

# International Financial Reporting Standards (IFRSs™) 2004

including International Accounting Standards (IASs™) and Interpretations as  
at 31 March 2004

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## SIC-7

### Introduction of the Euro

SIC Interpretation 7 *Introduction of the Euro* (SIC-7) is set out in paragraphs 3 and 4. SIC-7 is accompanied by a Basis for Conclusions. The scope and authority of Interpretations are set out in paragraphs 1 and 8-10 of the *IFRIC Preface*.

**References:** IAS 10 *Events after the Balance Sheet Date* (as revised in 2003), IAS 21 *The Effects of Changes in Foreign Exchange Rates* (as revised in 2003)

*This version includes amendments resulting from new and amended IFRSs issued up to 31 March 2004. The section “Changes in this Edition” at the front of this volume provides the application dates of these new and amended IFRSs and also identifies those current IFRSs that are not included in this volume.*

### ISSUE

1. From 1 January 1999, the effective start of Economic and Monetary Union (EMU), the euro will become a currency in its own right and the conversion rates between the euro and the participating national currencies will be irrevocably fixed, ie the risk of subsequent exchange differences related to these currencies is eliminated from this date on.
2. The issue is the application of IAS 21 to the changeover from the national currencies of participating Member States of the European Union to the euro (“the changeover”).

### CONSENSUS

3. The requirements of IAS 21 regarding the translation of foreign currency transactions and financial statements of foreign operations should be strictly applied to the changeover. The same rationale applies to the fixing of exchange rates when countries join EMU at later stages.
4. This means that, in particular:
  - (a) foreign currency monetary assets and liabilities resulting from transactions shall continue to be translated into the functional currency at the closing rate. Any resultant exchange differences shall be recognised as income or expense immediately, except that an entity shall continue to apply its existing accounting policy for exchange gains and losses related to hedges of the currency risk of a forecast transaction;
  - (b) cumulative exchange differences relating to the translation of financial statements of foreign operations shall continue to be classified as equity and shall be recognised as income or expense only on the disposal of the net investment in the foreign operation; and

- (c) exchange differences resulting from the translation of liabilities denominated in participating currencies shall not be included in the carrying amount of related assets.

## BASIS FOR CONCLUSIONS

[The original text has been marked up to reflect the revision of IAS 21 in 2003: new text is underlined and deleted text is struck through.]

5. IAS 21.2341(a) requires that foreign currency monetary items (as defined by IAS 21.807) be reported using the closing rate at each balance sheet date. According to IAS 21.2845, exchange differences arising from the translation of monetary items generally should be recognised as income or as expenses in the period in which they arise. The effective start of the EMU after the balance sheet date does not change the application of these requirements at the balance sheet date; in accordance with IAS 10.1028\* it is not relevant whether or not the closing rate can fluctuate after the balance sheet date.
6. IAS 21.514 states that the Standard does not apply to ~~deal with~~ hedge accounting, ~~except in restricted circumstances~~. Therefore, this Interpretation does not address how foreign currency hedges should be accounted for. IAS 8.42 would allow such a change in accounting policy only if the change would result in a more appropriate presentation of events or transactions. The effective start of EMU, of itself, does not justify a change to an entity's established accounting policy related to ~~anticipatory~~ hedges of forecast transactions because the changeover does not affect the economic rationale of such hedges.\* Therefore, the changeover should not alter the accounting policy where gains and losses on financial instruments used as ~~anticipatory~~ hedges of forecast transactions are ~~currently deferred~~ initially recognised in equity and matched with the related income or expense in a future period.
7. IAS 21.4837 requires the cumulative amount of exchange differences relating to the translation of the financial statements of a foreign operation entity which have been deferred in equity in accordance with IAS 21.47, 49 or 3032 or 39(c) to be recognised as income or expenses in the same period in which the gain or loss on disposal of the foreign operation entity is recognised. The fact that the cumulative amount of exchange differences will be fixed under EMU does not justify immediate recognition as income or expenses since the wording and the rationale of IAS 21.4837 clearly preclude such a treatment.
8. ~~Under the Allowed Alternative Treatment of IAS 21.21, exchange differences resulting from severe devaluations of currencies are included in the carrying amount of the related assets in certain limited circumstances. Those circumstances do not apply to the currencies participating in the changeover since the event of severe devaluation is incompatible with the required stability of participating currencies.~~

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\* IAS 10 (revised in 1999), paragraph 20, contains similar requirements.

\* The accounting for hedges is now covered under IAS 39 *Financial Instruments: Recognition and Measurement*. As SIC-7 was issued before IAS 39, the previous version of this Interpretation could refer only to the entity's own accounting policies on the matter.

**Date of Consensus:** October 1997

**Effective Date:** This Interpretation becomes effective on 1 June 1998. Changes in accounting policies shall be accounted for according to the requirements of IAS 8.



## SIC-10

### Government Assistance—No Specific Relation to Operating Activities

SIC Interpretation 10 *Government Assistance—No Specific Relation to Operating Activities* (SIC-10) is set out in paragraph 3. SIC-10 is accompanied by a Basis for Conclusions. The scope and authority of Interpretations are set out in paragraphs 1 and 8-10 of the *IFRIC Preface*.

**Reference:** IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*

#### ISSUE

1. In some countries government assistance to entities may be aimed at encouragement or long-term support of business activities either in certain regions or industry sectors. Conditions to receive such assistance may not be specifically related to the operating activities of the entity. Examples of such assistance are transfers of resources by governments to entities which:
  - (a) operate in a particular industry;
  - (b) continue operating in recently privatised industries; or
  - (c) start or continue to run their business in underdeveloped areas.
2. The issue is whether such government assistance is a “government grant” within the scope of IAS 20 and, therefore, should be accounted for in accordance with this Standard.

#### CONSENSUS

3. Government assistance to entities meets the definition of government grants in IAS 20, even if there are no conditions specifically relating to the operating activities of the entity other than the requirement to operate in certain regions or industry sectors. Such grants shall therefore not be credited directly to equity.

#### BASIS FOR CONCLUSIONS

4. IAS 20.03 defines government grants as assistance by the government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. The general requirement to operate in certain regions or industry sectors in order to qualify for the government assistance constitutes such a condition in accordance with IAS 20.03. Therefore, such assistance falls within the definition of government grants and the requirements of IAS 20 apply, in particular paragraphs 12 and 20, which deal with the timing of recognition as income.

**SIC-10**

**Date of Consensus:** January 1998

**Effective Date:** This Interpretation becomes effective on 1 August 1998. Changes in accounting policies shall be accounted for in accordance with IAS 8.

## SIC-12

### Consolidation—Special Purpose Entities

SIC Interpretation 12 *Consolidation—Special Purpose Entities* (SIC-12) is set out in paragraphs 8-10. SIC-12 is accompanied by a Basis for Conclusions and an appendix illustrating the application of the Interpretation. The scope and authority of Interpretations are set out in paragraphs 1 and 8-10 of the *IFRIC Preface*.

**References:** IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, IAS 27 *Consolidated and Separate Financial Statements*

*This version includes amendments resulting from new and amended IFRSs issued up to 31 March 2004. The section “Changes in this Edition” at the front of this volume provides the application dates of these new and amended IFRSs and also identifies those current IFRSs that are not included in this volume.*

#### ISSUE

1. An entity may be created to accomplish a narrow and well-defined objective (eg to effect a lease, research and development activities or a securitisation of financial assets). Such a special purpose entity (“SPE”) may take the form of a corporation, trust, partnership or unincorporated entity. SPEs often are created with legal arrangements that impose strict and sometimes permanent limits on the decision-making powers of their governing board, trustee or management over the operations of the SPE. Frequently, these provisions specify that the policy guiding the ongoing activities of the SPE cannot be modified, other than perhaps by its creator or sponsor (ie they operate on so-called “autopilot”).
2. The sponsor (or entity on whose behalf the SPE was created) frequently transfers assets to the SPE, obtains the right to use assets held by the SPE or performs services for the SPE, while other parties (“capital providers”) may provide the funding to the SPE. An entity that engages in transactions with an SPE (frequently the creator or sponsor) may in substance control the SPE.
3. A beneficial interest in an SPE may, for example, take the form of a debt instrument, an equity instrument, a participation right, a residual interest or a lease. Some beneficial interests may simply provide the holder with a fixed or stated rate of return, while others give the holder rights or access to other future economic benefits of the SPE’s activities. In most cases, the creator or sponsor (or the entity on whose behalf the SPE was created) retains a significant beneficial interest in the SPE’s activities, even though it may own little or none of the SPE’s equity.
4. IAS 27 requires the consolidation of entities that are controlled by the reporting entity. However, the Standard does not provide explicit guidance on the consolidation of SPEs.
5. The issue is under what circumstances an entity should consolidate an SPE.

6. This Interpretation does not apply to post-employment benefit plans or equity compensation plans.
7. A transfer of assets from an entity to an SPE may qualify as a sale by that entity. Even if the transfer does qualify as a sale, the provisions of IAS 27 and this Interpretation may mean that the entity should consolidate the SPE. This Interpretation does not address the circumstances in which sale treatment should apply for the entity or the elimination of the consequences of such a sale upon consolidation.

