Accounting policies, estimates and errors

1.1. Selection and application of accounting policies

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

If IFRS for SMEs specifically address a transaction, other event or condition, an entity shall apply these IFRS. However, the entity need not follow a requirement in these IFRS if the effect of doing so would not be material.

If IFRS for SMEs does not specifically address a transaction, other event or condition, an entity's management shall use its judgements in developing and applying an accounting policy that results in information that is:

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

(b) reliable, in that the financial statements:

(i) represent faithfully the financial position, financial performance and cash flows of the entity;

(ii) reflect the economic substance of transactions, other events and conditions, and not merely the legal form;

(iii) are neutral, ie free from bias;

(iv) are prudent; and

(v) are complete in all material respects.

In making its judgements, management shall refer to, and consider the applicability of, the following sources in descending order:

(a) the requirements and guidance in this IFRS dealing with similar and related issues, and

(b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses and the pervasive principles in Section "Concepts and Pervasive Principles".

In making its judgements, management may also consider the requirements and guidance in full IFRSs dealing with similar and related issues.

An entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless IFRS for SMEs specifically require or permit categorization of items for which different policies may be appropriate. If IFRS for SMEs require or permit such categorization, an appropriate accounting policy shall be selected and applied consistently to each category.

1.2. Changes in accounting policies

An entity shall change an accounting policy only if the change:

(a) is required by changes to IFRS for SMEs, or

(b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.

The following are not changes in accounting policies:

(a) the application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring.

(b) the application of a new accounting policy for transactions, other events or conditions that did not occur previously or were not material.

(c) a change to the cost model when a reliable measure of fair value is no longer available (or vice versa) for an asset that these IFRS would otherwise require or permit to be measured at fair value.

If this IFRS allows a choice of accounting treatment (including the measurement basis) for a specified transaction or other event or condition and an entity changes its previous choice, that will be a change in accounting policy. An entity shall account for changes in accounting policy.

When a change in accounting policy is applied retrospectively, the entity shall apply the new accounting policy to comparative information for prior periods to the earliest date for which it is practicable, as if the new accounting policy had always been applied. When it is impracticable to determine the individual-period effects of a change in accounting policy on comparative information for one or more prior periods presented, the entity shall apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable, which may be the current period, and shall make a corresponding adjustment to the opening balance of each affected component of equity for that period.

When an amendment to these IFRS has an effect on the current period or any prior period, or might have an effect on future periods, an entity shall disclose the following:

(a) the nature of the change in accounting policy.

(b) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected.

(c) the amount of the adjustment relating to periods before those presented, to the extent practicable.

(d) an explanation if it is impracticable to determine the amounts to be disclosed in (b) or (c) above.

Financial statements of subsequent periods need not repeat these disclosures.

When a voluntary change in accounting policy has an effect on the current period or any prior period, an entity shall disclose the following:

(a) the nature of the change in accounting policy.

(b) the reasons why applying the new accounting policy provides reliable and more relevant information.

(c) to the extent practicable, the amount of the adjustment for each financial statement line item affected, shown separately:

(i) for the current period;

(ii) for each prior period presented; and

(iii) in the aggregate for periods before those presented.

(d) an explanation if it is impracticable to determine the amounts to be disclosed in (c) above.

Financial statements of subsequent periods need not repeat these disclosures.

1.3. Changes in accounting estimates

A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.

An entity shall recognize the effect of a change in an accounting estimate prospectively by including it in profit or loss in:

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

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

To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of equity, the entity shall recognize it by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.

An entity shall disclose the nature of any change in an accounting estimate and the effect of the change on assets, liabilities, income and expense for the current period. If it is practicable for the entity to estimate the effect of the change in one or more future periods, the entity shall disclose those estimates.

1.4. Corrections of prior period errors

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

(a) was available when financial statements for those periods were authorized for issue, and

(b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

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

To the extent practicable, an entity shall correct a material prior period error retrospectively in the first financial statements authorized for issue after its discovery by:

(a) restating the comparative amounts for the prior period(s) presented in which the error occurred, or

(b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity shall restate the opening balances of assets, liabilities and equity for the earliest period for which retrospective restatement is practicable (which may be the current period). An entity shall disclose the following about prior period errors:

(a) the nature of the prior period error.

