will be impossible to be virtually certain of the enactment of a law until it is enacted.

**Recognition Provisions Probable Outflow of Resources Embodying Economic Benefits**

23. 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 Standard, 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 enterprise discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote (see paragraph 86).

1 The interpretation of 'probable' in this Standard as 'more likely than not' does not necessarily apply in other International Accounting Standards.

24. Where there are a number of similar obligations (e.g. product warranties or similar contracts) the probability that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Although the likelihood of outflow for any one item may be small, it may well be probable that some outflow of resources will be needed to settle the class of obligations as a whole. If that is the case, a provision is recognised (if the other recognition criteria are met).

**Recognition Provisions Reliable Estimate of the Obligation**

25. 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 enterprise 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.

26. In the extremely rare case where no reliable estimate can be made, a liability exists that cannot be recognised. That liability is disclosed as a contingent liability (see paragraph 86).

**Recognition Contingent Liabilities**
27. An enterprise should not recognise a contingent liability.

28. A contingent liability is disclosed, as required by paragraph 86, unless the possibility of an outflow of resources embodying economic benefits is remote.

29. Where an enterprise is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability. The enterprise recognises a provision for the part of the obligation for which an outflow of resources embodying economic benefits is probable, except in the extremely rare circumstances where no reliable estimate can be made.

30. Contingent liabilities may develop in a way not initially expected. Therefore, they are assessed continually to determine whether an outflow of resources embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs (except in the extremely rare circumstances where no reliable estimate can be made).

**Recognition  Contingent Assets**

31. An enterprise should not recognise a contingent asset.

32. Contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the enterprise. An example is a claim that an enterprise is pursuing through legal processes, where the outcome is uncertain.

33. 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.

34. A contingent asset is disclosed, as required by paragraph 89, where an inflow of economic benefits is probable.

35. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs. If an inflow of economic benefits has become probable, an enterprise discloses the contingent asset (see paragraph 89).

**Measurement  Best Estimate**

36. The amount recognised as a provision should be the best estimate of the expenditure required to settle the present obligation at the balance sheet date.
37. The best estimate of the expenditure required to settle the present obligation is the amount that an enterprise would rationally pay to settle the obligation at the balance sheet date or to transfer it to a third party at that time. It will often be impossible or prohibitively expensive to settle or transfer an obligation at the balance sheet date. However, the estimate of the amount that an enterprise would rationally pay to settle or transfer the obligation gives the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

38. The estimates of outcome and financial effect are determined by the judgement of the management of the enterprise, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the balance sheet date.

39. Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances. Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities. The name for this statistical method of estimation is ‘expected value’. The provision will therefore be different depending on whether the probability of a loss of a given amount is, for example, 60 per cent or 90 per cent. Where there is a continuous range of possible outcomes, and each point in that range is as likely as any other, the mid-point of the range is used.

**Example**

An enterprise sells goods with a warranty under which customers are covered for the cost of repairs of any manufacturing defects that become apparent within the first six months after purchase. If minor defects were detected in all products sold, repair costs of 1 million would result. If major defects were detected in all products sold, repair costs of 4 million would result. The enterprise’s past experience and future expectations indicate that, for the coming year, 75 per cent of the goods sold will have no defects, 20 per cent of the goods sold will have minor defects and 5 per cent of the goods sold will have major defects. In accordance with paragraph 24, an enterprise assesses the probability of an outflow for the warranty obligations as a whole.

The expected value of the cost of repairs is:

\[(75\% \text{ of nil}) + (20\% \text{ of 1m}) + (5\% \text{ of 4m}) = 400,000\]

40. Where a single obligation is being measured, the individual most likely outcome may be the best estimate of the liability. However, even in such a case, the enterprise considers other possible outcomes. Where other possible outcomes are either mostly higher or mostly lower than the most likely outcome, the best estimate will be a higher or lower amount. For example, if an enterprise has to rectify a serious fault in a major plant that it has constructed for a customer, the individual most likely outcome may be for the repair to succeed at the first attempt at a cost of 1,000, but a provision for a larger amount is made if there is a significant chance that further attempts will be necessary.

41. The provision is measured before tax, as the tax consequences of the provision, and changes in it, are dealt with under IAS 12, Income Taxes.
42. The risks and uncertainties that inevitably surround many events and circumstances should be taken into account in reaching the best estimate of a provision.

43. 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.

44. Disclosure of the uncertainties surrounding the amount of the expenditure is made under paragraph 85(b).

45. Where the effect of the time value of money is material, the amount of a provision should be the present value of the expenditures expected to be required to settle the obligation.

46. Because of the time value of money, provisions relating to cash outflows that arise soon after the balance sheet date are more onerous than those where cash outflows of the same amount arise later. Provisions are therefore discounted, where the effect is material.

47. The discount rate (or rates) should be a pre-tax rate (or rates) that reflect(s) current market 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.

48. Future events that may affect the amount required to settle an obligation should be reflected in the amount of a provision where there is sufficient objective evidence that they will occur.

49. Expected future events may be particularly important in measuring provisions. For example, an enterprise may believe that the cost of cleaning up a site at the end of its life will be reduced by future changes in technology. The amount recognised reflects a reasonable expectation of technically qualified, objective observers, taking account of all available evidence as to the technology that will be available at the time of the clean-up. Thus it is appropriate to include, for example, expected cost reductions associated with increased experience in applying existing technology or the expected cost of applying existing technology to a larger or more complex clean-up operation than has previously been carried out. However, an enterprise does not anticipate the
development of a completely new technology for cleaning up unless it is supported by sufficient objective evidence.

50. The effect of possible new legislation is taken into consideration in measuring an existing obligation when sufficient objective evidence exists that the legislation is virtually certain to be enacted. The variety of circumstances that arise in practice makes it impossible to specify a single event that will provide sufficient, objective evidence in every case. Evidence is required both of what legislation will demand and of whether it is virtually certain to be enacted and implemented in due course. In many cases sufficient objective evidence will not exist until the new legislation is enacted.

Measurement Expected Disposal of Assets

51. Gains from the expected disposal of assets should not be taken into account in measuring a provision.

52. Gains on the expected disposal of assets are not taken into account in measuring a provision, even if the expected disposal is closely linked to the event giving rise to the provision. Instead, an enterprise recognises gains on expected disposals of assets at the time specified by the International Accounting Standard dealing with the assets concerned.

Reimbursements

53. 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 enterprise 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.

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

55. Sometimes, an enterprise is able to look to another party to pay part or all of the expenditure required to settle a provision (for example, through insurance contracts, indemnity clauses or suppliers’ warranties). The other party may either reimburse amounts paid by the enterprise or pay the amounts directly.

56. In most cases the enterprise will remain liable for the whole of the amount in question so that the enterprise would have to settle the full amount if the third party failed to pay for any reason. In this situation, a provision is recognised for the full amount of the liability, and a separate asset for the expected reimbursement is recognised when it is virtually certain that reimbursement will be received if the enterprise settles the liability.

57. In some cases, the enterprise will not be liable for the costs in question if the third party fails to pay. In such a case the enterprise has no liability for those costs and they are not included in the provision.
58. As noted in paragraph 29, an obligation for which an enterprise is jointly and severally liable is a contingent liability to the extent that it is expected that the obligation will be settled by the other parties.

**Changes in Provisions**

59. 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.

60. Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

**Use of Provisions**

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

62. Only expenditures that relate to the original provision are set against it. Setting expenditures against a provision that was originally recognised for another purpose would conceal the impact of two different events.

**Application of the Recognition and Measurement Rules**

**Future Operating Losses**

63. Provisions should not be recognised for future operating losses.

64. Future operating losses do not meet the definition of a liability in paragraph 10 and the general recognition criteria set out for provisions in paragraph 14.

65. An expectation of future operating losses is an indication that certain assets of the operation may be impaired. An enterprise tests these assets for impairment under IAS 36, Impairment of Assets.

**Onerous Contracts**

66. If an enterprise has a contract that is onerous, the present obligation under the contract should be recognised and measured as a provision.

67. Many contracts (for example, some routine purchase orders) can be cancelled without paying compensation to the other party, and therefore there is no obligation. Other contracts establish both rights and obligations for each of the contracting parties. Where events make such a contract onerous, the contract falls within the scope of this Standard and a liability exists which is recognised. Executory contracts that are not onerous fall outside the scope of this Standard.

68. This Standard defines an onerous contract as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected
to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

69. Before a separate provision for an onerous contract is established, an enterprise recognises any impairment loss that has occurred on assets dedicated to that contract (see IAS 36, Impairment of Assets).

Application of the Recognition and Measurement Rules  

Restructuring

70. The following are examples of events that may fall under the definition of restructuring:

(a) sale or termination of a line of business;
(b) the closure of business locations in a country or region or the relocation of business activities from one country or region to another;
(c) changes in management structure, for example, eliminating a layer of management; and
(d) fundamental reorganisations that have a material effect on the nature and focus of the enterprise’s operations.