### **CONSENSUS**

8. An SPE shall be consolidated when the substance of the relationship between an entity and the SPE indicates that the SPE is controlled by that entity.
9. In the context of an SPE, control may arise through the predetermination of the activities of the SPE (operating on “autopilot”) or otherwise. IAS 27.13 indicates several circumstances which result in control even in cases where an entity owns one half or less of the voting power of another entity. Similarly, control may exist even in cases where an entity owns little or none of the SPE’s equity. The application of the control concept requires, in each case, judgement in the context of all relevant factors.
10. In addition to the situations described in IAS 27.13, the following circumstances, for example, may indicate a relationship in which an entity controls an SPE and consequently should consolidate the SPE (additional guidance is provided in the Appendix to this Interpretation):
  - (a) in substance, the activities of the SPE are being conducted on behalf of the entity according to its specific business needs so that the entity obtains benefits from the SPE’s operation;
  - (b) in substance, the entity has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an “autopilot” mechanism, the entity has delegated these decision-making powers;
  - (c) in substance, the entity has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE;  
or
  - (d) in substance, the entity retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.
11. [Deleted]

## BASIS FOR CONCLUSIONS

[The original text has been marked up to reflect the revision of IAS 27 in 2003:  
new text is underlined and deleted text is struck through.]

12. IAS 27.~~12~~<sup>14</sup> states that “~~a parent which issues~~ Consolidated financial statements shall include ~~should consolidate~~ all subsidiaries of the parent”. IAS 27.~~04~~<sup>06</sup> defines a parent as “an entity that has one or more subsidiaries”, a subsidiary as “an entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as the parent)”, and control as “the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.” Paragraph 35 of the *Framework* and IAS 8.~~10(b)(ii)~~<sup>1.20(b)(ii)</sup> (~~revised 1997~~) require that transactions and other events are accounted for in accordance with their substance and economic reality, and not merely their legal form.
13. Control over another entity requires having the ability to direct or dominate its decision-making, regardless of whether this power is actually exercised. Under the definitions of IAS 27.~~04~~<sup>06</sup>, the ability to govern decision-making alone, however, is not sufficient to establish control. The ability to govern decision-making must be accompanied by the objective of obtaining benefits from the entity’s activities.
14. SPEs frequently operate in a predetermined way so that no entity has explicit decision-making authority over the SPE’s ongoing activities after its formation (ie they operate on “autopilot”). Virtually all rights, obligations, and aspects of activities that could be controlled are predefined and limited by contractual provisions specified or scheduled at inception. In these circumstances, control may exist for the sponsoring party or others with a beneficial interest, even though it may be particularly difficult to assess, because virtually all activities are predetermined. However, the predetermination of the activities of the SPE through an “autopilot” mechanism often provides evidence that the ability to control has been exercised by the party making the predetermination for its own benefit at the formation of the SPE and is being perpetuated.
- ~~15. IAS 27.13(b) indicates that a subsidiary should be excluded from consolidation when it “operates under severe long term restrictions which significantly impair its ability to transfer funds to the parent.” Predetermination of the activities of an SPE by an enterprise (the sponsor or other party with a beneficial interest) is often a demonstration of control over ongoing activities as determined by that enterprise and would not represent the type of restrictions referred to in IAS 27.13(b).~~

**Date of Consensus:** June 1998

**Effective Date:** This Interpretation becomes effective for annual financial periods beginning on or after 1 July 1999; earlier application is encouraged. Changes in accounting policies shall be accounted in accordance with IAS 8.

## Appendix to SIC-12

*This appendix accompanies, but is not part of, SIC-12.*

### INDICATORS OF CONTROL OVER AN SPE

The examples in paragraph 10 of this Interpretation are intended to indicate types of circumstances that should be considered in evaluating a particular arrangement in light of the substance-over-form principle. The guidance provided in the Interpretation and in this Appendix is not intended to be used as “a comprehensive checklist” of conditions that must be met cumulatively in order to require consolidation of an SPE.

#### (a) *Activities*

The activities of the SPE, in substance, are being conducted on behalf of the reporting entity, which directly or indirectly created the SPE according to its specific business needs.

Examples are:

- the SPE is principally engaged in providing a source of long-term capital to an entity or funding to support an entity’s ongoing major or central operations; or
- the SPE provides a supply of goods or services that is consistent with an entity’s ongoing major or central operations which, without the existence of the SPE, would have to be provided by the entity itself.

Economic dependence of an entity on the reporting entity (such as relations of suppliers to a significant customer) does not, by itself, lead to control.

#### (b) *Decision-making*

The reporting entity, in substance, has the decision-making powers to control or to obtain control of the SPE or its assets, including certain decision-making powers coming into existence after the formation of the SPE. Such decision-making powers may have been delegated by establishing an “autopilot” mechanism.

Examples are:

- power to unilaterally dissolve an SPE;
- power to change the SPE’s charter or bylaws; or
- power to veto proposed changes of the SPE’s charter or bylaws.

#### (c) *Benefits*

The reporting entity, in substance, has rights to obtain a majority of the benefits of the SPE’s activities through a statute, contract, agreement, or trust deed, or any other scheme, arrangement or device. Such rights to benefits in the SPE may be indicators of control when they are specified in favour of an entity that is engaged in transactions with an SPE and that entity stands to gain those benefits from the financial performance of the SPE.

Examples are:

- rights to a majority of any economic benefits distributed by an entity in the form of future net cash flows, earnings, net assets, or other economic benefits; or
- rights to majority residual interests in scheduled residual distributions or in a liquidation of the SPE.

(d) *Risks*

An indication of control may be obtained by evaluating the risks of each party engaging in transactions with an SPE. Frequently, the reporting entity guarantees a return or credit protection directly or indirectly through the SPE to outside investors who provide substantially all of the capital to the SPE. As a result of the guarantee, the entity retains residual or ownership risks and the investors are, in substance, only lenders because their exposure to gains and losses is limited.

Examples are:

- the capital providers do not have a significant interest in the underlying net assets of the SPE;
- the capital providers do not have rights to the future economic benefits of the SPE;
- the capital providers are not substantively exposed to the inherent risks of the underlying net assets or operations of the SPE; or
- in substance, the capital providers receive mainly consideration equivalent to a lender's return through a debt or equity interest.



## SIC-13

### Jointly Controlled Entities— Non-Monetary Contributions by Venturers

SIC Interpretation 13 *Jointly Controlled Entities—Non-Monetary Contributions by Venturers* (SIC-13) is set out in paragraphs 5-7. SIC-13 is accompanied by a Basis for Conclusions. The scope and authority of Interpretations are set out in paragraphs 1 and 8-10 of the *IFRIC Preface*.

**References:** IAS 18 *Revenue*, IAS 31 *Interests in Joint Ventures*

*This version includes amendments resulting from new and amended IFRSs issued up to 31 March 2004. The section “Changes in this Edition” at the front of this volume provides the application dates of these new and amended IFRSs and also identifies those current IFRSs that are not included in this volume.*

#### ISSUE

1. IAS 31.48 refers to both contributions and sales between a venturer and a joint venture as follows: “When a venturer contributes or sells assets to a joint venture, recognition of any portion of a gain or loss from the transaction shall reflect the substance of the transaction”. In addition, IAS 31.24 says that “a jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest”. There is no explicit guidance on the recognition of gains and losses resulting from contributions of non-monetary assets to jointly controlled entities (“JCEs”).
2. Contributions to a JCE are transfers of assets by venturers in exchange for an equity interest in the JCE. Such contributions may take various forms. Contributions may be made simultaneously by the venturers either upon establishing the JCE or subsequently. The consideration received by the venturer(s) in exchange for assets contributed to the JCE may also include cash or other consideration that does not depend on future cash flows of the JCE (“additional consideration”).
3. The issues are:
  - (a) when the appropriate portion of gains or losses resulting from a contribution of a non-monetary asset to a JCE in exchange for an equity interest in the JCE should be recognised by the venturer in the income statement;
  - (b) how additional consideration should be accounted for by the venturer; and
  - (c) how any unrealised gain or loss should be presented in the consolidated financial statements of the venturer.
4. This Interpretation deals with the venturer’s accounting for non-monetary contributions to a JCE in exchange for an equity interest in the JCE that is accounted for using either the equity method or proportionate consolidation.

## CONSENSUS

5. In applying IAS 31.48 to non-monetary contributions to a JCE in exchange for an equity interest in the JCE, a venturer shall recognise in profit or loss for the period the portion of a gain or loss attributable to the equity interests of the other venturers except when:
- (a) the significant risks and rewards of ownership of the contributed non-monetary asset(s) have not been transferred to the JCE; or
  - (b) the gain or loss on the non-monetary contribution cannot be measured reliably; or
  - (c) the contribution transaction lacks commercial substance, as that term is described in IAS 16 *Property, Plant and Equipment*.
- If exception (a), (b) or (c) applies, the gain or loss is regarded as unrealised and therefore is not recognised in profit or loss unless paragraph 6 also applies.
6. If, in addition to receiving an equity interest in the JCE, a venturer receives monetary or non-monetary assets, an appropriate portion of gain or loss on the transaction shall be recognised by the venturer in profit or loss.
7. Unrealised gains or losses on non-monetary assets contributed to JCEs shall be eliminated against the underlying assets under the proportionate consolidation method or against the investment under the equity method. Such unrealised gains or losses shall not be presented as deferred gains or losses in the venturer's consolidated balance sheet.

## BASIS FOR CONCLUSIONS

[The original text has been marked up to reflect the revision of IAS 16 and IAS 31 in 2003; new text is underlined and deleted text is struck through.]