(b) for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected.

(c) to the extent practicable, the amount of the correction at the beginning of the earliest prior period presented.

(d) an explanation if it is not practicable to determine the amounts to be disclosed in (b) or (c) above.

Financial statements of subsequent periods need not repeat these disclosures.

Property, plant and equipment

1.1. Recognition

An entity shall apply the recognition criteria specified in Section "Concepts and Principles" of IFRS for SMEs in determining whether to recognize an item of property, plant or equipment. **Therefore, the entity shall recognize the cost of an item of property, plant and equipment as an asset if, and only if:**

> **(a) it is probable that future economic benefits associated with the item will flow to the entity, and**
>
> **(b) the cost of the item can be measured reliably.**

Spare parts and servicing equipment are usually carried as inventory and recognized in profit or loss as consumed. However, **major spare parts and stand-by equipment are property, plant and equipment when an entity 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, they **are considered property, plant and equipment**.

Parts of some items of property, plant and equipment may require replacement at regular intervals (e.g. the roof of a building). **An entity shall add to the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the replacement part is expected to provide incremental future benefits to the entity**. **IFRS for SMEs provide that if the major components of an item of property, plant and equipment have significantly different patterns of consumption of economic benefits, an entity shall allocate the initial cost of the asset to its major components and depreciate each such component separately over its useful life.**

A condition of continuing to operate an item of property, plant and equipment (e.g. a bus) may be performing regular major inspections for faults regardless of whether parts of the item are replaced. **When each major inspection is performed, its cost is recognized in the carrying amount of the item of property, plant and equipment as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous major inspection (as distinct from physical parts) is derecognized.** This is done regardless of whether the cost of the previous major inspection was identified in the transaction in which the item was acquired or constructed. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired or constructed.

Land and buildings are separable assets, and an entity shall account for them separately, even when they are acquired together.

1.2. Initial and subsequent measurement

An entity shall measure an item of property, plant and equipment at initial recognition at its cost.

The **cost of an item of property, plant and equipment comprises** all of the following:

(a) **its purchase price**, including legal and brokerage fees, import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.

(b) **any costs** directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. These can include the **costs of site preparation, initial delivery and handling, installation and assembly, and testing of functionality.**

(c) **the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located,** the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

The following costs **are not costs** of an item of property, plant and equipment, and an entity shall recognize them as **an expense** when they are incurred:

(a) **costs of opening a new facility**.

(b) **costs of introducing a new product or service** (including costs of advertising and promotional activities).

(c) **costs of conducting business in a new location or with a new class of customer** (including costs of staff training).

(d) **administration and other general overhead costs**.

(e) **borrowing costs.**

The income and related expenses of incidental operations during construction or development of an item of property, plant and equipment are recognized in profit or loss if those operations are not necessary to bring the item to its intended location and operating condition.

The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the cost is the present value of all future payments.

An item of property, plant or equipment may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. An entity shall measure the cost of the acquired asset at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. In that case, the asset's cost is measured at the carrying amount of the asset given up.

An entity shall measure all items of property, plant and equipment after initial recognition at cost less any accumulated depreciation and any accumulated impairment losses. **An entity shall recognize the**

costs of day-to-day servicing of an item of property, plant and equipment in profit or loss in the period in which the costs are incurred.

1.3. Depreciation

If the major components of an item of property, plant and equipment have significantly different patterns of consumption of economic benefits, an entity shall allocate the initial cost of the asset to its major components and depreciate each such component separately over its useful life. Other assets shall be depreciated over their useful lives as a single asset. With some exceptions, such as quarries and sites used for landfill, **land has an unlimited useful life and therefore is not depreciated.**

The depreciation charge for each period shall be recognized in profit or loss unless another section of IFRS for SMEs requires the cost to be recognized as part of the cost of an asset. For example, the depreciation of manufacturing property, plant and equipment is included in the costs of inventories.

