Part V. Liabilities and equity

Liabilities - IAS 37 (provisions) and IFRS for SME par. 21

Provisions

provision is recorded in fin statements where

an entity has a present bligation (legal* or co

it is probable*** that an outflow of resources

a reliable estimate can be made of the amou

Provision is a liability of uncertain timing or amount

Measurement

the best estimate of the expenditure require

if a large population of items is involved, exp

where time value of money is material, the a

Contingencies

Contingent liability

a possible obligation that arises from past ev

it is a present obligation that arises from past

it is not probable that an outflow

the amount of the obligation can

Contingent liability is disclosed in notes to fin

Contingent asset

Contingent asset is a possible asset that arise

Contingent asset is disclosed in notes to fin s

Warranties (legal obligation)

a mnaufacturer gives warrany at the time of sale topurc

Present obligation as result ofpast event - the obligating

A provision should be recognized for the best estimate o

Onerous contract (legal obligation)

An onerous contract is a contract in which the aggre

Prudence would require that if a future liability is forese

Dr	PL
Cr	Warranty provision

Restructuring

It inclused sale or termination of business, closure or rel

Provision should be recognized if a constructive obligati

detailed formal plan for the restructuring has

valid expectation has been raised in those aff

No obligationb arises for the sale of an operation until th

Future repairs or refurbishments

some assets require substantial expenditure every few y

Future operating losses

No porvision is allowed fr future operating losses.

Equity - there is no specific IFRS for equity; basic guidance can be found in IAS 1

recognition

a. shares are issued before receipt of cash or other assets

	Share capital	e.g. +50
	Receivables for shares	-50

b. cash or other assets have been received before shares ar

Consideration received (bank)		
	Advance received for s	e.g. +50

measurement

a. consideration is received within normal business terms
  at (FV - transaction costs)

b. receipt of consideration is deferred
  at PV

special cases

bonus issue - is an issue of new shares to existing shareh
  Db Share premium
  Cr Share capital

rights issue (option issue) - issue of options to existing sh
  Db Cash
  Cr Option reserve

  Db Cash
  Cr Share capital
  (Cr Share premium) - if even with disc

  Db Option reserve
  Cr Share capital

share split - division of issued shares of an entity into a g

  no double entries are required. A memo entr

treasury shares - an entity's own repurchased shares. By
  Db Share capital
  Cr Cash

distributions to shareholders

a. monetary distributions
  Db Retained earnings or S
  Cr Cash

b. nonmonetary distributions

Db	Retained earnings or S
Cr	PPE - at FV

convertible debt (bond) - can be eitherredeemed for cash or conver

liability and equity components needs to be separated

principle as debt compoment - needs to be re

option to convert principle into ordinary shar

Db	Cash
Cr	Fin liability - convertab
Cr	Equity - embaded conv

*
**
***

nstructive**) as a result of past event and
; embodying economic benefits will be required to settle the obligation and
nt of obligation

d to settle the present obligation
ected values ay be used to measure the required provision.
mount of provision should be discounted to its present value using pre-tax rate. Subsequent unwind of

ents and whose existence will be confirmed only by the occurrence or non-occurrence of one or more u
: events but it is not recognized because:
of resources embodying economic benefits will be required to settle the obligation or
not be measured with sufficient reliability
statements unless the related outflow of resources embodying economic benefits is remote.

s from past events and whose existence will be confirmed only by the occurance or non-occurrence of
tatements unless the related inflow of resources embodying economic benefits is remote.

nasers of itproducts. Under the terms of the contract for sale the manufacturer undertakes to make go
event is the sale of the product with warranty (legal obligation)
f the costs of making good under warranty products sold before BS date.

gate cost required to fulfill the agreement is higher than the economic benefit to be obtained
en we shuld recognize it (i.e. provision with uncertain timing)

ocation of a business, change in management structure, fundamental reorganizations.
on exists:
been identified
ected thatit will be carried out by either implementing the plan or announcing it to those affected.
ne entity is committed to the sale i.e. there is a binding sale agreement.