8. IAS 31.48~~39~~ requires that, while the assets are retained in the joint venture, the venturer should recognise only that portion of the gain or loss which is attributable to the interests of the other venturers. Additional losses are recognised if required by IAS 31.48~~39~~.
9. IAS 31.48~~39~~ refers to the transfer of the "significant risks and rewards of ownership" as a condition for recognition of gains or losses resulting from transactions between venturers and joint ventures. IAS 18.16(a) to (d) contain examples of situations where the risks and rewards of ownership are typically not transferred. This guidance also applies by analogy to the recognition of gains or losses resulting from contributions of non-monetary assets to JCEs. Since the venturer participates in joint control of the JCE, it retains some "continuing managerial involvement" in the asset transferred. However, this does not generally preclude the recognition of gains or losses since joint control does not constitute control to the degree usually associated with ownership (IAS 18.14(b)).

10. Paragraph 92 of the *Framework* states: “income is recognised in the income statement when an increase in future economic benefits related to an increase in an asset or a decrease of a liability has arisen that can be measured reliably”. IAS 18.14(c) requires, among other conditions, that revenue from the sale of goods should be recognised when “the amount of revenue can be measured reliably”. The requirement for reliable measurement also applies to the recognition of gains or losses resulting from a contribution of non-monetary assets to a JCE.
11. IAS 18.12 explains that “when goods and services are exchanged or swapped for goods or services which are of similar nature and value, the exchange is not regarded as a transaction which generates revenue”. ~~IAS 16.22 says that “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. An item of property, plant and equipment 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”.~~\* The same rationale applies to a contribution of non-monetary assets since a contribution to a JCE is, in substance, an exchange of assets with the other venturers at the level of the JCE.
12. To the extent that the venturer also receives cash or non-monetary assets dissimilar to the assets contributed in addition to equity interests in the JCE, the realisation of which is not dependent on the future cash flows of the JCE, the earnings process is complete. Accordingly, the appropriate portion of the gain on the non-monetary contribution is recognised in profit or loss for the period.
13. It is not appropriate to present unrealised gains or losses on non-monetary assets contributed to JCEs as deferred items since such items do not meet the recognition criteria for assets or liabilities as defined in the *Framework* (paragraphs 53 to 64 and paragraphs 89 to 91).

**Date of Consensus:** June 1998

**Effective Date:** This Interpretation becomes effective for annual financial periods beginning on or after 1 January 1999; earlier application is encouraged. Changes in accounting policies shall be accounted for in accordance with IAS 8.

14. The amendments to the accounting for the non-monetary contribution transactions specified in paragraph 5 shall be applied prospectively to future transactions.
15. An entity shall apply the amendments to this Interpretation made by IAS 16 *Property, Plant and Equipment* for annual periods beginning on or after 1 January 2005. If an entity applies that Standard for an earlier period, it shall also apply these amendments for that earlier period.

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\* IAS 16 *Property, Plant and Equipment* as revised by the IASB in 2003 requires an entity to measure an item of property, plant and equipment acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets, at fair value unless the exchange transaction lacks commercial substance. Previously, an entity measured such an acquired asset at fair value unless the exchanged assets were similar.



## SIC-15

### Operating Leases—Incentives

SIC Interpretation 15 *Operating Leases—Incentives* (SIC-15) is set out in paragraphs 3-6. SIC-15 is accompanied by a Basis for Conclusions and appendix illustrating the application of the Interpretation. The scope and authority of Interpretations are set out in paragraphs 1 and 8-10 of the *IFRIC Preface*.

**Reference:** IAS 17 *Leases* (as revised in 2003)

*This version includes amendments resulting from new and amended IFRSs issued up to 31 March 2004. The section “Changes in this Edition” at the front of this volume provides the application dates of these new and amended IFRSs and also identifies those current IFRSs that are not included in this volume.*

#### ISSUE

1. In negotiating a new or renewed operating lease, the lessor may provide incentives for the lessee to enter into the agreement. Examples of such incentives are an up-front cash payment to the lessee or the reimbursement or assumption by the lessor of costs of the lessee (such as relocation costs, leasehold improvements and costs associated with a pre-existing lease commitment of the lessee). Alternatively, initial periods of the lease term may be agreed to be rent-free or at a reduced rent.
2. The issue is how incentives in an operating lease should be recognised in the financial statements of both the lessee and the lessor.

#### CONSENSUS

3. All incentives for the agreement of a new or renewed operating lease shall be recognised as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the incentive’s nature or form or the timing of payments.
4. The lessor shall recognise the aggregate cost of incentives as a reduction of rental income over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern over which the benefit of the leased asset is diminished.
5. The lessee shall recognise the aggregate benefit of incentives as a reduction of rental expense over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern of the lessee’s benefit from the use of the leased asset.

**SIC-15**

6. Costs incurred by the lessee, including costs in connection with a pre-existing lease (for example costs for termination, relocation or leasehold improvements), shall be accounted for by the lessee in accordance with the Standards applicable to those costs, including costs which are effectively reimbursed through an incentive arrangement.

## BASIS FOR CONCLUSIONS

[The original text has been marked up to reflect the revision of IAS 17 in 2003:  
new text is underlined and deleted text is struck through]

7. Paragraph 35 of the *Framework* explains that if information is to represent faithfully the transactions and events that it purports to represent, it is necessary that transactions and events are accounted for and presented in accordance with their substance and economic reality and not merely their legal form. IAS ~~4.20(b)(ii)~~ 8.10(b)(ii) also requires the application of accounting policies which reflect economic substance.
8. Paragraph 22 of the *Framework* and IAS 1.25 require the preparation of financial statements under the accrual basis of accounting. IAS 17.~~3325~~ and IAS 17.~~5042~~ specify the basis on which lessees and lessors respectively should recognise amounts payable or receivable under operating leases.
9. The underlying substance of operating lease arrangements is that the lessor and lessee exchange the use of an asset for a specified period for the consideration of a net amount of money. The accounting periods in which this net amount is recognised by either the lessor or the lessee is not affected by the form of the agreement or the timing of payments. Payments made by a lessor to or on behalf of a lessee, or allowances in rental cost made by a lessor, as incentives for the agreement of a new or renewed lease are an inseparable part of the net amount receivable or payable under the operating lease.
10. Costs incurred by the lessor as incentives for the agreement of new or renewed operating leases are not considered to be part of those initial costs which ~~may be recognised as an expense in the income statements in the period in which they are incurred~~ are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income in accordance with ~~under~~ IAS 17.~~5244~~. Initial costs, such as direct costs for administration, advertising and consulting or legal fees, are incurred by a lessor to arrange a contract, whereas incentives in an operating lease are, in substance, related to the consideration for the use of the leased asset.
11. Costs incurred by the lessee on its own behalf are accounted for using the applicable recognition requirements. For example, relocation costs are recognised as an expense in the income statement in the period in which they are incurred. The accounting for such costs does not depend on whether or not they are effectively reimbursed through an incentive arrangement as they are not related to the consideration for the use of the leased asset.

**Date of Consensus:** June 1998

**Effective Date:** This Interpretation becomes effective for lease terms beginning on or after 1 January 1999.

## Appendix to SIC-15

*This appendix accompanies, but is not part of SIC-15.*

### EXAMPLE APPLICATION OF SIC-15

#### Example 1

**An entity agrees to enter into a new lease arrangement with a new lessor. The lessor agrees to pay the lessee's relocation costs as an incentive to the lessee for entering into the new lease. The lessee's moving costs are 1,000. The new lease has a term of 10 years, at a fixed rate of 2,000 per year.**

The accounting is:

The lessee recognises relocation costs of 1,000 as an expense in Year 1. Net consideration of 19,000 consists of 2,000 for each of the 10 years in the lease term, less a 1,000 incentive for relocation costs. Both the lessor and lessee would recognise the net rental consideration of 19,000 over the 10 year lease term using a single amortisation method in accordance with paragraphs 4 and 5 of this Interpretation.

#### Example 2

**An entity agrees to enter into a new lease arrangement with a new lessor. The lessor agrees to a rent-free period for the first three years as incentive to the lessee for entering into the new lease. The new lease has a term of 20 years, at a fixed rate of 5,000 per annum for years 4 through 20.**

The accounting is:

Net consideration of 85,000 consists of 5,000 for each of 17 years in the lease term. Both the lessor and lessee would recognise the net consideration of 85,000 over the 20 year lease term using a single amortisation method in accordance with paragraphs 4 and 5 of this Interpretation.

## SIC-21

### Income Taxes—Recovery of Revalued Non-Depreciable Assets

SIC Interpretation 21 *Income Taxes—Recovery of Revalued Non-Depreciable Assets* (SIC-21) is set out in paragraph 5. SIC-21 is accompanied by a Basis for Conclusions. The scope and authority of Interpretations are set out in paragraphs 1 and 8-10 of the *IFRIC Preface*.