71. A provision for restructuring costs is recognised only when the general recognition criteria for provisions set out in paragraph 14 are met. Paragraphs 72-83 set out how the general recognition criteria apply to restructurings.

72. A constructive obligation to restructure arises only when an enterprise:

(a) has a detailed formal plan for the restructuring identifying at least:

(i) the business or part of a business concerned;
(ii) the principal locations affected;
(iii) the location, function, and approximate number of employees who will be compensated for terminating their services;
(iv) the expenditures that will be undertaken; and
(v) when the plan will be implemented; and
(b) has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

73. Evidence that an enterprise has started to implement a restructuring plan would be provided, for example, by dismantling plant or selling assets or by the public announcement of the main features of the plan. A public announcement of a detailed plan to restructure constitutes a constructive obligation to restructure only if it is made in such a way and in sufficient detail (i.e. setting out the main features of the plan) that it gives rise to valid expectations in other parties such as customers, suppliers and employees (or their representatives) that the enterprise will carry out the restructuring.

74. For a plan to be sufficient to give rise to a constructive obligation when communicated to those affected by it, its implementation needs to be planned to begin as soon as
possible and to be completed in a timeframe that makes significant changes to the plan unlikely. If it is expected that there will be a long delay before the restructuring begins or that the restructuring will take an unreasonably long time, it is unlikely that the plan will raise a valid expectation on the part of others that the enterprise is at present committed to restructuring, because the timeframe allows opportunities for the enterprise to change its plans.

75. A management or board decision to restructure taken before the balance sheet date does not give rise to a constructive obligation at the balance sheet date unless the enterprise has, before the balance sheet date:

(a) started to implement the restructuring plan; or
(b) announced the main features of the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the enterprise will carry out the restructuring.

In some cases, an enterprise starts to implement a restructuring plan, or announces its main features to those affected, only after the balance sheet date. Disclosure may be required under IAS 10, Contingencies and Events Occurring After the Balance Sheet Date, if the restructuring is of such importance that its non-disclosure would affect the ability of the users of the financial statements to make proper evaluations and decisions.

76. Although a constructive obligation is not created solely by a management decision, an obligation may result from other earlier events together with such a decision. For example, negotiations with employee representatives for termination payments, or with purchasers for the sale of an operation, may have been concluded subject only to board approval. Once that approval has been obtained and communicated to the other parties, the enterprise has a constructive obligation to restructure, if the conditions of paragraph 72 are met.

77. In some countries, the ultimate authority is vested in a board whose membership includes representatives of interests other than those of management (e.g. employees) or notification to such representatives may be necessary before the board decision is taken. Because a decision by such a board involves communication to these representatives, it may result in a constructive obligation to restructure.

78. No obligation arises for the sale of an operation until the enterprise is committed to the sale, i.e. there is a binding sale agreement.

79. Even when an enterprise has taken a decision to sell an operation and announced that decision publicly, it cannot be committed to the sale until a purchaser has been identified and there is a binding sale agreement. Until there is a binding sale agreement, the enterprise will be able to change its mind and indeed will have to take another course of action if a purchaser cannot be found on acceptable terms. When the sale of an operation is envisaged as part of a restructuring, the assets of the operation are reviewed for impairment, under IAS 36, Impairment of Assets. When a sale is only part of a restructuring, a constructive obligation can arise for the other parts of the restructuring before a binding sale agreement exists.

80. A restructuring provision should include only the direct expenditures arising from the restructuring, which are those that are both:
(a) necessarily entailed by the restructuring; and
(b) not associated with the ongoing activities of the enterprise.

1. A restructuring provision does not include such costs as:
   (a) retraining or relocating continuing staff;
   (b) marketing; or
   (c) investment in new systems and distribution networks.

   These expenditures relate to the future conduct of the business and are not liabilities
   for restructuring at the balance sheet date. Such expenditures are recognised on the
   same basis as if they arose independently of a restructuring.

2. Identifiable future operating losses up to the date of a restructuring are not included in
   a provision, unless they relate to an onerous contract as defined in paragraph 10.

3. As required by paragraph 51, gains on the expected disposal of assets are not taken
   into account in measuring a restructuring provision, even if the sale of assets is
   envisaged as part of the restructuring.

**Disclosure**

4. For each class of provision, an enterprise should disclose:
   
   (a) the carrying amount at the beginning and end of the period;
   (b) additional provisions made in the period, including increases to existing
       provisions;
   (c) amounts used (i.e. incurred and charged against the provision) during the period;
   (d) unused amounts reversed during the period; and
   (e) the increase during the period in the discounted amount arising from the passage of
       time and the effect of any change in the discount rate.

   Comparative information is not required.

85. An enterprise should disclose the following for each class of provision:

   (a) a brief description of the nature of the obligation and the expected timing of any
       resulting outflows of economic benefits;
   (b) an indication of the uncertainties about the amount or timing of those outflows. Where
       necessary to provide adequate information, an enterprise should disclose
       the major assumptions made concerning future events, as addressed in paragraph
       48; and
   (c) the amount of any expected reimbursement, stating the amount of any asset that
       has been recognised for that expected reimbursement.
86. Unless the possibility of any outflow in settlement is remote, an enterprise 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:

(a) an estimate of its financial effect, measured under paragraphs 36-52;
(b) an indication of the uncertainties relating to the amount or timing of any outflow; and
(c) the possibility of any reimbursement.

87. In determining which provisions or contingent liabilities may be aggregated to form a class, it is necessary to consider whether the nature of the items is sufficiently similar for a single statement about them to fulfil the requirements of paragraphs 85(a) and (b) and 86(a) and (b). Thus, it may be appropriate to treat as a single class of provision amounts relating to warranties of different products, but it would not be appropriate to treat as a single class amounts relating to normal warranties and amounts that are subject to legal proceedings.

88. Where a provision and a contingent liability arise from the same set of circumstances, an enterprise makes the disclosures required by paragraphs 84-86 in a way that shows the link between the provision and the contingent liability.

89. Where an inflow of economic benefits is probable, an enterprise 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 36-52.

90. It is important that disclosures for contingent assets avoid giving misleading indications of the likelihood of income arising.

91. Where any of the information required by paragraphs 86 and 89 is not disclosed because it is not practicable to do so, that fact should be stated.

92. In extremely rare cases, disclosure of some or all of the information required by paragraphs 84-89 can be expected to prejudice seriously the position of the enterprise in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, an enterprise need not disclose the information, but should disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.

**Transitional Provisions**

93. The effect of adopting this Standard on its effective date (or earlier) should be reported as an adjustment to the opening balance of retained earnings for the period in which the Standard is first adopted. Enterprises are encouraged, but not required, to adjust the opening balance of retained earnings for the earliest period presented and to restate comparative information. If comparative information is not restated, this fact should be disclosed.
94. The Standard requires a different treatment from IAS 8, Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies. IAS 8 requires comparative information to be restated (benchmark treatment) or additional pro forma comparative information on a restated basis to be disclosed (allowed alternative treatment) unless it is impracticable to do so.

**Effective Date**

95. This International Accounting Standard becomes operative for annual financial statements covering periods beginning on or after 1 July 1999. Earlier application is encouraged. If an enterprise applies this Standard for periods beginning before 1 July 1999, it should disclose that fact.

96. This Standard supersedes the parts of IAS 10, Contingencies and Events Occurring After the Balance Sheet Date, that deal with contingencies.

**Appendices**

A: Tables - Provisions, Contingent Liabilities, Contingent Assets and Reimbursements

The purpose of this appendix is to summarise the main requirements of the standards. It does not form part of the standards and should be read in the context of the full text of the standards.

**Provisions and Contingent Liabilities**

Where, as a result of past events, there may be an outflow of resources embodying future economic benefits in settlement of: (a) a present obligation; or (b) a possible obligation 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 enterprise.

<table>
<thead>
<tr>
<th>There is a present obligation that probably requires an outflow of resources</th>
<th>There is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources.</th>
<th>There is a possible obligation or a present obligation where the likelihood of an outflow of resources is remote.</th>
</tr>
</thead>
<tbody>
<tr>
<td>A provision is recognised (paragraph 14).</td>
<td>No provision is recognised (paragraph 27).</td>
<td>No provision is recognised (paragraph 27).</td>
</tr>
<tr>
<td>Disclosures are required for the provision (paragraphs 84 and 85).</td>
<td>Disclosures are required for the contingent liability (paragraph 86).</td>
<td>No disclosure is required (paragraph 86).</td>
</tr>
</tbody>
</table>

A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably. Disclosures are required for the contingent liability.