ears for major repairs or refurbishments and replacement of major components. Before IAS37 was intr

., IAS 8, IAS 16, IAS 32 and 39; in IFRS for SME par 22

e issued

olders, in proportion to their existing shareholding, for no cost or consideration. The company receives

areholders by using which existing ordinary shareholders can purchase additional ordinary shares with

count the new market price of 1 share is still higher than nominal value

reater number of shares without any further consideration from the shareholders. By doing this entity

y is normally made to reflect the fact that the split has occurred and that the par value has changed pr

doing this entity increases market price of its outstanding shares (the share count is permanently redu

hare premium

hare premium

rted into ordinary shares at maturity. Convertible bonds are a type of compound financial instrument w

ecorded at amortized cost as fin liability (i.e. by discounting the future cash flows of the bonds (interest
es as equity component - needs to be recorded as derivative (equity) i.e. at FVTPL where FV is initially r

ble bond at PV
version option as balancing figure

BONUS issue

legal obligation derives from: a contract, legislation
constructive obligation derives from entity's actions where: by an established patter of past practice, p
IAS37 states that an event is porbable if the event is more likely to occu. Practically, this means that if

discount is recorded as finance cost in PL.

uncertain future events not whole within the control of the entity or

one or more uncertain future events not wholyy within the control of the entity.

od, by repair or replacement, manufacturing defects that become apparent within given time (e.g. 2 ye

from it

oduced companies used to created provisions for such future repairs but currently as per IAS37 it is for

; absolutely no money for it, they're given away free of charge. By doing this entity reduces market pric

ı some discount to the fair value of the share in the future.

reduces market price of its outstanding shares

oportionally.

ıced, which causes the remaining shares present in circulation to represent a larger percentage of share

vith characteristics of both liability and equity.

: and principle) at the rate of a similar debt instrument)
neasured as difference between the present value of the liability component of the convertible bond (

ublished policies the entity has indicated to other parties that it will accept certain responsibilities
and event has more than 50% likelihood of occuring, then it is probable.

ears in CZ) from the date of the sale. On past experience it is probable that there will be some claims.

rbidden.

https://www.iasplus.com/en/stan

Some examples of provisic

Circum-stance	Recogni
Restructur-ing by sale of an operation	Only whe agreemer
Restructur-ing by closure or reorganisa	Only whe implemer decision i

ce of its outstanding shares. It also can be considered as reward for l

eholder ownership, including dividends and profits)

reorganisa-tion	
Warranty	When an warranty
Land conta-mination	A provisio clean up, clean up mination Examples
Customer refunds	Recognis event is t of purcha
Offshore oil rig must be removed and sea bed restored	Recognis oil rig as i from the p Example
Abandoned leasehold, four years to run, no re-letting possible	A provisio Example
CPA firm must staff training for recent changes in tax law	No provis recognise
Major overhaul or repairs	No provis
Onerous (loss-mak-ing) contract	Recognis
Future	No provis

operating losses	

as mentioned above) and the total proceeds from the issue of such bond. It is residual approach.

ıdards/ias/ias37

ɔns

se a provision?
:n the entity is committed to a sale, i.e. there is a binding sale nt [IAS 37.78]
:n a detailed form plan is in place and the entity has started to ıt the plan, or announced its main features to those affected. A Board is insufficient [IAS 37.72, Appendix C, Examples 5A & 5B]

obligating event occurs (sale of product with a warranty and probable claims will be made) [Appendix C, Example 1]

on is recognised as contamination occurs for any legal obligations of or for constructive obligations if the company's published policy is to even if there is no legal requirement to do so (past event is the conta- and public expectation created by the company's policy) [Appendix C, s 2B]

se a provision if the entity's established policy is to give refunds (past he sale of the product together with the customer's expectation, at time ise, that a refund would be available) [Appendix C, Example 4]

se a provision for removal costs arising from the construction of the the it is constructed, and add to the cost of the asset. Obligations arising production of oil are recognised as the production occurs [Appendix C, 3]

he company)

on is recognised for the unavoidable lease payments [Appendix C, 8]

sion is recognised (there is no obligation to provide the training, e a liability if and when the retraining occurs) [Appendix C, Example 7]