**References:** IAS 12 *Income Taxes*, IAS 16 *Property, Plant and Equipment* (as revised in 2003)

*This version includes amendments resulting from new and amended IFRSs issued up to 31 March 2004. The section “Changes in this Edition” at the front of this volume provides the application dates of these new and amended IFRSs and also identifies those current IFRSs that are not included in this volume.*

#### ISSUE

1. Under IAS 12.51, the measurement of deferred tax liabilities and assets should reflect the tax consequences that would follow from the manner in which the entity expects, at the balance sheet date, to recover or settle the carrying amount of those assets and liabilities that give rise to temporary differences.
2. IAS 12.20 notes that the revaluation of an asset does not always affect taxable profit (tax loss) in the period of the revaluation and that the tax base of the asset may not be adjusted as a result of the revaluation. If the future recovery of the carrying amount will be taxable, any difference between the carrying amount of the revalued asset and its tax base is a temporary difference and gives rise to a deferred tax liability or asset.
3. The issue is how to interpret the term “recovery” in relation to an asset that is not depreciated (non-depreciable asset) and is revalued in accordance with paragraph 31 of IAS 16.
4. This Interpretation also applies to investment properties that are carried at revalued amounts under IAS 40.33 but would be considered non-depreciable if IAS 16 were to be applied.

#### CONSENSUS

5. The deferred tax liability or asset that arises from the revaluation of a non-depreciable asset in accordance with IAS 16.31 shall be measured on the basis of the tax consequences that would follow from recovery of the carrying amount of that asset through sale, regardless of the basis of measuring the carrying amount of

that asset. Accordingly, if the tax law specifies a tax rate applicable to the taxable amount derived from the sale of an asset that differs from the tax rate applicable to the taxable amount derived from using an asset, the former rate is applied in measuring the deferred tax liability or asset related to a non-depreciable asset.

### **BASIS FOR CONCLUSIONS**

6. The *Framework* indicates that an entity recognises an asset if it is probable that the future economic benefits associated with the asset will flow to the entity. Generally, those future economic benefits will be derived (and therefore the carrying amount of an asset will be recovered) through sale, through use, or through use and subsequent sale. Recognition of depreciation implies that the carrying amount of a depreciable asset is expected to be recovered through use to the extent of its depreciable amount, and through sale at its residual value. Consistent with this, the carrying amount of a non-depreciable asset, such as land having an unlimited life, will be recovered only through sale. That is, because the asset is not depreciated, no part of its carrying amount is expected to be recovered (that is, consumed) through use. Deferred taxes associated with the non-depreciable asset reflect the tax consequences of selling the asset.
7. The expected manner of recovery is not predicated on the basis of measuring the carrying amount of the asset. For example, if the carrying amount of a non-depreciable asset is measured at its value in use, the basis of measurement does not imply that the carrying amount of the asset is expected to be recovered through use, but through its residual value upon ultimate disposal.

**Date of Consensus:** August 1999

**Effective Date:** This consensus becomes effective on 15 July 2000. Changes in accounting policies shall be accounted for in accordance with IAS 8.

## SIC-25

### Income Taxes—Changes in the Tax Status of an Entity or its Shareholders

SIC Interpretation 25 *Income Taxes—Changes in the Tax Status of an Entity or its Shareholders* (SIC-25) is set out in paragraph 4. SIC-25 is accompanied by a Basis for Conclusions. The scope and authority of Interpretations are set out in paragraphs 1 and 8-10 of the *IFRIC Preface*.

**Reference:** IAS 12 *Income Taxes*

*This version includes amendments resulting from new and amended IFRSs issued up to 31 March 2004. The section “Changes in this Edition” at the front of this volume provides the application dates of these new and amended IFRSs and also identifies those current IFRSs that are not included in this volume.*

#### ISSUE

1. A change in the tax status of an entity or of its shareholders may have consequences for an entity by increasing or decreasing its tax liabilities or assets. This may, for example, occur upon the public listing of an entity’s equity instruments or upon the restructuring of an entity’s equity. It may also occur upon a controlling shareholder’s move to a foreign country. As a result of such an event, an entity may be taxed differently; it may for example gain or lose tax incentives or become subject to a different rate of tax in the future.
2. A change in the tax status of an entity or its shareholders may have an immediate effect on the entity’s current tax liabilities or assets. The change may also increase or decrease the deferred tax liabilities and assets recognised by the entity, depending on the effect the change in tax status has on the tax consequences that will arise from recovering or settling the carrying amount of the entity’s assets and liabilities.
3. The issue is how an entity should account for the tax consequences of a change in its tax status or that of its shareholders.

#### CONSENSUS

4. A change in the tax status of an entity or its shareholders does not give rise to increases or decreases in amounts recognised directly in equity. The current and deferred tax consequences of a change in tax status shall be included in profit or loss for the period, unless those consequences relate to transactions and events that

result, in the same or a different period, in a direct credit or charge to the recognised amount of equity. Those tax consequences that relate to changes in the recognised amount of equity, in the same or a different period (not included in profit or loss), shall be charged or credited directly to equity.

### **BASIS FOR CONCLUSIONS**

[The original text has been marked up to reflect the revision of IAS 38 in 2004:  
deleted text is struck through]

5. IAS 12.58 requires current and deferred tax to be included in the ~~net~~ profit or loss for the period, except to the extent the tax arises from a transaction or event that is recognised directly in equity, in the same or a different period, (or arises from a business combination ~~that is an acquisition~~). IAS 12.61 requires that current and deferred tax 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.
6. IAS 12.62 identifies examples of circumstances in which a transaction or event is recognised directly in equity as is permitted or required by another International Accounting Standard. All of these circumstances result in changes in the recognised amount of equity through recognition of a credit or charge directly to equity.
7. IAS 12.65 explains that where the tax base of a revalued asset changes, any tax consequence is recognised directly in equity only to the extent a related accounting revaluation was or is expected to be recognised directly in equity (revaluation surplus).
8. Because tax consequences recognised directly in equity must relate to a transaction or event recognised directly in equity in the same or a different period, the cumulative amount of tax charged or credited directly to equity can be expected to be the same amount that would have been charged or credited directly to equity if the new tax status had applied previously. IAS 12.63(b) acknowledges that determining the tax consequences of a change in the tax rate or other tax rules that affects a deferred tax asset or liability and relates to an item previously charged or credited to equity may prove to be difficult. Because of this, IAS 12.63 suggests that an allocation may be necessary.

**Date of Consensus:** August 1999

**Effective Date:** This consensus becomes effective on 15 July 2000. Changes in accounting policies shall be accounted for in accordance with IAS 8.

## SIC-27

# Evaluating the Substance of Transactions Involving the Legal Form of a Lease

SIC Interpretation 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease* (SIC-27) is set out in paragraphs 3-11. SIC-27 is accompanied by a Basis for Conclusions and appendices illustrating the application of the Interpretation. The scope and authority of Interpretations are set out in paragraphs 1 and 8-10 of the *IFRIC Preface*.

**References:** IAS 1 *Presentation of Financial Statements* (as revised in 2003), IAS 17 *Leases* (as revised in 2003), IAS 18 *Revenue*, IFRS 4 *Insurance Contracts*

*This version includes amendments resulting from new and amended IFRSs issued up to 31 March 2004. The section "Changes in this Edition" at the front of this volume provides the application dates of these new and amended IFRSs and also identifies those current IFRSs that are not included in this volume.*

## ISSUE

1. An Entity may enter into a transaction or a series of structured transactions (an arrangement) with an unrelated party or parties (an Investor) that involves the legal form of a lease. For example, an Entity may lease assets to an Investor and lease the same assets back, or alternatively, legally sell assets and lease the same assets back. The form of each arrangement and its terms and conditions can vary significantly. In the lease and leaseback example, it may be that the arrangement is designed to achieve a tax advantage for the Investor that is shared with the Entity in the form of a fee, and not to convey the right to use an asset.
2. When an arrangement with an Investor involves the legal form of a lease, the issues are:
  - (a) how to determine whether a series of transactions is linked and should be accounted for as one transaction;
  - (b) whether the arrangement meets the definition of a lease under IAS 17; and, if not,
    - (i) whether a separate investment account and lease payment obligations that might exist represent assets and liabilities of the Entity (eg consider the example described in paragraph A2(a) of Appendix A);
    - (ii) how the Entity should account for other obligations resulting from the arrangement; and
    - (iii) how the Entity should account for a fee it might receive from an Investor.

## CONSENSUS

3. A series of transactions that involve the legal form of a lease is linked and shall be accounted for as one transaction when the overall economic effect cannot be understood without reference to the series of transactions as a whole. This is the case, for example, when the series of transactions are closely interrelated, negotiated as a single transaction, and takes place concurrently or in a continuous sequence. (Appendix A provides illustrations of application of this Interpretation.)
4. The accounting shall reflect the substance of the arrangement. All aspects and implications of an arrangement shall be evaluated to determine its substance, with weight given to those aspects and implications that have an economic effect.
5. IAS 17 applies when the substance of an arrangement includes the conveyance of the right to use an asset for an agreed period of time. Indicators that individually demonstrate that an arrangement may not, in substance, involve a lease under IAS 17 include (Appendix B provides illustrations of application of this Interpretation):
  - (a) an Entity retains all the risks and rewards incident to ownership of an underlying asset and enjoys substantially the same rights to its use as before the arrangement;
  - (b) the primary reason for the arrangement is to achieve a particular tax result, and not to convey the right to use an asset; and
  - (c) an option is included on terms that make its exercise almost certain (eg a put option that is exercisable at a price sufficiently higher than the expected fair value when it becomes exercisable).
6. The definitions and guidance in paragraphs 49–64 of the *Framework* shall be applied in determining whether, in substance, a separate investment account and lease payment obligations represent assets and liabilities of the Entity. Indicators that collectively demonstrate that, in substance, a separate investment account and lease payment obligations do not meet the definitions of an asset and a liability and shall not be recognised by the Entity include:
  - (a) the Entity is not able to control the investment account in pursuit of its own objectives and is not obligated to pay the lease payments. This occurs when, for example, a prepaid amount is placed in a separate investment account to protect the Investor and may only be used to pay the Investor, the Investor agrees that the lease payment obligations are to be paid from funds in the investment account, and the Entity has no ability to withhold payments to the Investor from the investment account;
  - (b) the Entity has only a remote risk of reimbursing the entire amount of any fee received from an Investor and possibly paying some additional amount, or, when a fee has not been received, only a remote risk of paying an amount under other obligations (eg a guarantee). Only a remote risk of payment exists

when, for example, the terms of the arrangement require that a prepaid amount is invested in risk-free assets that are expected to generate sufficient cash flows to satisfy the lease payment obligations; and