**Contingent Assets**

Where, as a result of past events, there is a possible asset 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 enterprise.
<table>
<thead>
<tr>
<th>The inflow of economic benefits is virtually certain.</th>
<th>The inflow of economic benefits is probable, but not virtually certain.</th>
<th>The inflow is not probable.</th>
</tr>
</thead>
<tbody>
<tr>
<td>The asset is not contingent (paragraph 33).</td>
<td>No asset is recognised (paragraph 31).</td>
<td>No asset is recognised (paragraph 31).</td>
</tr>
<tr>
<td>Disclosures are required (paragraph 89).</td>
<td></td>
<td>No disclosure is required (paragraph 89).</td>
</tr>
</tbody>
</table>

**Reimbursements**

<table>
<thead>
<tr>
<th>Some or all of the expenditure required to settle a provision is expected to be reimbursed by another party.</th>
<th>The obligation for the amount expected to be reimbursed remains with the enterprise and it is virtually certain that reimbursement will be received if the enterprise settles the provision.</th>
<th>The obligation for the amount expected to be reimbursed remains with the enterprise and the reimbursement is not virtually certain if the enterprise settles the provision.</th>
</tr>
</thead>
<tbody>
<tr>
<td>The enterprise has no obligation for the part of the expenditure to be reimbursed by the other party.</td>
<td>The enterprise has no liability for the amount to be reimbursed (paragraph 57).</td>
<td>The expected reimbursement is not recognised as an asset (paragraph 53).</td>
</tr>
<tr>
<td>No disclosure is required.</td>
<td>The reimbursement is recognised as a separate asset in the balance sheet and may be offset against the expense in the income statement. The amount recognised for the expected reimbursement does not exceed the liability (paragraphs 53 and 54).</td>
<td>The expected reimbursement is disclosed (paragraph 85(c)).</td>
</tr>
<tr>
<td></td>
<td>The reimbursement is disclosed together with the amount recognised for the reimbursement (paragraph 85(c)).</td>
<td></td>
</tr>
</tbody>
</table>

**Appendices B: Decision Tree**

The purpose of the decision tree is to summarise the main recognition requirements of the standards for provisions and contingent liabilities. The decision tree does not form part of the standards and should be read in the context of the full text of the standards.
**Decision Tree**

Note: in rare cases, it is not clear whether there is a present obligation. In these cases, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the balance sheet date (paragraph 15 of the Standard).

**Appendices  C: Examples: Recognition**

This appendix illustrates the application of the standards to assist in clarifying their meaning. It does not form part of the standards.

All the enterprises in the examples have 31 December year ends. In all cases, it is assumed that a reliable estimate can be made of any outflows expected. In some examples the circumstances described may have resulted in impairment of the assets - this aspect is not dealt with in the examples.

The cross references provided in the examples indicate paragraphs of the Standard that are particularly relevant. The appendix should be read in the context of the full text of the standards.
References to ‘best estimate’ are to the present value amount, where the effect of the time value of money is material.

Example 1: Warranties

A manufacturer gives warranties at the time of sale to purchasers of its product. Under the terms of the contract for sale the manufacturer undertakes to make good, by repair or replacement, manufacturing defects that become apparent within three years from the date of sale. On past experience, it is probable (i.e. more likely than not) that there will be some claims under the warranties.

Present obligation as a result of a past obligating event - The obligating event is the sale of the product with a warranty, which gives rise to a legal obligation.

An outflow of resources embodying economic benefits in settlement - Probable for the warranties as a whole (see paragraph 24).

Conclusion - A provision is recognised for the best estimate of the costs of making good under the warranty products sold before the balance sheet date (see paragraphs 14 and 24).

Example 2A: Contaminated Land - Legislation Virtually Certain to be Enacted

An enterprise in the oil industry causes contamination but cleans up only when required to do so under the laws of the particular country in which it operates. One country in which it operates has had no legislation requiring cleaning up, and the enterprise has been contaminating land in that country for several years. At 31 December 2000 it is virtually certain that a draft law requiring a clean-up of land already contaminated will be enacted shortly after the year end.

Present obligation as a result of a past obligating event - The obligating event is the contamination of the land because of the virtual certainty of legislation requiring cleaning up.

An outflow of resources embodying economic benefits in settlement - Probable.

Conclusion - A provision is recognised for the best estimate of the costs of the clean-up (see paragraphs 14 and 22).

Example 2B: Contaminated Land and Constructive Obligation

An enterprise in the oil industry causes contamination and operates in a country where there is no environmental legislation. However, the enterprise has a widely published environmental policy in which it undertakes to clean up all contamination that it causes. The enterprise has a record of honouring this published policy.

Present obligation as a result of a past obligating event - The obligating event is the contamination of the land, which gives rise to a constructive obligation because the conduct of
the enterprise has created a valid expectation on the part of those affected by it that the enterprise will clean up contamination.

**An outflow of resources embodying economic benefits in settlement** - Probable.

**Conclusion** - A provision is recognised for the best estimate of the costs of clean-up (see paragraphs 10 (the definition of a constructive obligation), 14 and 17).

**Example 3: Offshore Oilfield**

An enterprise operates an offshore oilfield where its licensing agreement requires it to remove the oil rig at the end of production and restore the seabed. Ninety per cent of the eventual costs relate to the removal of the oil rig and restoration of damage caused by building it, and ten per cent arise through the extraction of oil. At the balance sheet date, the rig has been constructed but no oil has been extracted.

**Present obligation as a result of a past obligating event** - The construction of the oil rig creates a legal obligation under the terms of the licence to remove the rig and restore the seabed and is thus an obligating event. At the balance sheet date, however, there is no obligation to rectify the damage that will be caused by extraction of the oil.

**An outflow of resources embodying economic benefits in settlement** - Probable.

**Conclusion** - A provision is recognised for the best estimate of ninety per cent of the eventual costs that relate to the removal of the oil rig and restoration of damage caused by building it (see paragraph 14). These costs are included as part of the cost of the oil rig. The ten per cent of costs that arise through the extraction of oil are recognised as a liability when the oil is extracted.

**Example 4: Refunds Policy**

A retail store has a policy of refunding purchases by dissatisfied customers, even though it is under no legal obligation to do so. Its policy of making refunds is generally known.

**Present obligation as a result of a past obligating event** - The obligating event is the sale of the product, which gives rise to a constructive obligation because the conduct of the store has created a valid expectation on the part of its customers that the store will refund purchases.

**An outflow of resources embodying economic benefits in settlement** - Probable, a proportion of goods are returned for refund (see paragraph 24).

**Conclusion** - A provision is recognised for the best estimate of the costs of refunds (see paragraphs 10 (the definition of a constructive obligation), 14, 17 and 24).

**Example 5A: Closure of a Division - No Implementation Before Balance Sheet Date**
On 12 December 2000 the board of an enterprise decided to close down a division. Before the balance sheet date (31 December 2000) the decision was not communicated to any of those affected and no other steps were taken to implement the decision.

**Present obligation as a result of a past obligating event** - There has been no obligating event and so there is no obligation.

**Conclusion** - No provision is recognised (see paragraphs 14 and 72).

**Example 5B: Closure of a Division - Communication/Implementation Before Balance Sheet Date**

On 12 December 2000, the board of an enterprise decided to close down a division making a particular product. On 20 December 2000 a detailed plan for closing down the division was agreed by the board; letters were sent to customers warning them to seek an alternative source of supply and redundancy notices were sent to the staff of the division.

**Present obligation as a result of a past obligating event** - The obligating event is the communication of the decision to the customers and employees, which gives rise to a constructive obligation from that date, because it creates a valid expectation that the division will be closed.

**An outflow of resources embodying economic benefits in settlement** - Probable.

**Conclusion** - A provision is recognised at 31 December 2000 for the best estimate of the costs of closing the division (see paragraphs 14 and 72).

**Example 6: Legal Requirement to Fit Smoke Filters**

Under new legislation, an enterprise is required to fit smoke filters to its factories by 30 June 2000. The enterprise has not fitted the smoke filters.

(a) At the balance sheet date of 31 December 1999

**Present obligation as a result of a past obligating event** - There is no obligation because there is no obligating event either for the costs of fitting smoke filters or for fines under the legislation.

**Conclusion** - No provision is recognised for the cost of fitting the smoke filters (see paragraphs 14 and 17-19).

(b) At the balance sheet date of 31 December 2000

**Present obligation as a result of a past obligating event** - There is still no obligation for the costs of fitting smoke filters because no obligating event has occurred (the fitting of the filters). However, an obligation might arise to pay fines or penalties under the legislation because the obligating event has occurred (the non-compliant operation of the factory).

**An outflow of resources embodying economic benefits in settlement** - Assessment of probability of incurring fines and penalties by non-compliant operation depends on the details of the legislation and the stringency of the enforcement regime.
Conclusion - No provision is recognised for the costs of fitting smoke filters. However, a provision is recognised for the best estimate of any fines and penalties that are more likely than not to be imposed (see paragraphs 14 and 17-19).