An entity shall allocate the depreciable amount of an asset on a systematic basis over its useful life.

Factors such as a change in how an asset is used, significant unexpected wear and tear, technological advancement, and changes in market prices may indicate that the residual value or useful life of an asset has changed since the most recent annual reporting date. If such indicators are present, an entity shall review its previous estimates and, if current expectations differ, amend the residual value, depreciation method or useful life. **The entity shall account for the change in residual value, depreciation method or useful life as a change in an accounting estimate.**

Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases when the asset is derecognized. **Depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.** However, under usage methods of depreciation the depreciation charge can be zero while there is no production.

An entity shall consider all the following factors in determining the useful life of an asset:

(a) **the expected usage of the asset**. Usage is assessed by reference to the asset's expected capacity or physical output.

(b) **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, and the care and maintenance of the asset while idle.

(c) **technical or commercial 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.

(d) **legal or similar limits on the use of the asset**, such as the expiry dates of related leases.

An entity shall select a depreciation method that reflects the pattern in which it expects to consume the asset's future economic benefits. The possible depreciation methods include the straight-line method, the diminishing balance method and a method based on usage such as the units of production method. If there is an indication that there has been a significant change since the last annual reporting date in the pattern by which an entity expects to consume an asset's future economic benefits, the entity shall review its present depreciation method and, if current expectations differ, change the depreciation method to reflect the new pattern. **The entity shall account for the change as a change in an accounting estimate.**

1.4. Impairment

At each reporting date, an entity shall apply Section "Impairment of Assets" of IFRS for SMEs to determine whether an item or group of items of property, plant and equipment is impaired and, if so, how to recognize and measure the impairment loss. That section explains when and how an entity reviews the carrying amount of its assets, how it determines the recoverable amount of an asset, and when it recognizes or reverses an impairment loss.

An entity shall include in profit or loss compensation from third parties for items of property, plant and equipment that were impaired, lost or given up only when the compensation becomes receivable.

IFRS for SMEs state that a plan to dispose of an asset before the previously expected date is an indicator of impairment that triggers the calculation of the asset's recoverable amount for the purpose of determining whether the asset is impaired.

1.5. Derecognition

An entity shall derecognize an item of property, plant and equipment:

(a) on disposal, or

(b) when no future economic benefits are expected from its use or disposal.

An entity shall recognize the gain or loss on the derecognition of an item of property, plant and equipment in profit or loss when the item is derecognized (unless Section "Leases" of IFRS for SMEs requires otherwise on a sale and leaseback)**. The entity shall not classify such gains as revenue.**

In determining the date of disposal of an item, an entity shall apply the criteria in Section "Revenue" of IFRS for SMEs for recognizing revenue from the sale of goods. Section "Revenue" applies to disposal by a sale and leaseback.

An entity shall determine the gain or loss arising from the derecognition of an item of property, plant and equipment as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.6. Disclosures

An entity shall disclose the following for each class of property, plant and equipment:

(a) **the measurement bases used** for determining the gross carrying amount.

(b) **the depreciation methods used.**

(c) **the useful lives or the depreciation rates used**.

(d) **the gross carrying amount** and **the accumulated depreciation** (aggregated with accumulated impairment losses) at the beginning and end of the reporting period.

(e) **a reconciliation of the carrying amount at the beginning and end of the reporting period** showing separately:

(i) **additions.**

(ii) **disposals.**

(iii) **acquisitions through business combinations**.

(iv) **transfers to investment property if a reliable measure of fair value becomes available**

(v) **impairment losses recognized or reversed in profit or loss**

(vi) **depreciation.**

(vii) **other changes.**

This reconciliation need not be presented for prior periods.

The entity shall also disclose the following:

(a) the existence and carrying amounts of property, plant and equipment to which the entity has restricted title or that is pledged as security for liabilities.

(b) the amount of contractual commitments for the acquisition of property, plant and equipment.