- (c) other than the initial cash flows at inception of the arrangement, the only cash flows expected under the arrangement are the lease payments that are satisfied solely from funds withdrawn from the separate investment account established with the initial cash flows.
7. Other obligations of an arrangement, including any guarantees provided and obligations incurred upon early termination, shall be accounted for under IAS 37, ~~or IAS 39~~ or IFRS 4, depending on the terms.
  8. The criteria in paragraph 20 of IAS 18 shall be applied to the facts and circumstances of each arrangement in determining when to recognise a fee as income that an Entity might receive. Factors such as whether there is continuing involvement in the form of significant future performance obligations necessary to earn the fee, whether there are retained risks, the terms of any guarantee arrangements, and the risk of repayment of the fee, shall be considered. Indicators that individually demonstrate that recognition of the entire fee as income when received, if received at the beginning of the arrangement, is inappropriate include:
    - (a) obligations either to perform or to refrain from certain significant activities are conditions of earning the fee received, and therefore execution of a legally binding arrangement is not the most significant act required by the arrangement;
    - (b) limitations are put on the use of the underlying asset that have the practical effect of restricting and significantly changing the Entity's ability to use (eg deplete, sell or pledge as collateral) the asset;
    - (c) the possibility of reimbursing any amount of the fee and possibly paying some additional amount is not remote. This occurs when, for example,
      - (i) the underlying asset is not a specialised asset that is required by the Entity to conduct its business, and therefore there is a possibility that the Entity may pay an amount to terminate the arrangement early; or
      - (ii) the Entity is required by the terms of the arrangement, or has some or total discretion, to invest a prepaid amount in assets carrying more than an insignificant amount of risk (eg currency, interest rate or credit risk). In this circumstance, the risk of the investment's value being insufficient to satisfy the lease payment obligations is not remote, and therefore there is a possibility that the Entity may be required to pay some amount.
  9. The fee shall be presented in the income statement based on its economic substance and nature.

## DISCLOSURE

10. All aspects of an arrangement that does not, in substance, involve a lease under IAS 17 shall be considered in determining the appropriate disclosures that are necessary to understand the arrangement and the accounting treatment adopted. An Entity shall disclose the following in each period that an arrangement exists:
- (a) a description of the arrangement including:
    - (i) the underlying asset and any restrictions on its use;
    - (ii) the life and other significant terms of the arrangement;
    - (iii) the transactions that are linked together, including any options; and
  - (b) the accounting treatment applied to any fee received, the amount recognised as income in the period, and the line item of the income statement in which it is included.
11. The disclosures required in accordance with paragraph 10 of this Interpretation shall be provided individually for each arrangement or in aggregate for each class of arrangement. A class is a grouping of arrangements with underlying assets of a similar nature (eg power plants).

## BASIS FOR CONCLUSIONS

[The original text has been marked up to reflect the revision of IAS 39 in 2003 and subsequently the issue of IFRS 4: new text is underlined and deleted text is struck through]

12. Paragraph 9 of IAS 11 *Construction Contracts* requires a group of contracts to be treated as a single contract when the group of contracts is negotiated as a single package, the contracts are so closely interrelated that they are, in effect, part of a single project with an overall profit margin, and the contracts are performed concurrently or in a continuous sequence. In such a situation, a series of transactions that involve the legal form of a lease are linked and accounted for as one transaction, because the overall economic effect cannot be understood without reference to the series of transactions as a whole.
13. An agreement is accounted for as a lease in accordance with IAS 17 when it conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. For information to represent faithfully the transactions it purports to represent, paragraph 35 of the *Framework* indicates that it is necessary that transactions are accounted for and presented in accordance with their substance and economic reality, not merely their legal form.
14. When an Entity does not control the assets that will be used to satisfy the lease payment obligations, and is not obligated to pay the lease payments, it does not recognise the assets and lease payment obligations, because the definitions of an asset and a liability have not been met. This is different from the circumstance when an Entity controls the assets, is obligated to pay the lease payments, and then later transfers assets to a third party (including a trust). In that circumstance, the transfer

of assets (sometimes called an ‘in-substance’ defeasance) does not by itself relieve the Entity of its primary obligation, in the absence of legal release. A financial asset and a financial liability, or a portion of either, are derecognised only when the requirements of ~~IAS 39.35-65~~ paragraphs 15-37 and 39-42 of IAS 39 are met.

15. ~~In addition to addressing the general requirements for recognition of a provision, IAS 37 IAS 39 IFRS 4~~ provides guidance for recognising and measuring financial guarantees and similar instruments that provide for payments to be made if the debtor fails to make payments when due, if that contract transfers significant insurance risk to the issuer. ~~IAS 37 also provides guidance when disclosure of a contingent liability is required.~~ Financial guarantee contracts that provide for payments to be made in response to changes in relation to a variable (sometimes referred to as an “underlying”) are subject to IAS 39.
16. IAS 18 addresses the accounting treatment of revenue. Paragraph 75 of the *Framework* indicates that gains are no different in nature from revenue. Therefore, the requirements of IAS 18 apply by analogy or otherwise. Example 14(c) in the Appendix of IAS 18 states that a fee earned on the execution of a significant act, which is much more significant than any other act, is recognised as income when the significant act has been completed. The example also indicates that it is necessary to distinguish between fees earned on completion of a significant act and fees related to future performance or risks retained.

**Date of Consensus:** February 2000

**Effective Date:** This Interpretation becomes effective on 31 December 2001. Changes in accounting policies shall be accounted for in accordance with IAS 8.

## Appendices to SIC-27

*These appendices accompany, but are not part of, SIC-27.*

### APPENDIX A: LINKED TRANSACTIONS

- A1. The Interpretation requires consideration of whether a series of transactions that involve the legal form of a lease are linked to determine whether the transactions are accounted for as one transaction.
- A2. Extreme examples of transactions that are viewed as a whole and accounted for as single transactions, include:
- (a) An Entity leases an asset to an Investor (the headlease) and leases the same asset back for a shorter period of time (the sublease). At the end of the sublease period, the Entity has the right to buy back the rights of the Investor under a purchase option. If the Entity does not exercise its purchase option, the Investor has options available to it under each of which the Investor receives a minimum return on its investment in the headlease—the Investor may put the underlying asset back to the Entity, or require the Entity to provide a return on the Investor’s investment in the headlease.

The predominant purpose of the arrangement is to achieve a tax advantage for the Investor, which is shared with the Entity in the form of a fee, and not to convey the right to use an asset. The Investor pays the fee and prepays the lease payment obligations under the headlease. The agreement requires the amount prepaid to be invested in risk-free assets and, as a requirement of finalising the execution of the legally binding arrangement, placed into a separate investment account held by a Trustee outside of the control of the Entity. The fee is retained by the Entity.

Over the term of the sublease, the sublease payment obligations are satisfied with funds of an equal amount withdrawn from the separate investment account. The Entity guarantees the sublease payment obligations, and will be required to satisfy the guarantee should the separate investment account have insufficient funds. The Entity, but not the Investor, has the right to terminate the sublease early under certain circumstances (eg a change in local or international tax law causes the Investor to lose part or all of the tax benefits, or the Entity decides to dispose of (eg replace, sell or deplete) the underlying asset) and upon payment of a termination value to the Investor. If the Entity chooses early termination, then it would pay the termination value from funds withdrawn from the separate investment account, and if the amount remaining in the separate investment account is insufficient, the difference would be paid by the Entity. The underlying asset is a specialised asset that the Entity requires to conduct its business.

- (b) An entity leases an asset to another entity for its entire economic life and leases the same asset back under the same terms and conditions as the original lease. The two entities have a legally enforceable right to set off the amounts owing to one another, and an intention to settle these amounts on a net basis.
- (c) An entity (Entity A) leases an asset to another entity (Entity B), and obtains a non-recourse loan from a financier (by using the lease rentals and the asset as collateral). Entity A sells the asset subject to the lease and the loan to a trustee, and leases the same asset back. Entity A also concurrently agrees to repurchase the asset at the end of the lease for an amount equal to the sale price. The financier legally releases Entity A from the primary responsibility for the loan, and Entity A guarantees repayment of the non-recourse loan if Entity B defaults on the payments under the original lease. Entity B's credit rating is assessed as AAA and the amounts of the payments under each of the leases are equal. Entity A has a legally enforceable right to set-off the amounts owing under each of the leases, and an intention to settle the rights and obligations under the leases on a net basis.
- (d) An entity (Entity A) legally sells an asset to another entity (Entity B) and leases the same asset back. Entity B is obligated to put the asset back to Entity A at the end of the lease period at an amount that has the overall practical effect, when also considering the lease payments to be received, of providing Entity B with a yield of LIBOR plus 2 per cent per year on the purchase price.