Example 7: Staff Retraining as a Result of Changes in the Income Tax System

The government introduces a number of changes to the income tax system. As a result of these changes, an enterprise in the financial services sector will need to retrain a large proportion of its administrative and sales workforce in order to ensure continued compliance with financial services regulation. At the balance sheet date, no retraining of staff has taken place.

Present obligation as a result of a past obligating event - There is no obligation because no obligating event (retraining) has taken place.

Example 8: An Onerous Contract

An enterprise operates profitably from a factory that it has leased under an operating lease. During December 2000 the enterprise relocates its operations to a new factory. The lease on the old factory continues for the next four years, it cannot be cancelled and the factory cannot be re-let to another user.

Present obligation as a result of a past obligating event - The obligating event is the signing of the lease contract, which gives rise to a legal obligation.

An outflow of resources embodying economic benefits in settlement - When the lease becomes onerous, an outflow of resources embodying economic benefits is probable. (Until the lease becomes onerous, the enterprise accounts for the lease under IAS 17, Leases).

Conclusion - A provision is recognised for the best estimate of the unavoidable lease payments (see paragraphs 5(c), 14 and 66).

Example 9: A Single Guarantee

During 1999, Enterprise A gives a guarantee of certain borrowings of Enterprise B, whose financial condition at that time is sound. During 2000, the financial condition of Enterprise B deteriorates and at 30 June 2000 Enterprise B files for protection from its creditors.

(a) At 31 December 1999

Present obligation as a result of a past obligating event - The obligating event is the giving of the guarantee, which gives rise to a legal obligation.

An outflow of resources embodying economic benefits in settlement - No outflow of benefits is probable at 31 December 1999.
Conclusion - No provision is recognised (see paragraphs 14 and 23). The guarantee is disclosed as a contingent liability unless the probability of any outflow is regarded as remote (see paragraph 86).

(b) At 31 December 2000

**Present obligation as a result of a past obligating event** - The obligating event is the giving of the guarantee, which gives rise to a legal obligation.

**An outflow of resources embodying economic benefits in settlement** - At 31 December 2000, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Conclusion - A provision is recognised for the best estimate of the obligation (see paragraphs 14 and 23).

Note: This example deals with a single guarantee. If an enterprise has a portfolio of similar guarantees, it will assess that portfolio as a whole in determining whether an outflow of resources embodying economic benefit is probable (see paragraph 24). Where an enterprise gives guarantees in exchange for a fee, revenue is recognised under IAS 18, Revenue.

**Example 10: A Court Case**

After a wedding in 2000, ten people died, possibly as a result of food poisoning from products sold by the enterprise. Legal proceedings are started seeking damages from the enterprise but it disputes liability. Up to the date of approval of the financial statements for the year to 31 December 2000, the enterprise’s lawyers advise that it is probable that the enterprise will not be found liable. However, when the enterprise prepares the financial statements for the year to 31 December 2001, its lawyers advise that, owing to developments in the case, it is probable that the enterprise will be found liable.

(a) At 31 December 2000

**Present obligation as a result of a past obligating event** - On the basis of the evidence available when the financial statements were approved, there is no obligation as a result of past events.

Conclusion - No provision is recognised (see paragraphs 15-16). The matter is disclosed as a contingent liability unless the probability of any outflow is regarded as remote (paragraph 86).

(b) At 31 December 2001

**Present obligation as a result of a past obligating event** - On the basis of the evidence available, there is a present obligation.

**An outflow of resources embodying economic benefits in settlement** - Probable.

Conclusion - A provision is recognised for the best estimate of the amount to settle the obligation (paragraphs 14-16).
Example 11: Repairs and Maintenance

Some assets require, in addition to routine maintenance, substantial expenditure every few years for major refits or refurbishment and the replacement of major components. IAS 16, Property, Plant and Equipment, gives guidance on allocating expenditure on an asset to its component parts where these components have different useful lives or provide benefits in a different pattern.

Example 11A: Refurbishment Costs - No Legislative Requirement

A furnace has a lining that needs to be replaced every five years for technical reasons. At the balance sheet date, the lining has been in use for three years.

Present obligation as a result of a past obligating event - There is no present obligation.

Conclusion - No provision is recognised (see paragraphs 14 and 17-19).

The cost of replacing the lining is not recognised because, at the balance sheet date, no obligation to replace the lining exists independently of the company’s future actions - even the intention to incur the expenditure depends on the company deciding to continue operating the furnace or to replace the lining. Instead of a provision being recognised, the depreciation of the lining takes account of its consumption, i.e. it is depreciated over five years. The re-lining costs then incurred are capitalised with the consumption of each new lining shown by depreciation over the subsequent five years.

Example 11B: Refurbishment Costs - Legislative Requirement

An airline is required by law to overhaul its aircraft once every three years.

Present obligation as a result of a past obligating event - There is no present obligation.

Conclusion - No provision is recognised (see paragraphs 14 and 17-19).

The costs of overhauling aircraft are not recognised as a provision for the same reasons as the cost of replacing the lining is not recognised as a provision in example 11A. Even a legal requirement to overhaul does not make the costs of overhaul a liability, because no obligation exists to overhaul the aircraft independently of the enterprise’s future actions - the enterprise could avoid the future expenditure by its future actions, for example by selling the aircraft. Instead of a provision being recognised, the depreciation of the aircraft takes account of the future incidence of maintenance costs, i.e. an amount equivalent to the expected maintenance costs is depreciated over three years.

Appendices  D: Example: Disclosures

The appendix is illustrative only and does not form part of the standards. The purpose of the appendix is to illustrate the application of the standards to assist in clarifying their meaning.

Two examples of the disclosures required by paragraph 85 are provided below and on the following page
Example 1 Warranties

A manufacturer gives warranties at the time of sale to purchasers of its three product lines. Under the terms of the warranty, the manufacturer undertakes to repair or replace items that fail to perform satisfactorily for two years from the date of sale. At the balance sheet date, a provision of 60,000 has been recognised. The provision has not been discounted as the effect of discounting is not material. The following information is disclosed:

A provision of 60,000 has been recognised for expected warranty claims on products sold during the last three financial years. It is expected that the majority of this expenditure will be incurred in the next financial year, and all will be incurred within two years of the balance sheet date.

Example 2 Decommissioning Costs

In 2000, an enterprise involved in nuclear activities recognises a provision for decommissioning costs of 300 million. The provision is estimated using the assumption that decommissioning will take place in 60-70 years’ time. However, there is a possibility that it will not take place until 100-110 years’ time, in which case the present value of the costs will be significantly reduced. The following information is disclosed:

A provision of 300 million has been recognised for decommissioning costs. These costs are expected to be incurred between 2060 and 2070; however, there is a possibility that decommissioning will not take place until 2100-2110. If the costs were measured based upon the expectation that they would not be incurred until 2100-2110 the provision would be reduced to 136 million. The provision has been estimated using existing technology, at current prices, and discounted using a real discount rate of 2 per cent.

An example is given below of the disclosures required by paragraph 92 where some of the information required is not given because it can be expected to prejudice seriously the position of the enterprise.

Example 3 Disclosure Exemption

An enterprise is involved in a dispute with a competitor, who is alleging that the enterprise has infringed patents and is seeking damages of 100 million. The enterprise recognises a provision for its best estimate of the obligation, but discloses none of the information required by paragraphs 84 and 85 of the Standard. The following information is disclosed:

Litigation is in process against the company relating to a dispute with a competitor who alleges that the company has infringed patents and is seeking damages of 100 million. The information usually required by IAS 37, Provisions, Contingent Liabilities and Contingent Assets, is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the litigation. The directors are of the opinion that the claim can be successfully resisted by the company.
Introduction

This Cambodian Accounting Standard (“CAS 38”) sets out the required accounting treatment and disclosures for intangible assets that are not specifically dealt with in other Standards. It is a requirement of Cambodian Law that financial statements for all Accounting Entities (as defined by the Law) are to be prepared in accordance with International Accounting Standards. Therefore, this CAS 38 includes all the relevant paragraphs from the equivalent International Accounting Standard (“IAS 38”). This Standard has been expanded to include background material and implementation guidance for Cambodia.

An intangible asset is an identifiable non-monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others, or for administrative purposes. An asset is a resource controlled by an enterprise as a result of past events and from which future benefits are expected to flow to the enterprise.

An intangible asset should be recognised if it is probable that future economic benefits attributable to the asset will flow to the enterprise and the cost of the assets can be measured reliably. An intangible asset is recognised at cost.

Internally generated intangible assets are recognised provided they meet the same recognition criteria as above. Costs that do not meet the recognition criteria should be expensed as incurred. Examples of such costs that should be expensed as incurred are research costs, start-up costs, advertising costs and internally generated brands and mastheads.