=>

sion is recognised (no obligation) [Appendix C, Example 11]

se a provision [IAS 37.66]

sion is recognised (no liability) [IAS 37.63]

Part VI. Revenue & deferred income tax

Revenue - IFRS 15 (replaced IAS18 Revenue and IAS 11 Construction contracts) an

general info

new standard specifies

definitions

revenue is income arisi

income is increases in e

a contract is an agreem

a customer is a party th

recognition - 5-step approach. The effect of this

1. Identify the contract

Contract ca

Should be a

Should crea

Should have

New contra

2. Identify separate per

A performa

Performanc

Identifying

3. Determine the transa

Transaction

May include

Adjustme

4. Allocate transaction p

Allocation is

Allocation o

Contract mo

5. Recognise revenue w

The point o

May result i

The vendor'

Capitalisa

Deferred income tax - IAS 12 and IFRS fo SME par. 29

general info:

deferred tax is tax that i

temporary differences -

Within fina

example:

A non-cu

straight l

$2,000 o

1

Year 1

Year 2

Year 3

Year 4

Total ca

The *mov*

Example 2:

FA with acquisition pric	600		
useful life	3 years		
acc. Dep-n method	linear	=>	
tax dep. Method	600 in 1st year of usefu		

		20X1	20X2	20X3
EBT		1,000	1,000	1,000
Acc. Dep-n charge		200	200	200
Tax. Dep-n charge	-	600	-	-
Tax base		600	1,200	1,200

Current tax expense at 30% (PL)	180	360	360
NBV or CA (acc. Value of asset)	400	200	-
Tax basis (tax value of asset)	-	-	-
Temporal difference	400	200	-
Differed tax liability (BS)	120	60	-
Deferred tax expense (PL)	120	- 60	- 60
Total tax expense to PL	300	300	300

EBT	1,000	1,000	1,000
Tax expense at 30%	- 300	- 300	- 300
EAT	700	700	700

for assets

for liabilities

Revaluation of non-curr
When an

d IFRS for SME par. 23

how and when a company will recognize Revenue as well as requiring them to provide users of fin state

ng in the course of an entity's ordinary activities.
conomic benefits during the accounting period in the form of inflows or enhancements of assets or dec
ent betweent two or more parties that creates enforceable rights and obligations.
at has contracted with an entity to obtain goods or services that are an output of entity's ordinary activ
approach is that revenue is recognized when control over the goods or services promised in the contra

n have a written and non-written form or be implied (contract may not be limited to goods or services e
pproved by parties, and have a commercial basis
te enforceable rights and obligations between parties
a consideration established taking into account ability and intention to pay
cts may arise when terms of existing contracts are modified
New contract arises as a result of modifications if a new performance obligation is added to a contract.
Continuation of an existing contract arises when no distinct goods or services are provided as part of th
formance obligations
nce obligation is a distinct promise to transfer specific goods or services, distinct from other goods or se
e obligation is distinct when its fulfilment is separable from other obligations in the contract – goods or
The following are examples of circumstances which do not give rise to a performance obligation:
providing goods at scrap value
activities relating to internal administrative contract set-up
performance obligations may result in unbundling contracts into performance obligations, or combining
Unbundling a contract may apply when incentives are offered at the time of sale, such as free servicing
Circumstances which could result in contracts being combined
it is negotiated as a package with a single commercial objective
consideration for one contract depends on the price or performance of the other contract
ction price
price is the most likely value the entity expects to be entitled to in exchange for the promised goods or
significant financing components and incentives and non-cash amounts offered (all are knows as varia
may arise as a result of discounts, rebates, refunds, credits, concessions, incentives, performance bonu
variable consideration is only recognised when it is highly probable that there will not be a significant r
no revenue is recognised if the vendor expects goods to be returned
instead a provision matching the asset is recognised at the same time as the asset, with an
the restriction results in a later recognition of revenue and profit (once there is certainly th
variable consideration is measured by reference to two methods
expected value for the contract portfolio (for a large number of contracts), or
single most likely outcome amount (if there are only two potential outcomes)
nts for the effects of the time value of money (a 'financing component'):
if a financing component is significant, IFRS 15 requires an adjustment to be made for
cash received in advance from buyer – vendor to recognise finance cost and increase in de
cash received in arrears from buyer – vendor to recognise finance income and reduction in
no adjustment for a financing component is needed if payment is settled within one yea