## **APPENDIX B: THE SUBSTANCE OF AN ARRANGEMENT**

- B1. The Interpretation requires consideration of the substance of an arrangement to determine whether it includes the conveyance of the right to use an asset for an agreed period of time.
- B2. In each of the examples described in Appendix A, the arrangement does not, in substance, involve a lease under IAS 17 for the following reasons:
  - (a) in the example described in paragraph A2(a), the arrangement is designed predominantly to generate tax benefits that are shared between the two entities. Even though the periods of the headlease and sublease are different, the options available to each of the entities at the end of the sublease period are structured such that the Investor assumes only an insignificant amount of asset risk during the headlease period. The substance of the arrangement is that the Entity receives a fee for executing the agreements, and retains the risks and rewards incident to ownership of the underlying asset.
  - (b) in the example described in paragraph A2(b), the terms and conditions and period of each of the leases are the same. Therefore, the risks and rewards incident to ownership of the underlying asset are the same as before the arrangement. Further, the amounts owing are offset against one another, and so there is no retained credit risk. The substance of the arrangement is that no transaction has occurred.

- (c) in the example described in paragraph A2(c), Entity A retains the risks and rewards incident to ownership of the underlying asset, and the risk of payment under the guarantee is only remote (due to the AAA credit rating). The substance of the arrangement is that Entity A borrows cash, secured by the underlying asset.
- (d) in the example described in paragraph A2(d), Entity A's risks and rewards incident to owning the underlying asset do not substantively change. The substance of the arrangement is that Entity A borrows cash, secured by the underlying asset and repayable in instalments over the lease period and in a final lump sum at the end of the lease period. The terms of the option preclude recognition of a sale. Normally, in a sale and leaseback transaction, the risks and rewards incident to owning the underlying asset sold are retained by the seller only during the period of the lease.

## SIC-29

### Disclosure—Service Concession Arrangements

SIC Interpretation 29 *Disclosure—Service Concession Arrangements* (SIC-29) is set out in paragraphs 6 and 7. SIC-29 is accompanied by a Basis for Conclusions. The scope and authority of Interpretations are set out in paragraphs 1 and 8-10 of the *IFRIC Preface*.

**Reference:** IAS 1 *Presentation of Financial Statements* (as revised in 2003)

*This version includes amendments resulting from new and amended IFRSs issued up to 31 March 2004. The section “Changes in this Edition” at the front of this volume provides the application dates of these new and amended IFRSs and also identifies those current IFRSs that are not included in this volume.*

### ISSUE

1. An entity (the Concession Operator) may enter into an arrangement with another entity (the Concession Provider) to provide services that give the public access to major economic and social facilities. The Concession Provider may be a public or private sector entity, including a governmental body. Examples of service concession arrangements involve water treatment and supply facilities, motorways, car parks, tunnels, bridges, airports and telecommunication networks. Examples of arrangements that are not service concession arrangements include an entity outsourcing the operation of its internal services (eg employee cafeteria, building maintenance, and accounting or information technology functions).
2. A service concession arrangement generally involves the Concession Provider conveying for the period of the concession to the Concession Operator:
  - (a) the right to provide services that give the public access to major economic and social facilities, and
  - (b) in some cases, the right to use specified tangible assets, intangible assets, or financial assets,
 in exchange for the Concession Operator:
  - (c) committing to provide the services according to certain terms and conditions during the concession period, and
  - (d) when applicable, committing to return at the end of the concession period the rights received at the beginning of the concession period and/or acquired during the concession period.
3. The common characteristic of all service concession arrangements is that the Concession Operator both receives a right and incurs an obligation to provide public services.
4. The issue is what information should be disclosed in the notes in the financial statements of a Concession Operator and a Concession Provider.

5. Certain aspects and disclosures relating to some service concession arrangements are already addressed by existing International Accounting Standards (eg IAS 16 applies to acquisitions of items of property, plant and equipment, IAS 17 applies to leases of assets, and IAS 38 applies to acquisitions of intangible assets). However, a service concession arrangement may involve executory contracts that are not addressed in International Accounting Standards, unless the contracts are onerous, in which case IAS 37 applies. Therefore, this Interpretation addresses additional disclosures of service concession arrangements.

## CONSENSUS

6. All aspects of a service concession arrangement shall be considered in determining the appropriate disclosures in the notes. A Concession Operator and a Concession Provider shall disclose the following in each period:
- (a) a description of the arrangement;
  - (b) significant terms of the arrangement that may affect the amount, timing and certainty of future cash flows (eg the period of the concession, re-pricing dates and the basis upon which re-pricing or re-negotiation is determined);
  - (c) the nature and extent (eg quantity, time period or amount as appropriate) of:
    - (i) rights to use specified assets;
    - (ii) obligations to provide or rights to expect provision of services;
    - (iii) obligations to acquire or build items of property, plant and equipment;
    - (iv) obligations to deliver or rights to receive specified assets at the end of the concession period;
    - (v) renewal and termination options; and
    - (vi) other rights and obligations (eg major overhauls); and
  - (d) changes in the arrangement occurring during the period.
7. The disclosures required in accordance with paragraph 6 of this Interpretation shall be provided individually for each service concession arrangement or in aggregate for each class of service concession arrangements. A class is a grouping of service concession arrangements involving services of a similar nature (eg toll collections, telecommunications and water treatment services).

## BASIS FOR CONCLUSIONS

[The original text has been marked up to reflect the revision of IAS 1 in 2003:  
new text is underlined and deleted text is struck through]

8. Paragraph 15 of the *Framework* states that the economic decisions taken by users of financial statements require an evaluation of the ability of the entity to generate cash and cash equivalents and of the timing and certainty of their generation. Paragraph 21 of the *Framework* states that financial statements also contain notes and supplementary schedules and other information. For example, they may contain

additional information that is relevant to the needs of users about the items in the balance sheet and income statement. They may also include disclosures about the risks and uncertainties affecting the entity and any resources and obligations not recognised in the balance sheet.

9. A service concession arrangement often has provisions or significant features that warrant disclosure of information necessary to assist in assessing the amount, timing and certainty of future cash flows, and the nature and extent of the various rights and obligations involved. The rights and obligations associated with the services to be provided usually involve a high level of public involvement (eg to provide electricity to a city). Other obligations could include significant acts such as building an infrastructure asset (eg power plant) and delivering that asset to the Concession Provider at the end of the concession period.
10. IAS 1.94103(c) requires ~~the an entity's notes to the financial statements of an enterprise~~ to provide additional information ~~which that~~ is not presented on the face of the ~~financial statements~~ balance sheet, income statement, statement of changes in equity or cash flow statement, but ~~that is necessary for a fair presentation~~ relevant to an understanding of any of them. ~~IAS 1.93~~ The definition of notes in IAS 1.11 indicates that ~~the notes to the financial statements include~~ provide narrative descriptions or ~~more detailed analyses~~ disaggregations of ~~amounts shown on the face of items disclosed in the balance sheet, income statement, statement of changes in equity and cash flow statement and statement of changes in equity,~~ as well as ~~additional information such as contingent liabilities and commitments~~ additional information about items that do not qualify for recognition in those statements.

**Date of Consensus:** May 2001

**Effective Date:** This Interpretation becomes effective on 31 December 2001.



## SIC-31

### Revenue—Barter Transactions Involving Advertising Services

SIC Interpretation 31 *Revenue—Barter Transactions Involving Advertising Services* (SIC-31) is set out in paragraph 5. SIC-31 is accompanied by a Basis for Conclusions. The scope and authority of Interpretations are set out in paragraphs 1 and 8-10 of the *IFRIC Preface*.

**Reference:** IAS 18 *Revenue*

*This version includes amendments resulting from new and amended IFRSs issued up to 31 March 2004. The section “Changes in this Edition” at the front of this volume provides the application dates of these new and amended IFRSs and also identifies those current IFRSs that are not included in this volume.*

#### ISSUE

1. An entity (Seller) may enter into a barter transaction to provide advertising services in exchange for receiving advertising services from its customer (Customer). Advertisements may be displayed on the Internet or poster sites, broadcast on the television or radio, published in magazines or journals, or presented in another medium.
2. In some cases, no cash or other consideration is exchanged between the entities. In some other cases, equal or approximately equal amounts of cash or other consideration are also exchanged.
3. A Seller that provides advertising services in the course of its ordinary activities recognises revenue under IAS 18 from a barter transaction involving advertising when, amongst other criteria, the services exchanged are dissimilar (IAS 18.12) and the amount of revenue can be measured reliably (IAS 18.20(a)). This Interpretation only applies to an exchange of dissimilar advertising services. An exchange of similar advertising services is not a transaction that generates revenue under IAS 18.
4. The issue is under what circumstances can a Seller reliably measure revenue at the fair value of advertising services received or provided in a barter transaction.

#### CONSENSUS

5. Revenue from a barter transaction involving advertising cannot be measured reliably at the fair value of advertising services received. However, a Seller can reliably measure revenue at the fair value of the advertising services it provides in a barter transaction, by reference only to non-barter transactions that:
  - (a) involve advertising similar to the advertising in the barter transaction;
  - (b) occur frequently;

- (c) represent a predominant number of transactions and amount when compared to all transactions to provide advertising that is similar to the advertising in the barter transaction;
- (d) involve cash and/or another form of consideration (eg marketable securities, non-monetary assets, and other services) that has a reliably measurable fair value; and
- (e) do not involve the same counterparty as in the barter transaction.