Internally generated goodwill is never recognised as an asset.

Subsequent expenditure on an intangible asset after its purchase or completion should be recognised as an expense when it is incurred, unless 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 the expenditure can be measured and attributed to the asset reliably.

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

An intangible asset should be amortised on a systematic basis over the best estimate of its useful life. Amortisation should commence when the asset is available for use. The residual value of such assets at the end of their useful lives is assumed to be zero unless there is either a commitment by a third party to purchase the asset at the end of its useful life or there is, and will remain, an active market in that type of asset. The period of amortisation should represent the best estimate of the asset’s useful life, with a presumption that it will not exceed twenty years.

The amortisation method used should reflect the pattern in which the asset’s economic benefits are consumed by the enterprise. If that pattern cannot be determined reliably, the straight-line method should be adopted. The amortisation charge should be recognised as an
expense unless another Standard permits or requires it to be included in the carrying amount of another asset.

This Standard does not apply to financial assets, mineral rights and expenditure on the exploration for, or development and extraction of, minerals, oil, natural gas and similar non-regenerative resources and intangible assets arising in insurance enterprises from contracts with policyholders. Included within the scope of this Standard are expenditures on advertising, training, start-up, research and development activities.

The Standard uses the term “enterprise” to refer to all Accounting Entities that are required to prepare financial statements in accordance with Cambodian Accounting Standards.

This Standard is not intended to apply to immaterial items.

Objective

The objective of this Standard is to prescribe the accounting treatment for intangible assets that are not dealt with specifically in another Cambodian Accounting Standard. This Standard requires an enterprise to recognise an intangible asset if, and only if, certain criteria are met. The Standard also specifies how to measure the carrying amount of intangible assets and requires certain disclosures about intangible assets.

Scope

1. This Standard should be applied by all enterprises in accounting for intangible assets, except:
   (a) intangible assets that are covered by another Standard;
   (b) financial assets;
   (c) mineral rights and expenditure on the exploration for, or development and extraction of, minerals, oil, natural gas and similar non-regenerative resources; and
   (d) intangible assets arising in insurance enterprises from contracts with policyholders.

2. If another Standard deals with a specific type of intangible asset, an enterprise applies that Standard instead of this Standard. For example, this Standard does not apply to:
   (a) intangible assets held by an enterprise for sale in the ordinary course of business (see the Standard that deals with Inventories); and
   (b) deferred tax assets (see the Standard on Income Taxes).

3. Some intangible assets may be contained in or on a physical substance such as a compact disk (in the case of computer software), legal documentation (in the case of a licence or patent) or film. In determining whether an asset that incorporates both intangible and tangible elements should be treated under the Standard on Property, Plant and Equipment, or as an intangible asset under this Standard, judgement is required to assess which element is more significant. For example, computer software for a computer controlled machine tool that cannot operate without that specific
software is an integral part of the related hardware and it is treated as property, plant and equipment. The same applies to the operating system of a computer. Where the software is not an integral part of the related hardware, computer software is treated as an intangible asset.

4. This Standard applies to, among other things, expenditure on advertising, training, start-up, research and development activities. Research and development activities are directed to the development of knowledge. Therefore, although these activities may result in an asset with physical substance (for example, a prototype), the physical element of the asset is secondary to its intangible component, that is the knowledge embodied in it.

5. In the case of a finance lease, the underlying asset may be either tangible or intangible. After initial recognition, a lessee deals with an intangible asset held under a finance lease under this Standard. Rights under licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights fall within the scope of this Standard.

6. Exclusions from the scope of a Cambodian Accounting Standard may occur if certain activities or transactions are so specialised that they give rise to accounting issues that may need to be dealt with in a different way. Such issues arise in the expenditure on the exploration for, or development and extraction of, oil, gas and mineral deposits in extractive industries and in the case of contracts between insurance enterprises and their policyholders. Therefore, this Standard does not apply to expenditure on such activities. However, this Standard applies to other intangible assets used (such as computer software), and other expenditure (such as start-up costs), in extractive industries or by insurance companies.

Definitions

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

An **intangible asset** is an identifiable non-monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.

An **asset** is a resource:

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

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

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

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

Depreciable amount is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.

Useful life is either:

(a) the period of time over which an asset is expected to be used by the enterprise;

or

(b) the number of production or similar units expected to be obtained from the asset by the enterprise.

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 or production.

Residual value is the net amount which an enterprise expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.

Fair value of an asset is the amount for which that asset could be exchanged between knowledgeable, willing parties in an arm’s length transaction.

An active market is a market where 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.

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

Carrying amount is the amount at which an asset is recognised in the balance sheet after deducting any accumulated amortisation and accumulated impairment losses thereon.

recoverable amount is the higher of an asset’s net selling price and its value in use.

Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Net selling price is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Intangible assets
8. Enterprises may expend resources, or incur liabilities, on the acquisition, development, maintenance or enhancement of intangible resources such as scientific or technical knowledge, design and implementation of new processes or systems, licences, intellectual property, market knowledge and trademarks (including brand names and publishing titles). Common examples of items encompassed by these broad headings are computer software, patents, copyrights, motion picture films, customer lists, mortgage servicing rights, fishing licences, import quotas, franchises, customer or supplier relationships, customer loyalty, market share and marketing rights.

9. Not all the items described in paragraph 8 will meet the definition of an intangible asset, that is, identifiability, control over a resource and existence of future economic benefits. If an item covered by this Standard does not meet the definition of an intangible asset, expenditure to acquire it or generate it internally is recognised as an expense when it is incurred. However, if the item is acquired in a business combination that is an acquisition, it forms part of the goodwill recognised at the date of acquisition (see paragraph 54).

Identifiability

10. The definition of an intangible asset requires that an intangible asset be identifiable to distinguish it clearly from goodwill. Goodwill arising on a business combination that is an acquisition represents a payment made by the acquirer in anticipation of future economic benefits. The future economic benefits may result from synergy between the identifiable assets acquired or from assets which, individually, do not qualify for recognition in the financial statements but for which the acquirer is prepared to make a payment in the acquisition.

11. An intangible asset can be clearly distinguished from goodwill if the asset is separable. An asset is separable if the enterprise could rent, sell, exchange or distribute the specific future economic benefits attributable to the asset without also disposing of future economic benefits that flow from other assets used in the same revenue earning activity.

12. Separability is not a necessary condition for identifiability since an enterprise may be able to identify an asset in some other way. For example, if an intangible asset is acquired with a group of assets, the transaction may involve the transfer of legal rights that enable an enterprise to identify the intangible asset. Similarly, if an internal project aims to create legal rights for the enterprise, the nature of these rights may assist the enterprise in identifying an underlying internally generated intangible asset. Also, even if an asset generates future economic benefits only in combination with other assets, the asset is identifiable if the enterprise can identify the future economic benefits that will flow from the asset.

Control

13. An enterprise controls an asset if the enterprise 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 enterprise 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 enterprise may be able to control the future economic benefits in some other way.

14. Market and technical knowledge may give rise to future economic benefits. An enterprise controls those benefits if, for example, the knowledge is protected by legal rights such as copyrights, a restraint of trade agreement (where permitted) or by a legal duty on employees to maintain confidentiality.

15. An enterprise may have a team of skilled staff and may be able to identify incremental staff skills leading to future economic benefits from training. The enterprise may also expect that the staff will continue to make their skills available to the enterprise. However, usually an enterprise has insufficient control over the expected future economic benefits arising from a team of skilled staff and from training to consider that these items meet the definition of an intangible asset. For a similar reason, specific management or technical talent is unlikely to meet the definition of an intangible asset, unless it is protected by legal rights to use it and to obtain the future economic benefits expected from it, and it also meets the other parts of the definition.

16. An enterprise may have a portfolio of customers or a market share and expect that, due to its efforts in building customer relationships and loyalty, the customers will continue to trade with the enterprise. However, in the absence of legal rights to protect, or other ways to control, the relationships with customers or the loyalty of the customers to the enterprise, the enterprise usually has insufficient control over the economic benefits from customer relationships and loyalty to consider that such items (portfolio of customers, market shares, customer relationships, customer loyalty) meet the definition of intangible assets.

Future Economic Benefits

17. The future economic benefits flowing from an intangible asset may include revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset by the enterprise. For example, the use of intellectual property in a production process may reduce future production costs rather than increase future revenues.

Recognition and Initial Measurement of an Intangible Asset

18. The recognition of an item as an intangible asset requires an enterprise to demonstrate that the item meets the:

(a) definition of an intangible asset (see paragraphs 7 - 17); and
(b) recognition criteria set out in this Standard (see paragraphs 19 - 53).

19. 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 enterprise; and
(b) the cost of the asset can be measured reliably.
20. An enterprise 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.