no adjustment for a financing component is needed if payment is settled within one yea
consideration is variable and the amount or timing depends on factors outside of parties' c
the difference between the consideration and cash selling price arises for other non-financ
orice to performance obligations
s based on the standalone selling price of goods or services forming that performance obligation
of transaction price may include allocation of discounts, which are applied:
on a proportionate basis to all performance obligations based on the stand-alone selling price of each
to specific performance obligations only, if
observable evidence exists evidencing that the discount relates to those specific obligation
odifications may require reassessment how consideration is allocated to performance obligations.
hen each performance obligation is satisfied.
f revenue recognition is the point when performance obligation is satisfied, per each distinctive obligati
n revenue recognition at a point in time or over time
Recognition over time applies when:
the customer simultaneously receives and consumes the asset/service as the vendor perfo
the vendor's performance creates or enhances an asset (for example, work in progress) tha
How to recognise revenue over time:
output method - direct measurement of the value of goods or services transferred to date
input method - based on measures such as resources consumed, costs incurred (but see be
's performance creates an asset, when:
the asset has *no alternative use* to the vendor:
the v*endor is restricted* from using the asset for any other purpose other than
the asset is manufactured to specific specifications or delivery time, meaning that from the
the entity cannot practically or contractually sell the asset to a different customer as it wou
no such practical or contractual limitations would apply if the entity production is that of id
the vendor *has an enforceable right to be paid* for work completed to date
the vendor does not have an enforceable right to pay when, for example:
terms of contract allow customer to cancel or modify the contract
the customer can pay an amount other than the value of the asset or service created to da
ition of costs associated with a sale contract (for example bidding costs, sales commiss
Only incremental costs of obtaining a contract (which would not have been incurred if the contract had
direct sales commissions payable if contract is awarded - include
costs of running a legal department proving an across-business legal support function - exc
Capitalise – if expected to be recovered (contract will generate profits)
Amortise on a basis that is consistent with the transfer of the goods or services specified in the contrac

is payable in the future in respect of taxable temporary differences
differences between the carrying amount of an asset (or liability) within BS and its tax base ie the amo
ancial statements, non-current assets with a limited economic life are subject to deprec

irrent asset costing $2,000 was acquired at the start of year 1. It is being depreciated
ine over four years, resulting in annual depreciation charges of $500. Thus a total of
of depreciation is being charged. The capital allowances granted on this asset are:

	$
	800
	600
	360
	240
pital allowances	2,000

ement in the deferred tax liability in the year is recorded in the statement of profit or los

increase in liability => increase in tax expense in PL
decrease in liability => decerase tax expense in PL

200 annual acc. Dep. Charge
l life

Total
3,000
600
- 600
3,000

900

600
-
600

		Db	PL	Db	Deferred tax liability
180		Cr	Deferred liability (BS)	Cr	PL

-

900

3,000
- 900
2,100

Acc. Value > Tax base => DTL
Acc. Value < Tax base => DTA

Acc. Value > Tax base => DTA
Acc. Value < Tax base => DTL

ent assets and deferred tax

NCA is revalued to its current value within the financial statements, the revaluation surp