## **BASIS FOR CONCLUSIONS**

6. IAS 18.9 requires revenue to be measured at the fair value of the consideration received or receivable. When the fair value of the services received cannot be measured reliably, the revenue is measured at the fair value of the services provided, adjusted by the amount of any cash or cash equivalents transferred. IAS 18.26 states that when the outcome of a transaction involving the rendering of services cannot be estimated reliably (eg the amount of revenue cannot be measured reliably), revenue should be recognised only to the extent of the expenses recognised that are recoverable. As explained in IAS 18.27, this means that revenue is recognised only to the extent of costs incurred that are expected to be recoverable and, as the outcome of the transactions cannot be estimated reliably, no profit is recognised.
7. Paragraph 31 of the *Framework* states that information has the quality of reliability when it is free from material error and bias and is representationally faithful. Measuring revenue at the fair value of advertising services received from the Customer in a barter transaction is impracticable, because reliable information not available to the Seller is required to support the measurement. Consequently, revenue from a barter transaction involving advertising services is measured at the fair value of the advertising services provided by the Seller to the Customer.
8. IAS 18.7 defines fair value as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. A published price of a service does not constitute reliable evidence of its fair value, unless the price is supported by transactions with knowledgeable and willing parties in an arm's length transaction. For transactions to provide a relevant and reliable basis for support, the services involved are similar, there are many transactions, valuable consideration that can be reliably measured is exchanged, and independent third parties are involved. Consequently, the fair value of advertising services provided in a barter transaction is reliably measurable only when it is supportable by reference to non-barter transactions that have these characteristics.
9. However, a swap of cheques, for example, for equal or substantially equal amounts between the same entities that provide and receive advertising services does not provide reliable evidence of fair value. An exchange of advertising services that also includes only partial cash payment provides reliable evidence of the fair value of the transaction to the extent of the cash component (except when partial cash payments of equal or substantially equal amounts are swapped), but does not provide reliable evidence of the fair value of the entire transaction.

10. Reliable measurement of the fair value of a service also depends on a number of other factors, including the industry, the number of market participants, the nature of the services, and the number of market transactions. In the case of barter transactions involving advertising, the fair value of advertising services is reliably measurable when independent non-barter transactions involving similar advertising provide reliable evidence to substantiate the fair value of the barter exchange.

**Date of Consensus:** May 2001

**Effective Date:** This Interpretation becomes effective on 31 December 2001. Changes in accounting policies shall be accounted for in accordance with IAS 8.



## SIC-32

### Intangible Assets—Web Site Costs

SIC Interpretation 32 *Intangible Assets—Web Site Costs* (SIC-32) is set out in paragraphs 7-10. SIC-32 is accompanied by a Basis for Conclusions and appendix illustrating the application of the Interpretation. The scope and authority of Interpretations are set out in paragraphs 1 and 8-10 of the *IFRIC Preface*.

**References:** IAS 1 *Presentation of Financial Statements* (as revised in 2003), IAS 2 *Inventories* (as revised in 2003), IAS 11 *Construction Contracts*, IAS 16 *Property, Plant and Equipment* (as revised in 2003), IAS 17 *Leases* (as revised in 2003), IAS 36 *Impairment of Assets* (as revised in 2004), IAS 38 *Intangible Assets* (as revised in 2004), IFRS 3 *Business Combinations*

*This version includes amendments resulting from new and amended IFRSs issued up to 31 March 2004. The section “Changes in this Edition” at the front of this volume provides the application dates of these new and amended IFRSs and also identifies those current IFRSs that are not included in this volume.*

#### ISSUE

1. An entity may incur internal expenditure on the development and operation of its own web site for internal or external access. A web site designed for external access may be used for various purposes such as to promote and advertise an entity’s own products and services, provide electronic services, and sell products and services. A web site designed for internal access may be used to store company policies and customer details, and search relevant information.
2. The stages of a web site’s development can be described as follows:
  - (a) Planning – includes undertaking feasibility studies, defining objectives and specifications, evaluating alternatives and selecting preferences.
  - (b) Application and Infrastructure Development – includes obtaining a domain name, purchasing and developing hardware and operating software, installing developed applications and stress testing.
  - (c) Graphical Design Development – includes designing the appearance of web pages.
  - (d) Content Development – includes creating, purchasing, preparing and uploading information, either textual or graphical in nature, on the web site before the completion of the web site’s development. This information may either be stored in separate databases that are integrated into (or accessed from) the web site or coded directly into the web pages.
3. Once development of a web site has been completed, the Operating stage begins. During this stage, an entity maintains and enhances the applications, infrastructure, graphical design and content of the web site.

4. When accounting for internal expenditure on the development and operation of an entity's own web site for internal or external access, the issues are:
  - (a) whether the web site is an internally generated intangible asset that is subject to the requirements of IAS 38; and
  - (b) the appropriate accounting treatment of such expenditure.
5. This Interpretation does not apply to expenditure on purchasing, developing, and operating hardware (eg web servers, staging servers, production servers and Internet connections) of a web site. Such expenditure is accounted for under IAS 16. Additionally, when an entity incurs expenditure on an Internet service provider hosting the entity's web site, the expenditure is recognised as an expense under IAS 1.78 and the *Framework* when the services are received.
6. IAS 38 does not apply to intangible assets held by an entity for sale in the ordinary course of business (see IAS 2 and IAS 11) or leases that fall within the scope of IAS 17. Accordingly, this Interpretation does not apply to expenditure on the development or operation of a web site (or web site software) for sale to another entity. When a web site is leased under an operating lease, the lessor applies this Interpretation. When a web site is leased under a finance lease, the lessee applies this Interpretation after initial recognition of the leased asset.

## CONSENSUS

7. An entity's own web site that arises from development and is for internal or external access is an internally generated intangible asset that is subject to the requirements of IAS 38.
8. A web site arising from development shall be recognised as an intangible asset if, and only if, in addition to complying with the general requirements described in IAS 38.21 for recognition and initial measurement, an entity can satisfy the requirements in IAS 38.57. In particular, an entity may be able to satisfy the requirement to demonstrate how its web site will generate probable future economic benefits in accordance with IAS 38.57(d) when, for example, the web site is capable of generating revenues, including direct revenues from enabling orders to be placed. An entity is not able to demonstrate how a web site developed solely or primarily for promoting and advertising its own products and services will generate probable future economic benefits, and consequently all expenditure on developing such a web site shall be recognised as an expense when incurred.
9. Any internal expenditure on the development and operation of an entity's own web site shall be accounted for in accordance with IAS 38. The nature of each activity for which expenditure is incurred (eg training employees and maintaining the web site) and the web site's stage of development or post-development shall be evaluated to determine the appropriate accounting treatment (additional guidance is provided in the Appendix to this Interpretation). For example:
  - (a) the Planning stage is similar in nature to the research phase in IAS 38.54-.56. Expenditure incurred in this stage shall be recognised as an expense when it is incurred.

- (b) the Application and Infrastructure Development stage, the Graphical Design stage and the Content Development stage, to the extent that content is developed for purposes other than to advertise and promote an entity's own products and services, are similar in nature to the development phase in IAS 38.57-.64. Expenditure incurred in these stages shall be included in the cost of a web site recognised as an intangible asset in accordance with paragraph 8 of this Interpretation when the expenditure can be directly attributed and is necessary to creating, producing or preparing the web site for it to be capable of operating in the manner intended by management. For example, expenditure on purchasing or creating content (other than content that advertises and promotes an entity's own products and services) specifically for a web site, or expenditure to enable use of the content (eg a fee for acquiring a licence to reproduce) on the web site, shall be included in the cost of development when this condition is met. However, in accordance with IAS 38.71, expenditure on an intangible item that was initially recognised as an expense in previous financial statements shall not be recognised as part of the cost of an intangible asset at a later date (eg if the costs of a copyright have been fully amortised, and the content is subsequently provided on a web site).
  - (c) expenditure incurred in the Content Development stage, to the extent that content is developed to advertise and promote an entity's own products and services (eg digital photographs of products), shall be recognised as an expense when incurred in accordance with IAS 38.69(c). For example, when accounting for expenditure on professional services for taking digital photographs of an entity's own products and for enhancing their display, expenditure shall be recognised as an expense as the professional services are received during the process, not when the digital photographs are displayed on the web site.
  - (d) the Operating stage begins once development of a web site is complete. Expenditure incurred in this stage shall be recognised as an expense when it is incurred unless it meets the recognition criteria in IAS 38.18.
10. A web site that is recognised as an intangible asset under paragraph 8 of this Interpretation shall be measured after initial recognition by applying the requirements of IAS 38.72-.87. The best estimate of a web site's useful life should be short.