21. An enterprise uses judgement to assess the degree of certainty attached to the flow of future economic benefits that are attributable to the use of the asset on the basis of the evidence available at the time of initial recognition, giving greater weight to external evidence.

22. An intangible asset should be measured at cost.

Recognition and Initial Measurement of an Intangible Asset  Separate Acquisition

23. If an intangible asset is acquired separately, the cost of the intangible asset can usually be measured reliably. This is particularly so when the purchase consideration is in the form of cash or other monetary assets.

24. The cost of an intangible asset comprises its purchase price, including any import duties and non-refundable purchase taxes, and any directly attributable expenditure on preparing the asset for its intended use. Directly attributable expenditure includes, for example, professional fees for legal services. Any trade discounts and rebates are deducted in arriving at the cost.

25. If payment for an intangible asset is deferred beyond normal credit terms, its cost is the cash price equivalent; the difference between this amount and the total payments is recognised as interest expense over the period of credit.

26. If an intangible asset is acquired in exchange for equity instruments of the reporting enterprise, the cost of the asset is the fair value of the equity instruments issued, which is equal to the fair value of the asset.

Recognition and Initial Measurement of an Intangible Asset  Acquisition as Part of a Business Combination

27. If an intangible asset is acquired in a business combination that is an acquisition, the cost of that intangible asset is based on its fair value at the date of acquisition.

28. Judgement is required to determine whether the cost (i.e. fair value) of an intangible asset acquired in a business combination can be measured with sufficient reliability for the purpose of separate recognition. Quoted market prices in an active market provide the most reliable measurement of fair value. The appropriate market price is usually the current bid price. If current bid prices are unavailable, the price of the most recent similar transaction may provide a basis from which to estimate fair value, provided that there has not been a significant change in economic circumstances between the transaction date and the date at which the asset’s fair value is estimated.

29. If no active market exists for an asset, its cost reflects the amount that the enterprise would have paid, at the date of the acquisition, for the asset in an arm’s length
transaction between knowledgeable and willing parties, based on the best information available. In determining this amount, an enterprise considers the outcome of recent transactions for similar assets.

30. In accordance with this Standard for the recognition of identifiable assets and liabilities:

(a) an acquirer recognises an intangible asset that meets the recognition criteria in paragraphs 19 and 20, even if that intangible asset had not been recognised in the financial statements of the acquiree; and

(b) if the cost (i.e. fair value) of an intangible asset acquired as part of a business combination that is an acquisition cannot be measured reliably, that asset is not recognised as a separate intangible asset but is included in goodwill (see paragraph 54).

31. The cost recognised for an intangible asset acquired in a business combination that is an acquisition should be limited to an amount that does not create or increase any negative goodwill arising at the date of acquisition.

Recognition and Initial Measurement of an Intangible Asset  Acquisition by way of a Government Grant

32. In some cases, an intangible asset may be acquired free of charge, or for nominal consideration, by way of a government grant. This may occur when a government transfers or allocates to an enterprise intangible assets such as airport landing rights, licences to operate radio or television stations, import licences or quotas or rights to access other restricted resources. In this case, as it is unlikely to be possible to measure reliably the fair value of the intangible asset, the enterprise recognises the asset initially at a nominal amount plus any expenditure that is directly attributable to preparing the asset for its intended use.

Recognition and Initial Measurement of an Intangible Asset  Exchanges of Assets

33. An intangible asset may be acquired in exchange or part exchange for a dissimilar intangible asset or other asset. The cost of such an item is measured at the fair value of the asset received, which is equivalent to the fair value of the asset given up, adjusted by the amount of any cash or cash equivalents transferred.

34. An intangible asset may be acquired in exchange for a similar asset that has a similar use in the same line of business and that has a similar fair value. An intangible asset may also be sold in exchange for an equity interest in a similar asset. In both cases, since the earnings process is incomplete, no gain or loss is recognised on the transaction. Instead, the cost of the new asset is the carrying amount of the asset given up. However, the fair value of the asset received may provide evidence of an impairment loss in the asset given up. Under these circumstances an impairment loss is recognised for the asset given up and the carrying amount after impairment is assigned to the new asset.
35. Internally generated goodwill should not be recognised as an asset.

36. In some cases, expenditure is incurred to generate future economic benefits, but it does not result in the creation of an intangible asset that meets the recognition criteria in this Standard. Such expenditure is often described as contributing to internally generated goodwill. Internally generated goodwill is not recognised as an asset because it is not an identifiable resource controlled by the enterprise that can be measured reliably at cost.

37. Differences between the market value of an enterprise and the carrying amount of its identifiable net assets at any point in time may capture a range of factors that affect the value of the enterprise. However, such differences cannot be considered to represent the cost of intangible assets controlled by the enterprise.

38. It is sometimes difficult to assess whether an internally generated intangible asset qualifies for recognition. It is often difficult to:

   (a) identify whether, and the point of time when, there is an identifiable asset that will generate probable future economic benefits; and

   (b) determine the cost of the asset reliably. In some cases, the cost of generating an intangible asset internally cannot be distinguished from the cost of maintaining or enhancing the enterprise’s internally generated goodwill or of running day-to-day operations.

Therefore, in addition to complying with the general requirements for the recognition and initial measurement of an intangible asset, an enterprise applies the requirements and guidance in paragraphs 39 - 53 below to all internally generated intangible assets.

39. To assess whether an internally generated intangible asset meets the criteria for recognition, an enterprise classifies the generation of the asset into:

   (a) a research phase; and

   (b) a development phase.

Although the terms ‘research’ and ‘development’ are defined, the terms ‘research phase’ and ‘development phase’ have a broader meaning for the purpose of this Standard.

40. If an enterprise cannot distinguish the research phase from the development phase of an internal project to create an intangible asset, the enterprise treats the expenditure on that project as if it were incurred in the research phase only.
41. 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.

42. This Standard takes the view that, in the research phase of a project, an enterprise cannot demonstrate that an intangible asset exists that will generate probable future economic benefits. Therefore, this expenditure is always recognised as an expense when it is incurred.

43. Examples of research activities are:

(a) activities aimed at obtaining new knowledge;

(b) the search for, evaluation and final selection of, applications of research findings or other knowledge;

(c) the search for alternatives for materials, devices, products, processes, systems or services; and

(d) the formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, processes, systems or services.

44. An intangible asset arising from development (or from the development phase of an internal project) should be recognised if, and only if, an enterprise 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) its 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 enterprise 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 the expenditure attributable to the intangible asset during its development reliably.
45. In the development phase of a project, an enterprise can, in some instances, identify an intangible asset and demonstrate that the asset will generate probable future economic benefits. This is because the development phase of a project is further advanced than the research phase.

46. Examples of development activities are:

(a) the design, construction and testing of pre-production or pre-use prototypes and models;

(b) the design of tools, jigs, moulds and dies involving new technology;

(c) the design, construction and operation of a pilot plant that is not of a scale economically feasible for commercial production; and

(d) the design, construction and testing of a chosen alternative for new or improved materials, devices, products, processes, systems or services.

47. An enterprise assesses the probable future economic benefits to be received from the intangible asset on the basis of the asset’s recoverable amount. This Standard defines recoverable amount as the higher of an asset’s net selling price and its value in use.

48. Availability of resources to complete, use and obtain the benefits from an intangible asset can be demonstrated by, for example, a business plan showing the technical, financial and other resources needed and the enterprise’s ability to secure those resources. In certain cases, an enterprise demonstrates the availability of external finance by obtaining a lender’s indication of its willingness to fund the plan.

49. An enterprise’s costing systems may be able to measure reliably the cost of generating an intangible asset internally, such as salary and other expenditure incurred in securing copyrights or licences or developing computer software.

50. This Standard takes the view that expenditure on internally generated brands, mastheads, publishing titles, customer lists and items similar in substance cannot be distinguished from the cost of developing the business as a whole. Therefore, such items are not recognised as intangible assets.

**Recognition and Initial Measurement of an Intangible Asset**

51. The cost of an internally generated intangible asset for the purpose of paragraph 22 is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria in paragraphs 19-20 and 44. Paragraph 57 prohibits reinstatement of expenditure recognised as an expense in previous annual financial statements.

52. The cost of an internally generated intangible asset comprises all expenditure that can be directly attributed, or allocated on a reasonable and consistent basis, to creating, producing and preparing the asset for its intended use. The cost includes, if applicable:
(a) expenditure on materials and services used or consumed in generating the intangible asset;

(b) the salaries, wages and other employment related costs of personnel directly engaged in generating the asset;

(c) any expenditure that is directly attributable to generating the asset, such as fees to register a legal right and the amortisation of patents and licences that are used to generate the asset; and

(d) overheads that are necessary to generate the asset and that can be allocated on a reasonable and consistent basis to the asset (for example, an allocation of the depreciation of property, plant and equipment, insurance premiums and rent). Allocations of overheads are made on bases similar to those used in allocating overheads to inventories (see the Standard that deals with Inventories).