Asset with acquisition price of 2k and useful life of 4 years (example above) was revalued to 2.5k at the

Year 2	Carrying value (Cost - accumulated depreciation) $	Tax base (Cost - accumulated capital allowances) $	Te d
Opening balance	1,500	1,200	
Depreciation charge / capital allowance	(500)	(600)	
Revaluation	1,500	-	
Closing balance	2,500	600	

ements with more informative, relevant disclosures. This standard provides a single, principles-based 5

creases of liabilities that result in an increase in equity other than those relating to contributions from e

vities in exchange for consideration.
act is provided.

explicitly mentioned in a contract, but also include those expected to be delivered due to business prac

. If a customer orders additional units at a later date, the additional order is considered distinct, even if
ne modification. For example: a customer negotiates a discount in relation to units already delivered, fo

ervices
r services offered are not integrated or dependent on other goods or services provided already under t

g contracts into a performance obligation, to recognise revenue correctly.
g or enhanced warranties. In this case servicing and warranties are performance obligations that are dis

r services supplied under a contract
able amounts of consideration), which affect how revenue is recognised
uses, penalties, and contingent payments
reversal in the cumulative amount of revenue recognised to date

adjustment to cost of sales
e goods will not be returned) in comparison with current accounting

the effect of implicit financing
ferred revenue
revenue
ar of goods or services transferred

ar of goods or services transferred
:ontrol
ing reasons (ie performance protection)

performance obligation (observable or estimated), or

s only; and

ion

rms the service, or
at is controlled by the customer as the work progresses.

for example per surveys of completion to date, appraisals of results achieved, milestones reached, unit
elow re contract set up costs), number of hours per time sheets or machine hours, which are directly re

selling it to that specific customer, for example
point of commencement of asset creation, it is clear the asset is for a specific customer
uld be practically and contractually prohibitive (for example would require a costly rework, selling at a r
dentical assets in bulk, and those assets are interchangeable

te (ie compensation only)
sion)
d not been obtained) to be considered, for example:

clude

ct

unt at which the asset (or liability) is valued for tax purposes by the relevant tax authority. Taxable te
iation. However, within tax computations, non-current assets are subject to capital allov

Year	Carrying value (Cost - accumulated depreciation) $	Tax base (Cost - accumulated capita allowances) $
1	1,500	1,200
2	1,000	600
3	500	240
4	Nil	Nil

s where:

3

Year	1 $
Opening deferred tax liability	0
Increase/(decrease) in the year	75

Closing deferred tax liability	75	1[illegible]

4

	$	
Opening deferred tax liability	X	As giver
Increase/(decrease) in the year *Tax rate % x increase / decrease in year-end taxable temporary differences*	X/(X)	This is t the Inco
Closing deferred tax liability *Tax rate % x year-end taxable temporary differences*	X	This is r Financia

5

	Year 1 $	Year 2 $
Profit before tax	10,000	10,000
Depreciation	500	500
Capital allowances	(800)	(600)

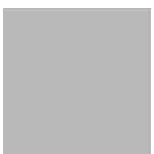
Taxable profits	9,700	9,900
Tax liability @ 25% of taxable profits	2,425	2,475

6

	Year 1 $	Yea
Income tax	2,425	2,47
Increase/(decrease) due to deferred tax	75	2
Total tax expense	(2,500)	(2,50(

ɔlus is recorded in equity (in a revaluation reserve) and reported as other comprehensi

: end of 2d year



emporary ifference $
300
100
1,500
1,900

The carrying value will now be $2,500 while the tax base rer temporary difference of $1,900, of which $1,500 relates to th to a deferred tax liability of 25% x $1,900 = $475 at the year Financial Position. The liability was $75 at the start of the ye increase of $400 to record.