## BASIS FOR CONCLUSIONS

[The original text has been marked up to reflect the revision of IAS 16 in 2003 and the subsequent issue of IFRS 3: new text is underlined and deleted text is struck through]

11. An intangible asset is defined in IAS 38.87 as 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~~. IAS 38.98 provides computer software as a common example of an intangible asset. By analogy, a web site is another example of an intangible asset.
12. IAS 38.6856 requires expenditure on an intangible item to be recognised as an expense when incurred unless it forms part of the cost of an intangible asset that meets the recognition criteria in IAS 38.18-6755. IAS 38.6957 requires expenditure on start-up activities to be recognised as an expense when incurred. An entity developing its own web site for internal or external access is not undertaking a start-up activity to the extent that an internally generated intangible asset is created. The requirements and guidance in IAS 38.52-6740-55, in addition to the general requirements described in IAS 38.2149 for recognition and initial measurement of an intangible asset, apply to expenditure incurred on the development of an entity's own web site. As described in IAS 38.65-6753-55, the cost of a web site recognised as an internally generated intangible asset comprises all expenditure that can be directly attributed, ~~or allocated on a reasonable and consistent basis, and is necessary~~ to creating, producing and preparing the asset for it to be capable of operating in the manner intended by management its intended use.
13. IAS 38.5442 requires expenditure on research (or on the research phase of an internal project) to be recognised as an expense when incurred. The examples provided in IAS 38.5644 are similar to the activities undertaken in the Planning stage of a web site's development. Consequently, expenditure incurred in the Planning stage of a web site's development is recognised as an expense when incurred.
14. IAS 38.5745 requires an intangible asset arising from the development phase of an internal project to be recognised only if an entity can demonstrate fulfilment of the six criteria specified. One of the criteria is to demonstrate how a web site will generate probable future economic benefits (IAS 38.5745(d)). IAS 38.6048 indicates that this criterion is met by assessing the economic benefits to be received from the web site and using the principles in IAS 36 *Impairment of Assets*, which considers the present value of estimated future cash flows from continuing use of the web site. Future economic benefits flowing from an intangible asset, as stated in IAS 38.17, may include revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset by the entity. Therefore, future economic benefits from a web site may be assessed when the web site is capable of generating revenues. A web site developed solely or primarily for advertising and promoting an entity's own products and services is not recognised as an intangible

asset, because the entity cannot demonstrate the future economic benefits that will flow. Consequently, all expenditure on developing a web site solely or primarily for promoting and advertising an entity's own products and services is recognised as an expense when incurred.

15. Under IAS 38.2149, an intangible asset is recognised if, and only if, it meets specified criteria. IAS 38.6553 indicates that the cost of an internally generated intangible asset is the sum of expenditure incurred from the date when the intangible asset first meets the specified recognition criteria. When an entity acquires or creates content for purposes other than to advertise and promote an entity's own products and services, it may be possible to identify an intangible asset (eg a licence or a copyright) separate from a web site. However, a separate asset is not recognised when expenditure is directly attributed, ~~or allocated on a reasonable and consistent basis,~~ to creating, producing, and preparing the web site for it to be capable of operating in the manner intended by management its intended use—the expenditure is included in the cost of developing the web site.
16. IAS 38.6957(c) requires expenditure on advertising and promotional activities to be recognised as an expense when incurred. Expenditure incurred on developing content that advertises and promotes an entity's own products and services (eg digital photographs of products) is an advertising and promotional activity, and consequently recognised as an expense when incurred ~~in accordance with IAS 38.57(e).~~
17. ~~Once development of a web site is complete, an enterprise begins the activities described in the Operating stage. Subsequent expenditure to enhance or maintain an enterprise's own web site is recognised as an expense when incurred unless it meets the recognition criteria in IAS 38.60. IAS 38.61 explains that if the expenditure is required to maintain the asset at its originally assessed standard of performance, then the expenditure is recognised as an expense when incurred.\*\*~~ Once development of a web site is complete, an entity begins the activities described in the Operating stage. Subsequent expenditure to enhance or maintain an entity's own web site is recognised as an expense when incurred unless it meets the recognition criteria in IAS 38.18. IAS 38.20 explains that most subsequent expenditures are likely to maintain the future economic benefits embodied in an existing intangible asset rather than meet the definition of an intangible asset and the recognition criteria set out in IAS 38. In addition, it is often difficult to attribute subsequent expenditure directly to a particular intangible asset rather than to the business as a

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\*\* IAS 16 *Property, Plant and Equipment* as revised by the IASB in 2003 requires all subsequent costs to be covered by its general recognition principle and eliminated the requirement to reference the originally assessed standard of performance. IAS 38 was amended as a consequence of the change to IAS 16 and the paragraphs specifically referred to were eliminated. This paragraph has been struck through to avoid any confusion.

whole. Therefore, only rarely will subsequent expenditure—expenditure incurred after the initial recognition of a purchased intangible asset or after completion of an internally generated intangible asset—be recognised in the carrying amount of an asset.<sup>\*a</sup>

18. An intangible asset is measured after initial recognition by applying the requirements of IAS 38.72-~~87~~~~63~~-78. The revaluation model ~~Allowed Alternative Treatment~~ in IAS 38.75~~64~~ is applied only when the fair value of an intangible asset can be determined by reference to an active market. However, as an active market is unlikely to exist for web sites, the cost model ~~Benchmark Treatment~~ applies. Additionally, ~~since IAS 38.84 states that an intangible asset always has a finite useful life, a web site that is recognised as an asset is amortised over the best estimate of its useful life under IAS 38.79. As~~ as indicated in IAS 38.92~~84~~, many intangible assets are susceptible to technological obsolescence, and given the history of rapid changes in technology, the useful life of web sites will be short.

**Date of Consensus:** May 2001

**Effective Date:** This Interpretation becomes effective on 25 March 2002. The effects of adopting this Interpretation shall be accounted for using the transition requirements in the version of IAS 38 that was issued in 1998. Therefore, when a web site does not meet the criteria for recognition as an intangible asset, but was previously recognised as an asset, the item shall be derecognised at the date when this Interpretation becomes effective. When a web site exists and the expenditure to develop it meets the criteria for recognition as an intangible asset, but was not previously recognised as an asset, the intangible asset shall not be recognised at the date when this Interpretation becomes effective. When a web site exists and the expenditure to develop it meets the criteria for recognition as an intangible asset, was previously recognised as an asset and initially measured at cost, the amount initially recognised is deemed to have been properly determined.

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<sup>\*a</sup> The new text was added by IFRS 3 *Business Combinations* in 2004.

## Appendix to SIC-32

*This appendix is illustrative only and does not form part of the Interpretation. The purpose of the appendix is to illustrate examples of expenditure that occur during each of the stages described in paragraphs 2 and 3 of the Interpretation and illustrate application of the Interpretation to assist in clarifying its meaning. It is not intended to be a comprehensive checklist of expenditure that might be incurred.*

### EXAMPLE APPLICATION OF SIC-32

Stage / Nature of Expenditure	Accounting treatment
<p><b>Planning</b></p> <ul style="list-style-type: none"> <li>• undertaking feasibility studies</li> <li>• defining hardware and software specifications</li> <li>• evaluating alternative products and suppliers</li> <li>• selecting preferences</li> </ul>	<p>Recognise as an expense when incurred in accordance with IAS 38.54</p>
<p><b>Application and Infrastructure Development</b></p> <ul style="list-style-type: none"> <li>• purchasing or developing hardware</li> <li>• obtaining a domain name</li> <li>• developing operating software (eg operating system and server software)</li> <li>• developing code for the application</li> <li>• installing developed applications on the web server</li> <li>• stress testing</li> </ul>	<p>Apply the requirements of IAS 16</p> <p>Recognise as an expense when incurred, unless the expenditure can be directly attributed to preparing the web site to operate in the manner intended by management, and the web site meets the recognition criteria in IAS 38.21 and IAS 38.57*</p>
<p><b>Graphical Design Development</b></p> <ul style="list-style-type: none"> <li>• designing the appearance (eg layout and colour) of web pages</li> </ul>	<p>Recognise as an expense when incurred, unless the expenditure can be directly attributed to preparing the web site to operate in the manner intended by management, and the web site meets the recognition criteria in IAS 38.21 and IAS 38.57*</p>

<p><b>Content Development</b></p> <ul style="list-style-type: none"> <li>• creating, purchasing, preparing (eg creating links and identifying tags), and uploading information, either textual or graphical in nature, on the web site before the completion of the web site's development. Examples of content include information about an entity, products or services offered for sale, and topics that subscribers access</li> </ul>	<p>Recognise as an expense when incurred in accordance with IAS 38.69(c) to the extent that content is developed to advertise and promote an entity's own products and services (eg digital photographs of products). Otherwise, recognise as an expense when incurred, unless the expenditure can be directly attributed to preparing the web site to operate in the manner intended by management, and the web site meets the recognition criteria in IAS 38.21 and IAS 38.57*</p>
<p><b>Operating</b></p> <ul style="list-style-type: none"> <li>• updating graphics and revising content</li> <li>• adding new functions, features and content</li> <li>• registering the web site with search engines</li> <li>• backing up data</li> <li>• reviewing security access</li> <li>• analysing usage of the web site</li> </ul>	<p>Assess whether it meets the definition of an intangible asset and the recognition criteria set out in IAS 38.18, in which case the expenditure is recognised in the carrying amount of the web site asset</p>
<p><b>Other</b></p> <ul style="list-style-type: none"> <li>• selling, administrative and other general overhead expenditure unless it can be directly attributed to preparing the web site for use to operate in the manner intended by management</li> <li>• clearly identified inefficiencies and initial operating losses incurred before the web site achieves planned performance [eg false start testing]</li> <li>• training employees to operate the web site</li> </ul>	<p>Recognise as an expense when incurred in accordance with IAS 38.65-.70</p>

\* All expenditure on developing a web site solely or primarily for promoting and advertising an entity's own products and services is recognised as an expense when incurred in accordance with IAS 38.68.