53. The following are not components of the cost of an internally generated intangible asset:

(a) selling, administrative and other general overhead expenditure unless this expenditure can be directly attributed to preparing the asset for use;

(b) clearly identified inefficiencies and initial operating losses incurred before an asset achieves planned performance; and

(c) expenditure on training staff to operate the asset.

Example Illustrating Paragraph 51

An enterprise is developing a new production process. During 20X5, expenditure incurred was 1,000, of which 900 was incurred before 1 December 20X5 and 100 was incurred between 1 December 20X5 and 31 December 20X5. The enterprise is able to demonstrate that, at 1 December 20X5, the production process met the criteria for recognition as an intangible asset. The recoverable amount of the know-how embodied in the process (including future cash outflows to complete the process before it is available for use) is estimated to be 500.

At the end of 20X5, the production process is recognised as an intangible asset at a cost of 100 (expenditure incurred since the date when the recognition criteria were met, that is, 1 December 20X5). The 900 expenditure incurred before 1 December 20X5 is recognised as an expense because the recognition criteria were not met until 1 December 20X5. This expenditure will never form part of the cost of the production process recognised in the balance sheet.

During 20X6, expenditure incurred is 2,000. At the end of 20X6, the recoverable amount of the know-how embodied in the process (including future cash outflows to complete the process before it is available for use) is estimated to be 1,900.

At the end of 20X6, the cost of the production process is 2,100 (100 expenditure recognised at the end of 20X5 plus 2,000 expenditure recognised in 20X6). The enterprise recognises an impairment loss of 200 to adjust the carrying amount of the
process before impairment loss (2,100) to its recoverable amount (1,900).

Recognition of an Expense

54. Expenditure on an intangible item should be recognised as an expense when it is incurred unless:

   (a) it forms part of the cost of an intangible asset that meets the recognition criteria (see paragraphs 18 - 53); or

   (b) the item is acquired in a business combination that is an acquisition and cannot be recognised as an intangible asset. If this is the case, this expenditure (included in the cost of acquisition) should form part of the amount attributed to goodwill (negative goodwill) at the date of acquisition.

55. In some cases, expenditure is incurred to provide future economic benefits to an enterprise, 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 41). 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 a separate Standard. 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 reorganising part or all of an enterprise.

56. Paragraph 54 does not preclude recognising a prepayment as an asset when payment for the delivery of goods or services has been made in advance of the delivery of goods or the rendering of services.

Recognition of an Expense Past Expenses not to be Recognised as an Asset

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

Recognition of an Expense Subsequent Expenditure
58. 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 measured and attributed to the asset reliably.

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

59. Subsequent expenditure on a recognised intangible asset is recognised as an expense if this expenditure is required to maintain the asset at its originally assessed standard of performance. The nature of intangible assets is such that, in many cases, it is not possible to determine whether subsequent expenditure is likely to enhance or maintain the economic benefits that will flow to the enterprise from those assets. In addition, it is often difficult to attribute such expenditure directly to a particular intangible asset rather than the business as a whole. Therefore, only rarely will expenditure incurred after the initial recognition of a purchased intangible asset or after completion of an internally generated intangible asset result in additions to the cost of the intangible asset.

60. Consistent with paragraph 50, subsequent expenditure on brands, mastheads, publishing titles, customer lists and items similar in substance (whether externally purchased or internally generated) is always recognised as an expense to avoid the recognition of internally generated goodwill.

Measurement Subsequent to Initial Recognition

61. After initial recognition, an intangible asset should be carried at its cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets should not be revalued.

Amortisation  Amortisation Period

62. The depreciable amount of an intangible asset should be allocated on a systematic basis over the best estimate of its useful life which should not exceed twenty years from the date when the asset is available for use. Amortisation should commence when the asset is available for use.

63. As the future economic benefits embodied in an intangible asset are consumed over time, the carrying amount of the asset is reduced to reflect that consumption. This is achieved by systematic allocation of the cost or revalued amount of the asset, less any residual value, as an expense over the asset’s useful life. Amortisation is recognised whether or not there has been an increase in, for example, the asset’s fair value or recoverable amount. Many factors need to be considered in determining the useful life of an intangible asset including:

(a) the expected usage of the asset by the enterprise and whether the asset could be efficiently managed by another management team;
(b) typical product life cycles for the asset and public information on estimates of useful lives of similar types of assets that are used in a similar way;

(c) technical, technological or other types of obsolescence;

(d) the stability of the industry in which the asset operates and changes in the market demand for the products or services output from the asset;

(e) expected actions by competitors or potential competitors;

(f) the level of maintenance expenditure required to obtain the expected future economic benefits from the asset and the company’s ability and intent to reach such a level;

(g) the period of control over the asset and legal or similar limits on the use of the asset, such as the expiry dates of related leases; and

(h) whether the useful life of the asset is dependent on the useful life of other assets of the enterprise.

64. Given the history of rapid changes in technology, computer software and many other intangible assets are susceptible to technological obsolescence. Therefore, it is likely that their useful life will be short.

65. Estimates of the useful life of an intangible asset generally become less reliable as the length of the useful life increases. This Standard adopts a presumption that the useful life of intangible assets is unlikely to exceed twenty years.

66. The useful life of an intangible asset may be very long but it is always finite. Uncertainty justifies estimating the useful life of an intangible asset on a prudent basis, but it does not justify choosing a life that is unrealistically short.

67. 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.

68. There may be both economic and legal factors influencing the useful life of an intangible asset: economic factors determine the period over which future economic benefits will be received; legal factors may restrict the period over which the enterprise controls access to these benefits. The useful life is the shorter of the periods determined by these factors.

69. The following factors, among others, indicate that renewal of a legal right is virtually certain:
(a) the fair value of the intangible asset does not reduce as the initial expiry date approaches, or does not reduce by more than the cost of renewing the underlying right;

(b) there is evidence (possibly based on past experience) that the legal rights will be renewed; and

(c) there is evidence that the conditions necessary to obtain the renewal of the legal right (if any) will be satisfied.

Amortisation  

Amortisation Method

70. The amortisation method used should reflect the pattern in which the asset’s economic benefits are consumed by the enterprise. 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 Standard permits or requires it to be included in the carrying amount of another asset.

71. A variety of amortisation 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 unit of production method. The method used for an asset is selected based on the expected pattern of consumption of economic benefits and is consistently applied from period to period, unless there is a change in the expected pattern of consumption of economic benefits to be derived from that asset. There will rarely, if ever, be persuasive evidence to support an amortisation method for intangible assets that results in a lower amount of accumulated amortisation than under the straight-line method.

72. Amortisation is usually recognised as an expense. However, sometimes, the economic benefits embodied in an asset are absorbed by the enterprise in producing other assets rather than giving rise to an expense. In these cases, the amortisation charge forms part of the cost of the other asset and is included in its carrying amount. For example, the amortisation of intangible assets used in a production process is included in the carrying amount of inventories (see the Standard that deals with Inventories).

Amortisation  Residual Value

73. 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) 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.

74. The depreciable amount of an asset is determined after deducting its residual value. A residual value other than zero implies that an enterprise expects to dispose of the intangible asset before the end of its economic life.
75. The residual value is estimated using prices prevailing at the date of acquisition of the asset, for the sale of a similar asset that has reached the end of its estimated useful life and that has operated under conditions similar to those in which the asset will be used. The residual value is not subsequently increased for changes in prices or value.

**Amortisation  Review of Amortisation Period and Amortisation Method**

76. The amortisation period and the amortisation method should be reviewed at least at each financial year end. 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 under the Standard that deals with Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies, by adjusting the amortisation charge for the current and future periods.

77. During the life of an intangible asset, it may become apparent that the estimate of its useful life is inappropriate. For example, the useful life may be extended by subsequent expenditure that improves the condition of the asset beyond its originally assessed standard of performance. Also, the recognition of an impairment loss may indicate that the amortisation period needs to be changed.

78. Over time, the pattern of future economic benefits expected to flow to an enterprise from an intangible asset may change. For example, it may become apparent that a diminishing balance method of amortisation is appropriate rather than a straight-line method. Another example is if use of the rights represented by a licence is deferred pending action on other components of the business plan. In this case, economic benefits that flow from the asset may not be received until later periods.

**Recoverability of the Carrying Amount - Impairment Losses**

79. To determine whether an intangible asset is impaired, an enterprise applies the principles in the Standard that deals with Property, Plant and Equipment. That Standard explains how an enterprise 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.