However, the increase in relation to the revaluation surplus c charged to the revaluation reserve and reported within other remaining increase of $25 will be charged to the Income Sta

The overall double entry is:

- Dr Tax expense in Income Statement $25
- Dr Revaluation reserve in equity $375
- Cr Deferred tax liability in SFP $400

https://www.accaglobal.com/us/en/technical-activities/technical-

-step model to be applied to contracts with customers. Its main objective is to report the nature, amou

equity participants.

ctices or statements made)

f the order is for identical goods
or example due to unsatisfactory quality or service relating to the delivered units only.

he contract; the obligation provides goods or services rather than only modifies goods or services alrea

stinct and revenue relating to them needs to be recognised separately from the goods or services prom

ts produced/delivered; or
elated to the vendor's performance

reduced price, or if customer can prohibit redirection)

emporary differences are those on which tax will be charged in the future when the asset (or liability) is
wances (also known as tax depreciation) at rates set within the relevant tax legislation.

al	Temporary difference $
	300
	400
	260
	Nil

https://www.accaglobal.com/in/en/student/

In the above example, when the capi
years 1 and 2, the entity has receive
(ie defers) the payment of tax. Howe
tax will have to be paid in the future.
are less than the depreciation charge
temporary difference is reversing. He
temporary differences.

Notice that overall, the accumulated
$2,000 – the cost of the asset – so o
taxable profits and the profits per the

At the end of year 1, the entity has a
payable in the future (in years 3 and
therefore recorded equal to the expe

Assuming that the tax rate applicable
recognised at the end of year 1 is 25
(increasing) a deferred tax liability in
(increasing) the tax expense in the st

By the end of year 2, the entity has a
forward from year 1, plus the additior
now recorded equal to 25% x $400 =
of year 1, the double entry that is rec
(increase) the tax expense by $25.

2 $	3 $	4 $
75	100	65
25	(35)	(65)

At the end of year 3, the entity's taxa
the company has now been charged
tax payable will be 25% x $260 = $65
$65 and so is debited (a decrease) b

00	65	0

n in the trial balance

aken to the taxation charge in
me Statement

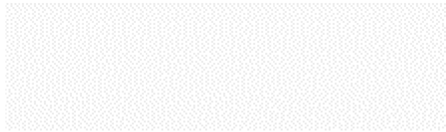
eported in the Statement of al Position

Year 3 $	Year 4 $
10,000	10,000
500	500
(360)	(240)

the tax expense of $35.

At the end of year 4, there are no tax
the asset is equal to its tax base. The
debit entry (a decrease) and hence th
This can all be summarised in the fol

10,140 10,260



2,535 2,565

ar 2 $	Year 3 $	Year 4 $
'5	2,535	2,565
25	(35)	(65)
0)	(2,500)	(2,500)

ve income. While the carrying value of the asset has increased, the tax base of the ass

mains at $600. There is, therefore, a
ne revaluation surplus. This gives rise
-end to report in the Statement of
ear (Example 1) and thus there is an

of 25% x $1,500 = $375 will be
r comprehensive income. The
atement as before.

-resources-search/2018/october/IFRS15-revenue-recognition-steps.html

ınt, timing and undertainty of revenue and cash flows arising from a contract with customer.

ıdy provided

ıised on the contract to which they relate.

s recovered (or settled).

Where at the year-end the cumulative depreciation charged and the cumulative capita

exam-support-resources/fundamentals-exams-study-resources/f7/technical-articles/deferred-tax.htm

ital allowances are greater than the depreciation expense in
d tax relief early. This is good for cash flow in that it delays
ver, the difference is only a temporary difference and so the
In years 3 and 4, when the capital allowances for the year
ed, the entity is being charged additional tax and the
ence the temporary differences can be said to be taxable

depreciation and accumulated capital allowances both equal
ver the four-year period, there is no difference between the
financial statements.

temporary difference of $300, which will result in tax being
4). In accordance with the concept of prudence, a liability is
cted tax payable.

to the company is 25%, the deferred tax liability that will be
% x $300 = $75. This will be recorded by crediting
the Statement of Financial Position and debiting
tatement of profit or loss.

taxable temporary difference of $400, ie the $300 bought
nal difference of $100 arising in year 2. A liability is therefore
$100. Since there was a liability of $75 recorded at the end
orded in year 2 is to credit (increase) the liability and debit

ble temporary differences have decreased to $260 (since
tax on the difference of $140). Therefore in the future, the
5. The deferred tax liability now needs reducing from $100 to
y $35. Consequently, there is now a credit (a decrease) to

:able temporary differences since now the carrying value of
erefore the opening liability of $65 needs to be removed by a
here is a credit entry (a decrease) of $65 to the tax expense.
llowing working.

set remains the same and so a temporary difference arises. Tax will become payable o

l allowances claimed are different, the carrying value of the asset (cost less accumulat

n the surplus when the asset is sold and so the temporary difference is taxable. Since

ed depreciation) will then be different to its tax base (cost less accumulated capital allo

the revaluation surplus has been recognised within equity, to comply with matching, the

wances) and hence a taxable temporary difference arises.

e tax charge on the surplus is also charged to equity.

IAS 21 and IFRS for SME par. ...

- recognition
  - Entity level
    - functional currency - the currency of the primary econor
      - determinants
        - This currency should be the one ir
        - in which the entity normally gener
      - All transactions in currencies other than the f
      - Once decided on, the functional currency doe
    - presentation currency - the currency in which the financi
      - Assets and liabilities (including any goodwill a
      - Income statements - at the **spot rate** at the **d**
      - All exchange differences are recognised in a s
  - Group level
    - At the group level, various entities within a multinational
    - When preparing group accounts, the financial statement
    - Exchange differences on intra-group items are recognise
    - When a foreign operation is disposed of, the cumulative
- measurement
  - initial
    - **spot ER** (approximate rate can be used)
  - subsequent
    - **monetary amounts** - should be reported using the **closin**
    - non-monetary items - any differences should be reporte
      - measured at historical cost should be reporte
      - measured at fair value, however, should be re

nic environment in which the entity operates. Since transactions are initially recorded in an entity's fur

ı which transactions (purchases/inputs and sales/outputs) are normally denominated (primary factors)
rates and spends cash (secondary factors)
unctional currency are treated as transactions in foreign currencies.
es not change unless there is a change in the underlying nature of the transactions and relevant conditi
ial statements are presented. An entity can present its financial statements in any currency. If the prese
ırising on the acquisition and any fair value adjustment) - at the closing **spot rate** at the **date of that ba**
ate of the transactions (average rates are allowed if there is no great fluctuation in the exchange rates
separate component of equity (OCI)

l group will often have different functional currencies. The functional currency is identified at entity lev
s of a foreign subsidiary should be translated into the presentation currency of the Group. Any goodwi
d in profit or loss
amount of the exchange differences in equity relating to that foreign operation is recognised in profit

ıg rate. Any differences should be reported in **PL** except differences arising on monetary items that for
d in **equity (OCI)**
ed using the **exchange rate at the date of the transaction.**
eported at the **rate that existed when the fair values were determined.**

nctional currency, the results and financial position would need to be retranslated where this differe

and

ions and events
entation currency differs from the functional currency, the financial statements are retranslated into th
alance sheet
s)

vel for each group entity. Each group entity translates its results and financial position into the presenta
ll and fair value adjustments are treated as assets and liabilities of the foreign entity, and therefore ret

or loss when the gain or loss on disposal is recognised.

m part of the reporting entity's **net investment in a foreign operation** - these differences are reported

Def: net investment in a foreign operation - monetary items receivable from, or payable to

d to the presentation currency

ne presentation currency. If the financial statements of the entity are not in the functional currency of a

ation currency of the reporting entity.
translated at each balance sheet date at the closing spot rate.

in **equity (OCI)**

, a **foreign operation** for which settlement is neither planned nor likely to occur in the f

a hyperinflationary economy, then they are translated into the presentation currency as follows:

oreseeable future (12 months)