80. If an impairment loss occurs before the end of the first annual accounting period commencing after acquisition for an intangible asset acquired in a business combination that was an acquisition, the impairment loss is recognised as an adjustment to both the amount assigned to the intangible asset and the goodwill (or negative goodwill) recognised at the date of acquisition. However, if the impairment loss relates to specific events or changes in circumstances occurring after the date of acquisition, the impairment loss is recognised as an expense in the income statement and not as an adjustment to the amount assigned to the goodwill (or negative goodwill) recognised at the date of acquisition.
81. For an intangible asset that is not yet available for use, an enterprise should estimate the recoverable amount of the intangible asset at least at each financial year end, even if there is no indication that the asset is impaired, and any impairment loss should be recognised accordingly.

Retirements and Disposals

82. 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.

83. 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.

84. If an intangible asset is exchanged for a similar asset under the circumstances described in paragraph 34, the cost of the acquired asset is equal to the carrying amount of the asset disposed of and no gain or loss results.

85. An intangible asset that is retired from active use and held for disposal is carried at its carrying amount at the date when the asset is retired from active use. At least at each financial year end, an enterprise tests the asset for impairment, and recognises any impairment loss accordingly.

Disclosure  General

86. The financial statements 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;

(e) a reconciliation of the carrying amount at the beginning and end of the period showing:

(i) additions, indicating separately those from internal development and through business combinations;

(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.

87. A class of intangible assets is a grouping of assets of a similar nature and use in an enterprise’s operations. Examples of separate classes may include:

(a) brand names;
(b) mastheads and publishing titles;
(c) computer software;
(d) licences and franchises;
(e) copyrights, patents and other industrial property rights, service and operating rights;
(f) recipes, formulae, models, designs and prototypes; and
(g) intangible assets under development.

The classes mentioned above are disaggregated (aggregated) into smaller (larger) classes if this results in more relevant information for the users of the financial statements.

88. If an impairment loss for an individual asset is recognised or reversed during the period and is material to the financial statements of the reporting enterprise as a whole, an enterprise should disclose:

(g) (a) the events and circumstances that led to the recognition or reversal of the impairment loss;
(h) (b) the amount of the impairment loss recognised or reversed;
(i) (c) the nature of the asset;
(j) (d) whether the recoverable amount of the asset is its net selling price or its value in use;
(k) (e) if recoverable amount is net selling price, the basis used to determine net selling price (such as whether selling price was determined by reference to an active market or in some other way); and
(l) (f) if recoverable amount is value in use, the discount rate(s) used in the current estimate and previous estimate (if any) of value in use.

89. If impairment losses recognised (reserved) during the period are material in aggregate to the financial statements of the reporting enterprise as a whole, an enterprise should disclose a brief description of the following:

(c) (a) the main classes of assets affected by impairment losses (reversals of impairment losses) for which no information is disclosed under paragraph 88; and
(b) the main events and circumstances that led to the recognition (reversal) of these impairment losses for which no information is disclosed under paragraph 88.

90. An enterprise discloses the nature and effect of a change in an accounting estimate that has a material effect in the current period or that is expected to have a material effect in subsequent periods, under the Standard that deals with Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policy. Such disclosure may arise from changes in:

(a) the amortisation period;
(b) the amortisation method; or
(c) residual values.

91. The financial statements should also disclose:

(a) a description, the carrying amount and remaining amortisation period of any individual intangible asset that is material to the financial statements of the enterprise as a whole;
(b) the existence and carrying amounts of intangible assets whose title is restricted and the carrying amounts of intangible assets pledged as security for liabilities; and
(c) the amount of commitments for the acquisition of intangible assets.

Disclosure  Research and Development Expenditure

92. The financial statements should disclose the aggregate amount of research and development expenditure recognised as an expense during the period.

93. Research and development expenditure comprises all expenditure that is directly attributable to research or development activities or that can be allocated on a reasonable and consistent basis to such activities (see paragraphs 52 - 53 for guidance on the type of expenditure to be included for the purpose of the disclosure requirement in paragraph 92).

Disclosure  Other Information

94. An enterprise is encouraged, but not required, to give the following information:

(a) a description of any fully amortised intangible asset that is still in use; and
(b) a brief description of significant intangible assets controlled by the enterprise but not recognised as assets because they did not meet the recognition criteria in this Standard or because they were acquired or generated before this Standard was effective.

Disclosure  Transitional Provisions
95. At the date when this Standard becomes effective (or at the date of adoption, if earlier), it should be applied as set out in the following tables. In all cases other than those detailed in these tables, this Standard should be applied retrospectively, unless it is impracticable to do so.

96. The tables below require retrospective application whenever this is necessary to eliminate an item that no longer qualifies for recognition under this Standard or if the previous measurement of an intangible asset contradicted the principles set out in this Standard (for example, intangible assets that have never been amortised or that have been revalued but not by reference to an active market). In other cases, prospective application of the recognition and amortisation requirements is required or, in some cases, permitted.

97. The effect of adopting this Standard on its effective date (or earlier) should be recognised under the Standard that deals with Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies, that is, as an adjustment either to the opening balance of retained earnings of the earliest period presented (under the benchmark treatment) or to the net profit or loss for the current period (under the allowed alternative treatment).

98. In the first annual financial statements issued under this Standard, an enterprise should disclose the transitional provisions adopted where transitional provisions under this Standard permit a choice.

<table>
<thead>
<tr>
<th>Circumstances</th>
<th>Requirements</th>
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<tbody>
<tr>
<td>1. An intangible item was recognised as a separate asset - whether or not described as an intangible asset – and, at the effective date of this Standard (or at the date of adoption of this Standard, if earlier), the item does not meet the definition of, or recognition criteria for, an intangible asset.</td>
<td>(a) The item was acquired in a business combination that was an acquisition.</td>
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<td></td>
<td>(i) Re-allocate the item to the goodwill (or negative goodwill) resulting from the same acquisition; and</td>
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<td>(ii) adjust the goodwill (or negative goodwill) recognised at the date of acquisition retrospectively, as if the item had always been included in the goodwill (or negative goodwill) recognised at the date of acquisition. For example, if the goodwill was recognised as an asset and amortised, estimate the accumulated amortisation that would have been recognised, had the item been included in the goodwill recognised at the date of acquisition, and adjust the carrying amount of the goodwill accordingly.</td>
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<td></td>
<td>(b) The item was not acquired in a business combination that was an acquisition (for example, it was purchased separately or</td>
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<td></td>
<td>Derecognise the item (eliminate it from the balance sheet).</td>
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</tbody>
</table>
2. An intangible item was recognised as a separate asset - whether or not described as an intangible asset – and, at the effective date of this Standard (or at the date of adoption of this Standard, if earlier), the item meets the definition of, and recognition criteria for, an intangible asset

| (a) The asset was recognised initially at cost. | Classify the asset as an intangible asset. The cost initially recognised for the asset is deemed to have been properly determined. See transitional provisions for subsequent measurement and amortisation under circumstances 4 and 5 below. |
| (b) The asset was recognised initially at an amount other than cost. | (i) Classify the asset as an intangible asset; and  
(ii) re-estimate the carrying amount of the asset at cost less accumulated amortisation, determined under this Standard. If the cost of the intangible asset cannot be determined, derecognise the asset (eliminate it from the balance sheet). |

3. At the effective date of this Standard (or at the date of adoption of this Standard, if earlier), an item meets the definition of, and recognition criteria for, an intangible asset but it was not previously recognised as an asset.

| (a) The intangible asset was acquired in a business combination that was an acquisition and formed part of the goodwill recognised. | Recognition of the intangible asset is encouraged, but not required. If the intangible asset is recognised:  
(i) measure the carrying amount of the asset at cost less accumulated amortisation determined under this Standard; and  
(ii) adjust the goodwill recognised at the date of acquisition retrospectively, as if the intangible asset had never been included in the goodwill recognised at the date of acquisition. For example, if the goodwill was recognised as an asset and amortised, estimate the effect on the accumulated amortisation of the goodwill of distinguishing the intangible asset separately and adjust the carrying amount of the goodwill accordingly. |
| (b) The intangible asset was not acquired in a business combination that was an acquisition (for example, it was purchased separately or generated internally). | The intangible asset should not be recognised |
4. The asset was not previously amortised or the amortisation charge was deemed to be nil. Restate the carrying amount of the asset as if the accumulated amortisation had always been determined under this Standard.

5. The asset was previously amortised. Accumulated amortisation determined under this Standard is different to that previously determined (because the amortisation period and/or the amortisation method is different). Do not restate the carrying amount of the intangible asset for any difference between the accumulated amortisation in prior years and that calculated under this Standard. Amortise any carrying amount of the asset over its remaining useful life determined under this Standard (i.e. any change is treated as a change in accounting estimate - see paragraph 97).

6. An intangible asset was carried at a revalued amount

   (i) Eliminate the effect of any revaluation;
   
   (ii) measure the carrying amount of the asset at cost less accumulated amortisation, determined under this Standard.

**Effective Date**

99. This Cambodian Accounting Standard becomes operative for annual financial statements covering periods beginning on or after [ ]. Earlier application is encouraged.